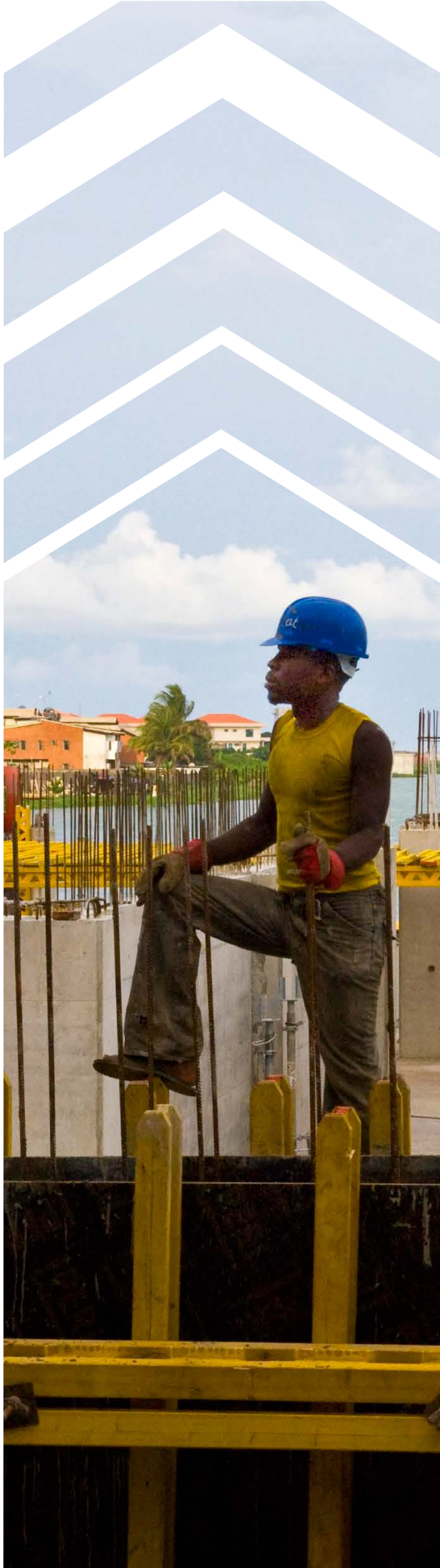


NIGERIA

# Developing Housing Finance



WORLD BANK GROUP



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# I. INTRODUCTION

This report summarizes the results of the analytical work on housing market finance carried out by the World Bank Group at the request of the Ministry of Finance. The purpose of the work was to inform the policy dialogue about how best to develop a sustainable housing finance market in Nigeria, and improve the effectiveness of interventions aimed at stimulating the housing market and providing quality housing to the population. The work was funded by DFID and carried out over 2013 and 2014.

Experience has shown that an increase in housing production, especially at the lower reaches of the market, stimulates job creation, both skilled and unskilled; and that housing and other infrastructure investment is strongly linked to economic growth.<sup>1</sup> While the availability of housing finance is essential for increasing housing production, sustainable and equitable housing production also depends on (a) access to residential lands and basic services; (b) an efficient and transparent land administration; (c) legal protections; and (d) a macroeconomic environment that maintains low inflation and low interest rates. An essential part of making housing finance work for the poor is the availability of houses at lower prices in the market.

The report summarizes the institutional landscape, policy framework, and public and private sector actors involved in housing finance, and focuses on the underlying reasons for the lack of housing finance, particularly for lower-priced houses for the poor. The report also summarizes issues related to the construction industry and building materials, an understanding of which is key to developing transformative policies in the sector. Finally, the report proposes possible new approaches to housing finance in Nigeria, based on international best practices.

## A. Methodology

The report is based on the household survey conducted by the National Bureau of Statistics; the housing finance supply side surveys carried out under the project; review of existing reports; and extensive consultations with policymakers and stakeholders. The household data provided some insight into the housing demands in different income categories and urban areas. However, there were no data sources that would have allowed the team to estimate these demands more accurately, or to assess past production of houses in different price categories.

The report draws on previous World Bank reports such as Housing Finance for the Poor and Mortgage Finance in Nigeria, both by Simon Walley; as well as studies carried out by Oliver Campbell White (Institutional Framework and Performance); the Affordable Housing Institute (Opportunities for Housing Microfinance in Nigeria); and Carol S. Rabenhorst (Legal Framework for Housing Finance in Nigeria), under the leadership of the Michael Wong. The report also draws on studies carried out for various DFID projects, in particular the Growth Employment Project.

## B. Acknowledgements

This report was prepared by a World Bank team led by Michael Wong (Lead Private Sector Development Specialist, GTCDR) and Simon Walley (Housing Finance Coordinator), and consisting of Moustapha Doukoure (PSD Analyst, GTCDR), Robin Hoffmeister (Former Financial Sector Specialist, GTCDR), Andrej Popovic (Senior Financial Sector Specialist), Johanne Buba (Economist), Richard Sandall (Former Private Sector Specialist, GTCDR), Halima Zarma (PSD Analyst, GTCDR). The team would like to thank Simon Kenny, Richard Ough (both DFID), Michael Fuchs (Consultant), Irina Astrakhan (Sector Manager Finance), Marie Francoise Marie Nelly (Country Director) and Gaiv Tata (FPD Director).

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1 See Sonya Williams-Stanton (2012), Hull (2009), Chen (2008), Banerjee, Abhijit and E. Duflo, (2011).

## C. Summary of Findings

The housing market in Nigeria has the potential to generate a higher level of economic value and be a source of job growth at all skill levels, with the largest immediate benefit to unskilled labor.

To unleash the housing market, the enabling environment needs to be less costly and opaque, the financial markets need to provide more long-term lending, and the construction sector needs to be more efficient in building more standardized, lower-priced homes.

The current policy and institutional framework for the sector aims at providing housing for lower-income groups, but it is not clear whether this applies to the 95 percent of Nigerians who are poor or only to the bottom 10 percent. Without clarifying the target groups, including women, and putting in place policies to address the needs of each group, it will not be possible for Government agencies to develop targets or measure outcomes related to this objective. For example, the level of female home ownership is constrained by high fees and transaction charges. State governments should consider waiving the fees for women who apply for land certificates, as well as the charges for extending legal ownership to female family members.

In addition, changes to the land and legal frameworks can help to speed development of the housing and mortgage sectors. Such changes could include:

- Making broader use of state governors' power to grant consents to land transactions, including sales and mortgages.
- Improving administrative procedures, by reducing the number of steps required to register a property; digitizing land registries; introducing electronic payments; and simplifying the overall process so that an individual is able to register a property without the need for a lawyer.
- Lowering the costs of land registration through, e.g., elimination of the consent fee and the use of flat fees, where applicable, rather than fees as a percentage of property value.

Based on an analysis of the housing survey, home ownership could be extended to more than 50 percent of the population if homes were built for those with an annual income of 340,000 Naira, or about US\$2,000. Incremental building, cooperatives, and other forms of housing could most likely meet the needs of another 25 percent of the market. The construction sector is currently unable to meet this demand due several weaknesses, such as lack of skills at all levels, weak organizational capacity, lack of access to finance, and lack of standardization of building plans and materials.

Furthermore, the mortgage market in Nigeria is unable to provide sustainable long-term loans to borrowers due to a lack of access to long-term funds. In a survey carried out by the Central Bank of Nigeria in 2012, financial institutions named this as the number one obstacle preventing growth of the mortgage market, ahead of foreclosure, housing supply, and the cost of title registration. Without access to long term funds, lenders are either unwilling or unable to further extend maturity mismatches on their balance sheets (although the regulatory framework allows them to do so), or to make the necessary investments in staff and systems to establish large-scale mortgage lending operations.

In addition to addressing access to long-term housing finance, the Government should support more innovative approaches, such as housing microfinance products. Some of these are being piloted by Nigeria's leading microfinance innovators, who are seeking to expand their product offerings for different market segments.



## II. COUNTRY CONTEXT

1. **The Federal Republic of Nigeria has experienced stable economic growth, averaging 8 percent, over the past decade. With the GDP rebasing in April 2014, Nigeria is now also the largest economy in Africa.** Since 2001, Nigeria's non-oil economy has grown by more than 8 percent, more than twice the rate of growth over the previous five-year period. Telecommunications, real estate, manufacturing, construction, and entertainment played a key role in this expansion (Table 1 and Table 2). Agriculture, crude oil and gas, and trade, which accounted for 85 percent of GDP in 2012, now contribute only 54 percent. In the context of high economic growth, Nigeria's key challenge is to make growth more inclusive, as direct indicators of social welfare for the broader population, such as poverty levels, have shown little improvement. Furthermore, about 4.5 million Nigerians enter the labor market each year, but only 10 percent are able to find formal jobs. As a result, from 2009–2011, (formal) unemployment grew from 19.7 to 23.9 percent, and principally affected the young (15–24 age group). Nigeria's stability critically depends on accelerating the creation of wage jobs.

**Table 1: GDP growth in selected sectors (%)**

	2011	2012	2013
Construction	12.6	15.3	16
Entertainment	13.8	9.8	15.4
Manufacturing of which food and tobacco	10.6 12.1	13.8 16	14.6 16.4
Electricity and Gas	40	13.2	12.8
Real Estate	4.9	7.1	8.7
Telecommunications	9.1	4.2	8
Trade	-2.1	18.4	7.8
Public Administration	5.6	1.7	6.3
Crude Oil and Gas	3.4	-2.3	5.2
Transportation	-2.5	3.1	5.1
Agriculture	3.2	2.5	1.3
<b>Overall</b>	<b>5.1</b>	<b>6.7</b>	<b>7.4</b>

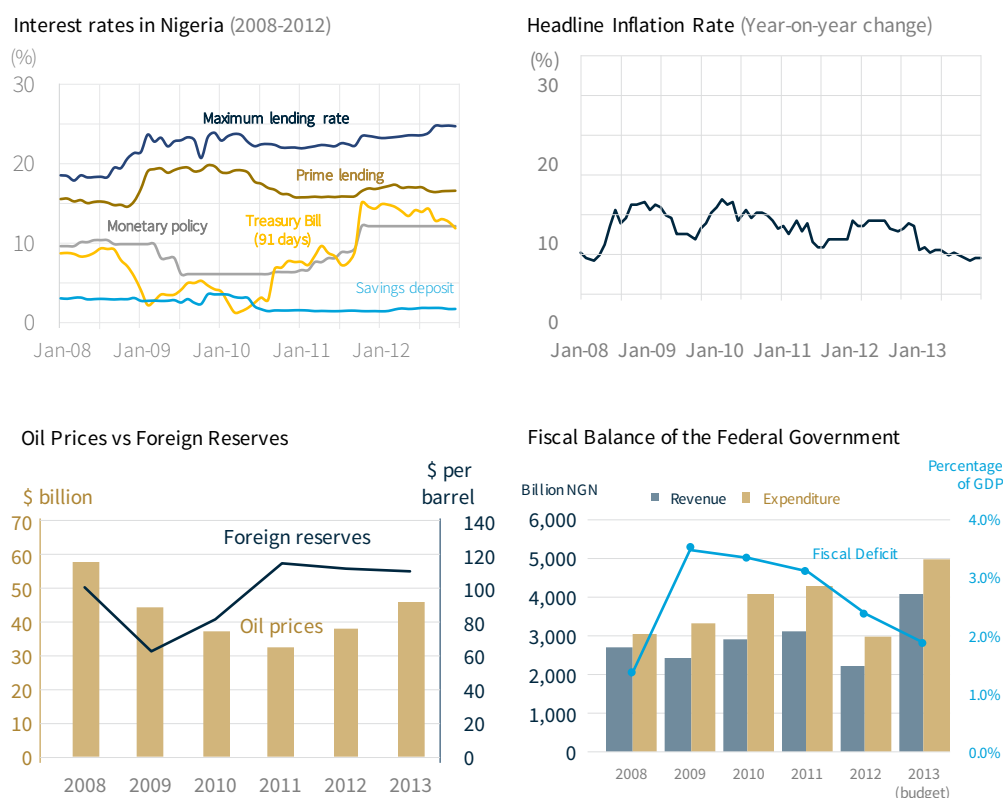
**Table 2: Sectoral shares of GDP (%)**

	Old	New
Agriculture	33.1	21.7
Trade	15.5	16.6
Crude Oil and Gas	37	15.9
Telecommunications	0.8	8.7
Real Estate	4.5	7.8
Manufacturing of which food and tobacco	1.9 0	6.7 4.4
Public Administration	0	3.6
Other	2.5	3.2
Construction	1.3	3
Finance and Insurance	1.6	2.9
Transportation	1.6	2.5
Entertainment	0	2.2
Electricity and Gas	0.2	0.9

Source: NBS, GDP Rebased Presentation

2. **With oil accounting for more than 80 percent of imports and 70 percent of consolidated budgetary revenues, Nigeria faces major macroeconomic risks from the recent collapse in oil prices,** which has magnified the effects of declining oil output over the past few years—declines due in large part to both regulatory uncertainty (e.g., the Petroleum Industry Bill) and to oil theft in the Niger Delta. Since 2004, the Government has alleviated these risks through the management of a fiscal reserve fund and the pursuit of countercyclical fiscal policy. Nigeria had built up a fiscal reserve of US\$22 billion by September 2008, and used much of this reserve to insulate the country from the oil price shocks in 2008 and 2009 related to the global financial crisis. While there was some slippage in countercyclical fiscal policy in 2010, the Government put Nigeria back on track of fiscal consolidation and reserve accumulation in 2011–13. Current oil prices present a new and different kind of fiscal challenge, in that oil revenues are not expected to increase in the medium term, making it imperative that the Government find significant increases in other sources of revenue.

**Figure 1: Nigeria – Key Macroeconomic Indicators**



Source: NBS & CBN

3. **Inflation has been high in Nigeria, and it has taken several years for macroeconomic tightening to have the desired effect.** Despite a substantial tightening of macroeconomic policy in 2011 and 2012, year-on-year inflation (December 2011–December 2012) registered at 12 percent in 2012. This reflected a number of nonmonetary factors, including partial removal of the fuel subsidy, increases in electricity tariffs, unusually severe flooding that reduced the supply and transportation of some goods and services, and growing security risks in certain parts of the country. Inflationary pressures finally subsided in 2013 and 2014, and year-on-year inflation has fallen to around 8 percent.
4. **The Nigerian financial system, which is growing fast and becoming increasingly integrated into the regional and global financial systems, has the potential to underpin growth.** As of end–2011, gross financial system assets amounted to the equivalent of 61 percent of GDP. At the core of the system are banks, followed by pension funds (79 and 12 percent of total financial system assets, respectively). The Financial Sector Assessment Program (FSAP) confirmed that the Nigerian banking system is well capitalized, liquid, and profitable. The capital adequacy ratio (CAR) grew from less than 2 percent in 2010 to an average of 18 percent in June 2012. The non-performing loans (NPL) ratio fell to approximately 5 percent of gross loans by end–June 2012, mainly due to the transfer of bad assets to the Asset Management Company of Nigeria (AMCON). At end–2011, liquid assets were approximately 40 percent of total assets, and demand deposits constituted 30 percent of total liabilities. Loans and advances were approximately 36 percent of total assets. Earnings were relatively low in the first half of 2012, but most banks were profitable after recording negative earnings in 2011. By end–June 2012, return on assets (ROA) for the industry rose to 1.2 percent, while return on equity (ROE) rose to 8.9 percent.

5. **However, the dominance of the banking sector has done little to improve access to long-term financing, which is essential to unlock the housing market.** Although the consolidation of the banking sector in 2005–06 generated capacity for several Nigerian banks to expand internationally and establish subsidiaries, particularly in Africa, bank lending is heavily concentrated in the larger corporations and their supplier value chains. Moreover, Nigeria faces an enormous long-term financing gap, which is significantly hampering its economic growth potential. This gap relates particularly to the financing of infrastructure, including housing. In this context, the pace of credit expansion to the private sector has remained modest. Credit to the private sector contracted from 34.6 percent of GDP at the end of December 2011 to 30.0 percent in 2013.<sup>2</sup>
6. **Housing finance is limited in Nigeria due to an existing maturity mismatch.** Nigeria has 84 Primary Mortgage Banks (PMBs) and 20 Deposit Money Banks (DMBs). Lending by the DMBs for mortgage loans accounts for less than 1 percent of their total assets. Oil and gas receives the most lending, representing about 22 percent<sup>3</sup> of total credit to the private sector. Looking at the whole banking sector, data for the 10 largest banks<sup>4</sup> in Nigeria show that an average of 84 percent of overall liabilities are short-term customer deposits. The remaining funding is primarily equity. Other sources of long-term funds are extremely limited, representing on average just 11 percent of the balance sheet.<sup>5</sup>
7. **Unlocking the residential housing market through the development of housing finance can provide a wide range of income opportunities** through the construction sector and related industries, as evidenced in Colombia and India. Research from Colombia indicates that five additional jobs are added for every US\$10,000 spent on housing construction. In India, 1.5 direct and 8 indirect jobs are created for each housing unit; and in South Africa, 5.6 and 2.5 direct and indirect jobs, respectively, are created.<sup>6</sup> As a result of current urbanization trends Nigeria's housing demand is expanding rapidly. It is estimated that up to 700,000 housing units in different market segments are needed annually to keep up with demand. However, current production is below 100,000, resulting in an overall accumulated deficit of around 17 million units as of 2013.<sup>7</sup> There are also many social benefits associated with improved housing and home ownership, not least of which is giving homeowners a true stake in their community.

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2 Nigeria: Outlook (2014), African Development Bank. [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN\\_Long\\_EN/Nigeria\\_EN.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Nigeria_EN.pdf).

3 Financial Sectoral Assessment Program (FSAP) Note 2012.

4 Compiled from publicly available bank reports.

5 Detailed analysis is summarized in Annex 8.

6 Viruly, "Think about the Social Housing Market," presentation at the 2011 Affordable housing Conference; Tibaijuka, "Building Prosperity: The Centrality of Housing in Economic Development," 2009; McKinsey Presentation at the 5th Global Housing Finance Conference, 2012.

7 Ministry of Lands, Housing and Urban Development (Lagos)

### III. INSTITUTIONAL FRAMEWORK

#### A. Housing Policy within the National Development Agenda

8. **The Transformation Agenda and its implementation plan, Vision 20:2020, reflect the Government's policy objective of providing low-income housing,** although income segments are not clearly specified. The Transformation Agenda states that:

(i) "...the Federal Ministry of Housing will provide Site and Services in all parts of the Country in collaboration with States and Local Governments. On their parts, States and Local Governments will provide Low Cost Housing units within the range of 100,000 - 200,000 housing units annually in major cities across the country. Local content such as bricks will be encouraged in the construction of housing while all inputs used in delivering housing will be obtained from the locality to create jobs and add value."

(ii) "Housing is also part of the critical infrastructure to accelerate economic development and forms a substantial part of the Gross Domestic Product of most developed countries. Nigeria with an estimated population of 150 million, requires at least additional 720,000 housing units per annum (based on an estimate of 9 dwelling units a year per 1,000 of population) not only to replenish decaying housing stock, but also to meet rising demand and avert a further housing crisis by 2020. Successive efforts to meet this target have failed as housing deficit now stands at over 17 million units in Nigeria. Consequently, at least N60 trillion is required to provide 17 million housing units at N3.5 million per unit."
9. **Vision 20:2020 states that:** "...10 million new houses to the national housing stock should be added by building an average of 1 million new homes every year...at least 50 percent ... in the urban centres." The plan also encourages public-private partnerships (PPPs) in mass housing development.
10. **The importance of the housing sector is also acknowledged in various States' development programs.** For example, the Lagos State Development Plan 2012-2015 states that the housing and construction industries provide a large number of jobs, many of which are unskilled. "This provides important opportunities to many employable workers who might otherwise be unemployed or under-employed. On the other hand, it meets a crucial human need for shelter and also engages in many other vital building projects essential to good social living in an urban environment. Some of the key Targets for this sector are that 100 percent of citizens will have access to homes by the end of the Plan period and at least 25 percent of citizenry will own their home." To help implement this vision, Lagos State runs a program called Lagos HOMS (Home Ownership Mortgage Scheme). Based on information on the program's website, the eligibility criteria include: first-time buyer, resident in the State, tax registered and taxes fully paid, at least 21 years of age, and able to make a 30 percent down payment on the proposed loan. Pre-qualified applicants are then selected by a draw.
11. **Similar housing programs exist in other States; however, a comprehensive assessment of all programs is not available.** State-level housing issues will be addressed in another report.

## B. Institutions for Housing Delivery

### 12. To implement its ambitious housing agenda, the Government relies on several federal-level agencies:

i. **The Ministry of Lands, Housing and Urban Development (FMLHUD)** was created in 2010<sup>8</sup> to ensure adequate and sustainable housing delivery and improve the living environment. FMLHUD is responsible for formulating policy, setting standards for the sector, establishing building and safety standards and codes, supporting the efforts of State governments to realize national housing goals, and collaborating with relevant professional bodies. The National Housing Policy (NHP), published by FMLHUD in 2012, states that the role of the Ministry is to “ensure that all Nigerians own or have access to decent, safe and sanitary housing in a healthy environment, with infrastructure services at affordable cost, and with secure tenure.” To achieve this, the Ministry was given the following specific duties:

- implement Government policy on housing and urban development;
- provide and sustain an enabling and conducive environment for home ownership, through mortgage financing for all segments of the population (both urban and rural); and through the promotion and regulation of the activities of private sector real estate developers, housing corporations, and housing cooperatives related to mortgage financing;
- promote the modernization, computerization and human resources development of land registries throughout the country;
- set standards, regulate, supervise, monitor the development of all categories of building materials and housing types for both rural and urban areas in the country;
- collaborate with the Federal Ministry of Industries, the Nigerian Building and Roads Research Institute, and the Committee of Bankers in promoting the growth and development of small and medium-scale industries in the building materials sector in all parts of the Federation;
- seek bilateral and multilateral assistance for promoting housing and urban development;
- improve the regulatory bodies for professions in the building and construction industry.

ii. **The Standards Organization of Nigeria (SON) is responsible for collaborating, through the National Planning Commission,**<sup>9</sup> with FMLHUD; professional bodies in the building professions; research institutes such as the NBBRI and the Raw Materials Research and Development Council (RMRDC); the National Office for Technology Acquisition and Promotion (NOTAP); and regulatory bodies, to:

- set standards, and monitor and approve the quality of building materials and construction technology used in the country;
- protect the interests of local building materials manufacturers by ensuring that the country does not become a dumping ground for poor quality building materials and other components;
- promote the training of skilled manpower for the construction industry; and

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<sup>8</sup> Frequent changes in the name and mission of the housing ministry underscore the Government's decades-long difficulties in providing a sufficient amount of affordable housing. In 1975, the Federal Ministry of Housing, Urban Development and Environment was carved out of the Ministry of Works. In 1978, it was renamed the Federal Ministry of Works and Survey. Then in 1979, the civilian administration created the much desired Federal Ministry of Housing. In 2006, it was renamed the Federal Ministry of Housing and Urban Development; and in 2007, it was named the Federal Ministry of Environment, Housing and Urban Development.

<sup>9</sup> National Planning Commission, Housing and Urban Development in Nigeria, <http://www.iuc.or.kr/board/pds/board/64/files/1cb3d002244b08d97bc8b4a46e59762a>

- provide data on locally produced and imported materials.
- iii. The Federal Housing Authority (FHA) is a wholly owned Federal Government agency supervised by the FHLHUD. It became partially commercialized in accordance with

#### BOX 1

#### FHA's Performance

Since its inception and up to the present, FHA's performance has been mixed. It built only 30,000 housing units between 1973 and 2006; and according to most sources, added only some 7,000 in the past six and a half years. Although FHA now estimates the number of units built at 45,000, this still means that the (maximum) average has been only 2,300 housing units per annum in recent years. FHA has also experienced difficulties in (a) operating profitably despite focusing on commercial development; and (b) managing its portfolio properly.

The FHA currently reports a negative net worth. While this could be corrected by converting an existing Federal Government loan to equity, such an action would not address the underlying causes of the problem. Further studies would be required to determine the true extent of the negative position and what could be done to address it. Stakeholders report the following issues:

- Difficulty obtaining legal title, through a Certificate of Occupation, for the majority of the sites made available to FHA by the Federal and State governments;
- Entering into construction or PPP arrangements (for joint ventures with other developers to manage the construction) without legal title to sites;
- Lack of infrastructure to and at selected sites;
- Lack of post-construction maintenance leading to deterioration and abandonment of some completed units; and
- Encroachment on FHA sites.

Commercialization has been on the agenda of the current Administration; however, efforts in the past have failed. At the heart of the difficulty in commercializing FHA has been the complexity of its mandate—the principal conflict being between social housing development and commercial property business. The assumption that FHA can continue to undertake a proportion of commercial business in order to cross-subsidize social housing development is extremely difficult in any environment. Without government grants, FHA has no financial capability to embark on social housing development.

As a statutory body, FHA has the power to identify suitable sites for housing development and request that the Federal or State government acquire such land. While FHA may have to pay compensation to affected persons (e.g., farmers), it does not have to pay the Government to acquire the land. This means that, in terms of commercial development, FHA is not operating on a level playing field with private sector developers, who have to pay market value to acquire land. Further study is required to determine the appropriate role for the FHA.

Decree No. 25 of 1988. The FHA is charged with (a) the preparation and submission of proposals for the National Housing Program; (b) making recommendations to the Government on aspects of urban and regional planning, transportation, communication, electric power, sewerage and water supply development as may be relevant to the successful execution of approved housing programs; and (c) the execution of such programs. For the Authority to carry out its functions/mandate effectively, section 4 (1) of the FHA Act CAP 136 Laws of the Federation 1990 granted it the power to:

- acquire, hold and manage movable and immovable property;
- acquire, construct and maintain dwelling houses, schools, communal and commercial buildings and other structures;
- enter into contracts for the construction, maintenance, management or repair of any property;
- purchase or otherwise acquire any assets, business or other property where such purchase or acquisition is necessary for the proper discharge of its functions under this Act;
- sell, let, lease or otherwise dispose of any property vested in the Authority.
- These functions were further expanded in the 2006 National Housing Policy, which gave FHA responsibility for:
  - developing and managing real estate on a commercial basis in all States of the Federation and the Federal Capital Territory;
  - providing sites and services for all income groups, with special emphasis on low-income groups;
  - providing low-income and rural housing in all States and the Federal Capital from funds provided by the Federal Government and other sources;
  - execute such housing programs as may be approved by the Federal Government.

- iv. The Federal Mortgage Bank of Nigeria (FMBN) was created under the Federal Mortgage Bank Act (1992) to provide long-term credit funding to mortgage institutions and encourage and promote mortgage financing throughout the country. To date, however, FMBN has not acted as a mortgage bank that lends to retail lenders. Rather, it acts as the body that manages the National Housing Fund (NHF), a compulsory provident scheme the proceeds of which can only be lent to retail lenders for their use in financing home purchases. These private mortgage institutions (PMIs) disburse subsidized loans financed by the NHF, usually combined with their business of making market-based loans funded almost entirely by retail deposits. In reality, the assets and finances of the NHF are effectively commingled with those of the FMBN, and both operate without sufficient transparency or accountability.

The FMBN is the apex mortgage institution in Nigeria, and has a broad mandate to:

- link the capital market with the housing markets;
- encourage the emergence and growth of viable primary mortgage loan originators to serve the need for housing finance in Nigeria;
- mobilize domestic and foreign funds into the housing sector;
- collect and administer the NHF in accordance with the provisions of the NHF Act.

## Conclusions for Institutional Framework

- 13. The current institutional framework for housing finance** concentrates resources at the top of the market, which prevents it from effectively financing housing supply at the scale and pace of delivery required. The housing policy needs to clearly define the “low income” group that it intends to target. This clarification would allow the relevant agencies to develop and set measurable outcome targets with respect to the policy objective, and to more effectively provide housing subsidies to the specified target group.
- 14. The lower income segments of the housing finance sector is usually local and informal and based on trust.** The activities in this sector are difficult to quantify, as they consist mainly of transfers of cash and kind, including donations of land and building materials. The informal sector provides the largest share of housing finance in Nigeria, and the key to making efficiency gains in housing supply is to better understand this informal process.



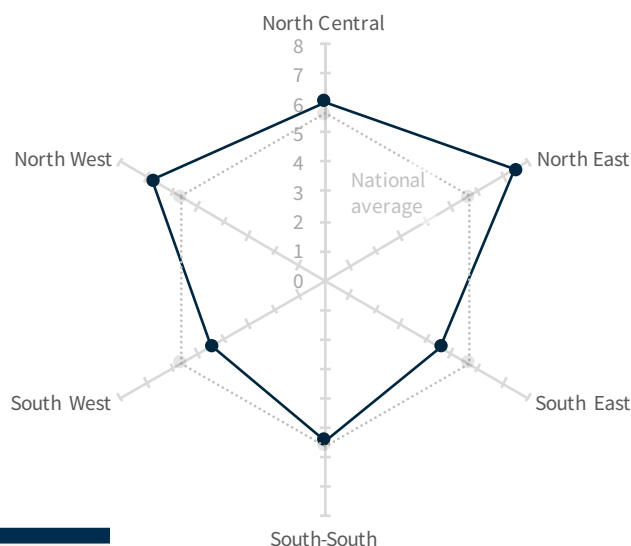
## IV. HOUSING NEEDS

15. This section provides a profile of housing demand market in Nigeria, including consumption distribution, occupancy status, and characteristics of household heads and dwellings. The main source for this analysis is the Nigerian General Household Survey (GHS) conducted in 2010/2011 by the National Bureau of Statistics.<sup>10</sup>

### A. Population and Housing Needs

16. Nigeria is the most populous country in Africa, with a population of more than 162.5 million in 2010, up from 37 million in 1950 (GHS). Population growth has been driven by the high fertility rate and cultural factors such as polygamy. This is reflected in the average household size, which is similar in urban and rural areas (5.99 compared to 5.14). Household size varies considerably across zones, with the NE and NW having a higher average household size

Figure 2: Average Household Size



#### BOX 3

#### Gender Aspect

A closer look at the composition of Nigerian households indicates that approximately 84.6 percent are headed by a male (compared to 70.6 percent in Ghana, for example) with little difference between urban and rural areas. Close to 100 percent of households in the North East and North West are headed by a male, in contrast to 70 to 80 percent of households in the south.

Female-headed household is not a normal occurrence, but appear to be the result of tragic circumstances, as 73 percent of female household heads are widowed. By contrast, 71.5 percent of male household heads are married (monogamous) and about 21 percent are polygamous. This can be explained by the fact that only the male offspring inherit property, while women may be precluded from becoming landlords. Female-headed households are relatively smaller, with an average size of 3.6 persons compared to 6 for male-headed households. There seems to be little dispute that female-headed households are also usually disadvantaged in terms of access to land, livestock, other assets, credit, education, health care and extension services. They are also disadvantaged in terms of income (a third less than male-headed households) and housing (with 3 rooms per house compared to 3.57 for male households).

than the SE, SS and SW. The average household size is above the West African average of 5.4 persons per household and the South African average of 4.92 persons per household.<sup>11</sup>

17. **Fifty percent of the population is concentrated in urban areas.** The North East and North West have more rural residents, and the South-South and South West zones have more urban residents. This is especially true in the South West, where only 24 percent of the population resides in rural areas. The rapid growth of the country's metropolitan population is exerting tremendous pressure on the housing sector. In 2003, it was estimated that 70 percent of the urban population was living in inadequate settlements.

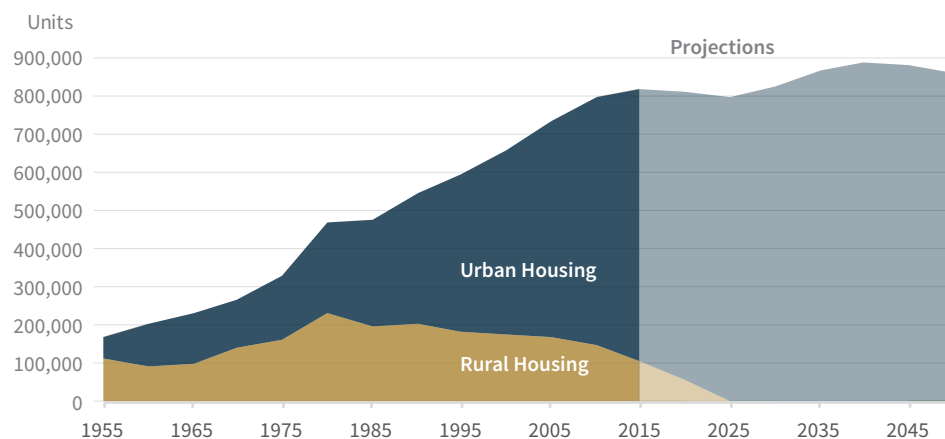
<sup>10</sup> The GHS is a detailed survey administered to approximately 5,000 households comprising 28,000 individuals. It is representative at the national, sectoral (urban/rural), and zonal levels (Nigeria consists of 6 separate geographic zones) allowing population estimates to be calculated at these levels.

<sup>11</sup> Source: UN Habitat, State of the World's Cities 2012-13.



- 18. The housing deficit has been estimated at up to 17 million units.** In Lagos, Ibadan, Kano, and Abuja, the need for housing is rising by about 20 percent a year. Current total output in the formal housing sector is estimated at no more than 100,000 units. While no good data exist, it is clear that the formal sector is only producing a fraction of the total number of urban units needed each year. The UN estimates that by 2050, 75 percent of the population will be living in cities (Figure 3). This translates into an annual housing requirement over the coming decades of at least 700,000 units just to keep up with growing population and urban migration.

**Figure 3: Nigeria Annual Housing Needs, 1950–2050**



Source: UN Population Division, World Bank calculations

## B. The Challenge of Poverty and Inequality

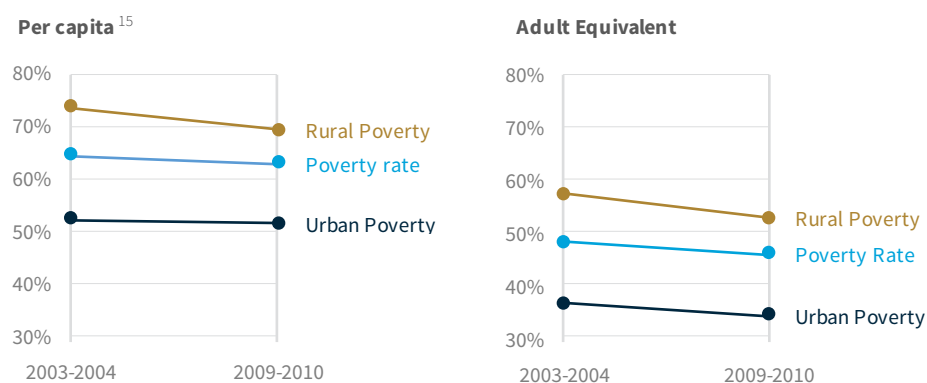
- 19. In spite of huge earnings from oil and an abundance of other natural resources, Nigeria remains largely underdeveloped.** The country continues to face a huge infrastructure deficit, particularly in power and transportation, and public service delivery is generally poor. The 2010 Poverty Assessment<sup>12</sup> showed that the national poverty headcount<sup>13</sup> declined from 48.3 percent in 2004 to 46.1 percent in 2010. The comparison between urban and rural areas shows that poverty declined faster in rural areas,<sup>14</sup> although starting from a much higher level. However, given the rapid population growth, the number of individuals living in poverty is increasing.
- 20. The general picture seems to be a combination of two geographical patterns—the traditional division between North and South, intertwined with a new East-West dynamic.** Northern States are traditionally poorer and less urbanized, while most important economic activities are located in the South. Recent poverty figures seem to show that within both North and South, Western States are doing relatively better than Eastern States.

<sup>12</sup> Source: Nigeria Poverty Profile 2010, National Bureau of Statistics.

<sup>13</sup> These estimates employ the accepted international practice (adult equivalent approach) of weighting children in households less than adults due to the fact that children generally consume fewer calories.

<sup>14</sup> It should be noted that the urban-rural breakdown is based on the last available census data from 1991. Thus, caution should be used for gaining any inference from this particular breakdown

**Figure 4: Nigeria Poverty Rates (% of Population)**

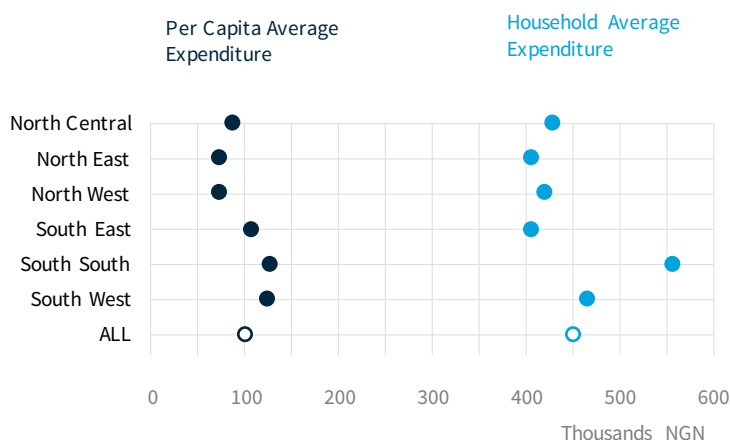


Source: Nigeria Economic Report, May 2013.

**21. The slow pace of poverty reduction despite significant growth in GDP may be due to an increase in inequality.** The pattern of poverty trends suggests an increase in inequality offsetting the poverty-reducing benefits from sustained growth. The most widely used inequality indicator, the Gini index, increased from 38 to 41 percent, a jump of 3 points (Figure 4).

**22. Figure 5 shows total expenditure per household and per capita consumption** within consumption decimals. Yearly household expenditure in Nigeria is estimated at about N450,000 (US\$3,000), with expenditure in urban areas nearly double that in rural areas. These observations are similar for per capita expenditure estimate at N99,000 (US\$660) yearly, according to the GHS.

**Figure 5: Zonal Consumption Distribution**



**Table 3: Income Distribution**

Income Brackets	% of households	All	Urban	Rural
Above N1.8m (\$12,000)	1.1	2,406,507.0	2,373,646.0	2,478,226.0
between N1.1m & N1.8m (\$4,000 & \$12,000)	3.7	1,344,260.0	1,364,208.0	1,298,776.0
between 600,000 & 1.1m (\$4,000 & \$7333)	15.2	779,087.4	790,078.2	765,136.9
between 340,000 & 600,000 (\$2260 & \$4000)	30.0	450,355.2	456,840.9	445,434.9
below 340,000 (\$2260)	50.0	213,446.5	225,663.4	208,422.2

Source: NBS

<sup>15</sup> The first estimates show the estimated percentage of the population living below the poverty line by this definition.

## C. Housing: Occupancy Status

- 23. The purchasing power and spread of poverty is correlated with the occupancy status of different households. The GHS indicates that a majority of Nigerian households own their dwelling and that rental housing is prominent in urban areas.** More than two thirds (66 percent) of households in Nigeria own the house they live in, while about 33 percent have a different occupancy status; about 14.4 percent live in rent-free houses, and 17 percent live in rented premises. About one percent live in a property provided by the household head's employer. Owning a house is more common in rural areas (81 percent) than in urban areas (44 percent), whereas renting houses and rooms is more common in urban areas (35 percent) than in rural areas (4 percent). Living in a rent-free house is rather common in both urban and rural areas, at 17 and 13 percent, respectively. On a gender basis, 54.3 percent of female-headed households own their property, 29 percent live for free in a property with the owner's authorization, and only 15 percent rent a property. By contrast, 68 percent of male-headed households own their property and 17 percent rent their dwelling.

**Table 4: Type of Occupancy Status per Sector**

Sector	Owned	Provided by employer	Free with authorization	Free no authorization	Rented
Urban	43.8	1.56	17.14	1.79	35.72
Rural	81.11	0.87	12.65	1.19	4.19
<b>Total</b>	<b>66.25</b>	<b>1.14</b>	<b>14.43</b>	<b>1.43</b>	<b>16.75</b>

Source GHS

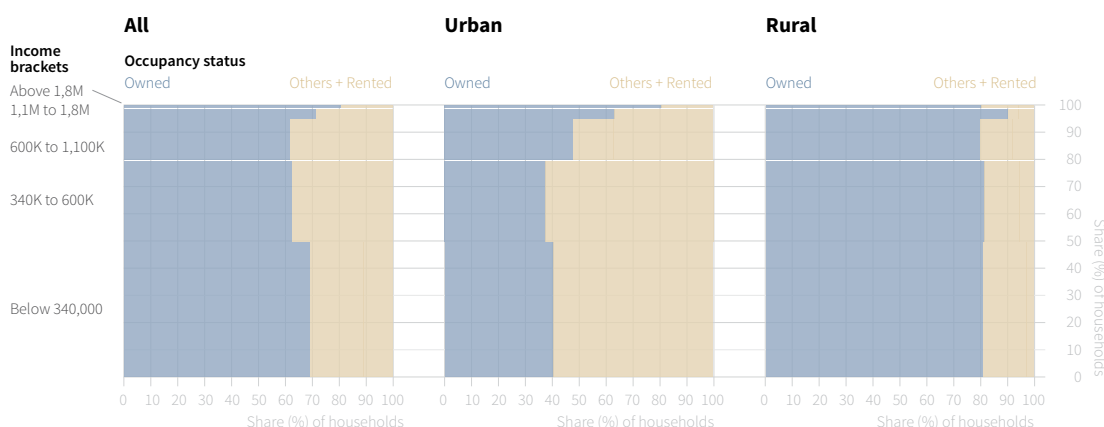
- 24. In terms of income distribution, ownership rates increase as total expenditure increases.** Large numbers of rural households (81 percent) own their housing, but this is often ownership of an informal kind, and may be held collectively rather than individually. While some farmers rent land, very few rent a home. Table 5 and Figure 6 underline the fact that whether rich or poor, most rural dwellers have some kind of access to "ownership." The situation is different in cities, where a higher percentage of households rent.
- 25. International experience indicates that most variations in homeownership in poorer cities can be explained in terms of access to cheap or free land.** In cities, where land invasion or clandestine subdivision has been permitted, thousands and even millions have taken advantage, pushing up rates of homeownership.<sup>16</sup> By contrast, where the authorities have been stricter, rates of homeownership tend to be lower.

<sup>16</sup> Un-Habitat, Rental Housing An essential option for the urban poor in developing countries

**Table 5: Occupancy Status by Income Bracket**

Income Brackets	% of households	Full Sample (%)			Urban (%)			Rural (%)		
		Owned	Rented	Others	Owned	Rented	Others	Owned	Rented	Others
Above N1.8m (\$12,000)	1.1	80.76	14.9	4.34	80.97	19.03	0	80.31	5.87	13.82
between N1.1m & N1.8m (\$4,000 & \$12,000)	3.7	71.59	21.44	6.97	63.42	28.29	8.29	90.23	5.81	3.96
between 600,000 & 1.1m (\$4,000 & \$7333)	15.2	61.88	24.19	13.93	47.77	36.99	15.24	79.78	7.95	12.27
between 340,000 & 600,000 (\$2260 & \$4000)	30.0	62.6	21.46	15.94	37.75	42.8	19.45	81.44	5.29	13.27
below 340,000 (\$2260)	50.0	69.16	10.97	19.87	40.63	30.87	28.5	80.89	2.78	16.33
<b>Total</b>	<b>100</b>	<b>66.25</b>	<b>16.75</b>	<b>17</b>	<b>43.8</b>	<b>35.72</b>	<b>20.48</b>	<b>81.11</b>	<b>4.19</b>	<b>14.7</b>

**Figure 6: Occupancy Status**



## D. Housing as a Share of Total Expenditure

26. Although the ownership rate is relatively high, expenditure on housing is 12 percent of household expenditure, ahead of expenditure on health and education. The GHS indicates that the share of rent in total household expenditure is fairly constant across regions, although households in urban areas spend more in absolute terms on rent than their counterparts in rural areas.
27. Similarly, house-related expenditures (including rent, water, electricity and repairs) are more costly and represent a larger share total consumption in urban than in rural households.

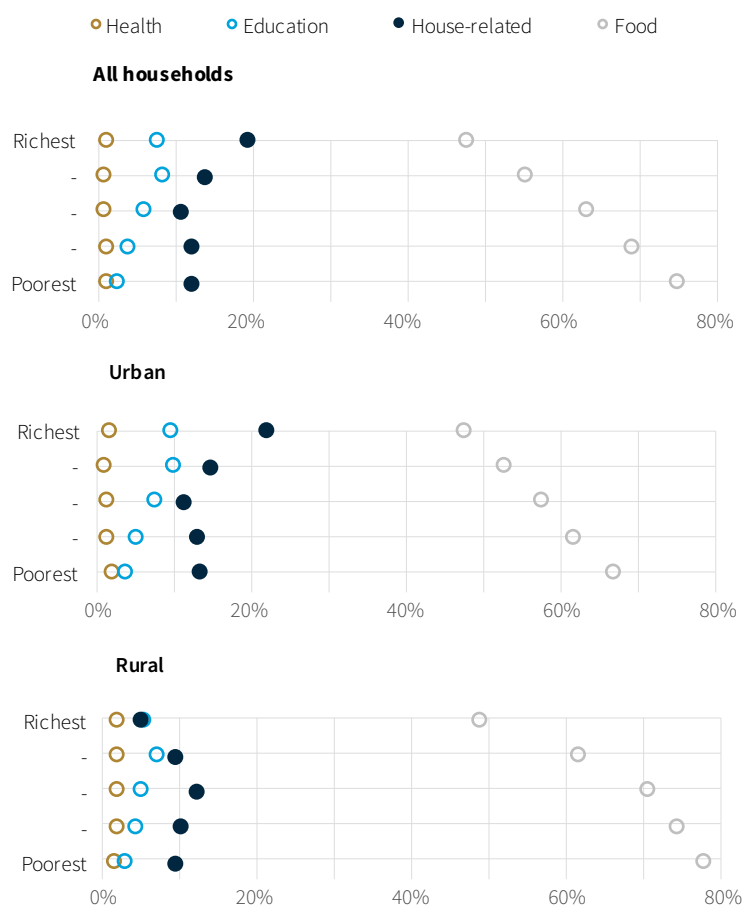
**Table 6: Income Share of House-Related Spending**

Income Brackets	Share of House Related Expenditure (%)			Share of House-Related Expenditure (N)		
	All	Urban	Rural	All	Urban	Rural
Above N1.8m (\$12,000)	19.3	21.4	4.2	409,517	452,076	108,500
between N1.1m N1.8m (\$4,000 \$12,000)	13.8	14.2	8.7	194,580	202,021	111,966
between 600,000 1.1m (\$4,000 \$7333)	10.9	10.8	11.7	86,610	85,919	90,694
between 340,000 600,000 (\$2260 \$4000)	12.0	12.4	9.7	55,242	56,925	44,924
below 340,000 (\$2260)	12.1	12.8	8.9	29,774	31,956	19,809
<b>Total</b>	<b>12.0</b>	<b>12.3</b>	<b>9.8</b>	<b>65,699</b>	<b>68,802</b>	<b>48,194</b>

Source: GHS

28. **The share of expenditure allocated to house-related items** is higher than households' average expenditure on education and health (Figure 7).

**Figure 7: Share of household expenditures by sector**



## E. Conclusion

29. **Gender:** Based on the household survey analysis confirming low levels of female home ownership, we can assume that female legal ownership of houses is also low. More affirmation action is needed to increase the number of female-owned houses. For example, State governments should consider waiving the registration fees for issuing female-owned land certificates, as well as the transaction charges for extending legal ownership to female family members.
30. **Affordable housing:** To make the housing market more inclusive, housing construction aimed at those with an annual income of at least N340 000 (about US\$2000) would extend housing to half of all Nigerians. Incremental building, cooperatives and other approaches could most likely meet the needs of another 25 percent of the remaining market. The housing microfinance pilot mentioned above will shed further light on how far the market can be extended, leaving the remaining income segments for social housing.

**BOX 4****Illustrative Interviews****Akin, 54 years old**

**City:** Ogun  
**Sector:** Urban  
**Income:** Above N100,000 per month

Akin is a retired civil servant who recently moved to Ogun state with his wife and children. He lived in Lagos for most of his life with his immediate and extended family. He worked as a statistician for most of his career and is currently planning to open a consultancy firm. Just after getting married, he moved into a house previously owned by his father in Palm Grove, a suburb of Lagos town. The house was a non-gated 12-bedroom bungalow with many of its kind in the area.

He used two of the twelve rooms with his wife and five children aged 12 to 22. Five other rooms were used by his mother, brothers, sisters and their children. The rest were rented out to tenants.

Akiin bought land in Ogun state in 1999 for N45,000. As he said “I had no savings at the time, I had to take a loan from the cooperative society of my work place.” The loan was repaid through salary deductions over ten months, with 7 percent interest applied. The land was left undeveloped until he started building a three-bedroom house in 2003. Almost a decade later, the house has been completed and Akin now lives there with his wife and young children while the older two are at universities in separate cities.

In terms of utility, Akin says “I have a deal with my neighbor; I supply him electricity from my generator and he pumps me water from his borehole.” Until they were connected with electricity, “I had to pay a lot to keep the generator running.” A government hospital close by, but the children have to be driven to school.

Akin now plans to build and move into a three-bedroom duplex behind the house and give the current house to his eldest son. He has already laid the foundation, and hopes to raise more funds from his consultancy to build the house.

**Musa Isa, 49 years old**

**City:** Mararaba  
**Sector:** Urban  
**Income:** N38,000 per month

Musa Isa has no formal education; however he can read and write in English. He grew up in a village near Bauchi called Boto in the North-East, rearing cattle with his father and uncles. After his father's death, he had to migrate to the city: “Things became difficult, we had extended family members claiming what was rightfully ours. I had no choice but to move to the city and get a job.” Thus, at the age of 34, he moved to Mararaba, a suburb of Abuja with his wife, children and mother.

Musa has eight children between the ages of 4-21, as well as two wives. He married the second wife about ten years after moving. They are all living together, apart from the first daughter, who recently got married. After moving to Abuja fifteen years ago, he got a job in a bank working as a driver. He lived with his family of then 7 in a rented house with five rooms. Subsequently, he was able to secure a loan of N200,000 from the bank where he worked and acquired a piece of land in Mararaba for N25,000. He paid the principal and an interest of N40,000 over a two-year period. He built seven detached rooms, two bathrooms and a kitchen on the land. In terms of utility, he dug a well and doesn't need a generator, as reliable electricity is available in the area.

Presently, he lives with his two wives, seven children, and three extended family members who use two rooms for free. He is also renting out a room for N40,000 a year to a tenant and his wife and child.

Musa Isa plans to build two ensuite rooms worth about N1million in his compound and rent them out, but is finding it difficult to secure funds. He also plans to start a poultry business after retirement.

## V. THE BUSINESS ENABLING ENVIRONMENT FOR HOUSING

- 31. This section discusses the key constraints to market growth imposed by the sector's legal and operational frameworks.** Under the 1978 Land Use Law, there is no private ownership of land in Nigeria. The maximum interest a person may hold in land is the right of use and occupancy. The statutory right of occupancy of urban land is given to any person by the governor's consent and a written certificate of occupancy (C of O). In the World Bank's Doing Business 2015, Nigeria ranked 185 out of 189 in terms of registering property because of its long and costly process—up to two years and 20 percent of the value of the property, compared to 9.1 percent for Africa, 1.1 percent for Ghana, 4.3 percent for Kenya, and 7 percent for India.
- 32. Land reform processes are by nature both social and economic.** They reflect wide and divergent socioeconomic interests of individuals, families and communities. The ultimate goal of land use systems is to ensure sustainable growth and development anchored in secure land tenure and effective land titling. Structured reforms will encourage wealth creation and the economic empowerment of landowners and homeowners.

### A. Ownership of Land in Nigeria

- 33. Prior to 1978, land tenure laws and practices varied across regions.** Customary law was dominant in southern Nigeria, where allocation and use was controlled by community leaders who could vest land in heads of families or other designated community groups for their use and disposition. Individual ownership was less common but possible, and the common instrument of transfer, the Deed of Conveyance, was accepted as conferring title. In northern Nigeria, land was held and administered for the use and common benefit of the people, subject to the control and disposition of the local authority, who could grant rights of occupancy to groups or individuals. In 1978, the Land Use Act nationalized land, placing ownership in the hands of the State governors “in trust”<sup>17</sup> for the benefit of all the Nigerian people. The Land Use Act created limitations on the rights of ownership and use of land. These rights are discussed below.

### B. Statutory Right of Occupancy and Customary Right of Occupancy

- 34. At the time of its passage, the stated purpose of the Land Use Act was to create a uniform land tenure system throughout the country by nationalizing all land.** Paragraph 2(1) confers “control and management” of the land upon the governor of each State in the case of urban land, and to the local government in the case of land outside of designated urban boundaries.
- 35. As a result, the maximum interest a person may hold in land is the right of use and occupancy.** Under Paragraph 5(1) of the Act, State Governors may grant statutory rights of occupancy of urban land to any person(s), to be evidenced by the governor's consent and a written certificate of occupancy (C of O). They can also collect rent and impose other obligations for use of land under such a grant. Local governments may grant customary rights of occupancy for non-urban land. Section 9 of the Act empowers the governor to issue a Certificate of Occupancy as evidence of the grant of a customary right of occupan-

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<sup>17</sup> Paragraph 1 of the Act proclaims that all land is vested in the governor of the respective States where the land is located, to be held “in trust and administered for the use and common benefit of all Nigerians in accordance with the provisions of this Act.”

cy. Statutory rights of occupancy must be for a stated period of time, which is not specified in the Act. It is common for rights of occupancy to be granted for a period of 99 years, with the C of O issued for a period just short of that (often by one day). When rights are transferred or assigned to a different party, that party acquires the same C of O, with the transfer noted on it, for the balance of the occupancy term left at the time of acquisition.

## C. Deemed Grant of Statutory Right of Occupancy and Customary Right of Occupancy

36. **Under the Land Use Act, the deemed grant of statutory Right of Occupancy is created with respect to land in an urban area vested in any person immediately before the commencement of the Act.** Where the land is developed, the land shall continue to be held by the person in whom it was vested, as if the holder of the land were the holder of a statutory right of occupancy issued by the Governor under the Act. Similarly, with respect to land not in an urban area which was held or occupied by any person immediately before the commencement of the Act, any occupier or holder of such land shall continue to be entitled to possession of the land to use for agricultural purposes.
37. **The Act prohibits the alienation of a statutory Right of Occupancy without the consent of the Governor.** In other words, the holder of a statutory Right of Occupancy must obtain the consent of the Governor before alienating or selling interest in land (Section 22); otherwise, the transaction is void. Similarly, where the property is subject to a customary Right of Occupancy, the consent of the local government is required before land is sold.

## D. Registration of Property Rights

38. **In the absence of specific national legislation regarding land registration, the Land Registration Act No. 36 of 1924,** a received English Law, remains the principal law regulating registration of property rights throughout Nigeria. However, the influence and importance of the Law is declining as State and local courts interpret land legislation to suit local conditions. Moreover, the land registries of each State, although mandated by the Land Registration Act, have their own rules and procedures for registering land instruments, which differ across the country.

## E. Impact of the Land Use Law

39. **The 1978 Land Use Law was implemented to reduce land conflicts** among citizens, unify land tenure and land administration procedures, achieve a more equitable distribution of and access to land rights for all citizens, and facilitate government control over land use and development. However, questions continue to be raised about the achievements of this Law.

### Cost and Time

40. **The Land Use Law ended private ownership of land, resulting in increasingly bureaucratic administrative procedures that negatively affect the time and costs of simple land transactions.** Procedures for property acquisition and title registration of title in Nigeria are among the most cumbersome, expensive and lengthy in the world. Costs range from 20 percent to as high as 30 percent of the value of the property—two to three times as high as the African average, making formal acquisition and titling simply beyond the means of most homebuyers.<sup>18</sup> In the best case, it takes a minimum of eight to nine months

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18 The six regional studies (not including high-income OECD countries) of the cost of registering property as a



to complete acquisition and registration of title, and that would be a rare case indeed, as the process usually lasts a year or more. The World Bank Group's Doing Business report for 2015 ranks Nigeria 185th out of a total of 189 developed and developing countries in the category of registering property, indicating that reform of the property registration system is lagging behind efforts in other sectors (Table 7). Costs of registration also vary across Nigerian States (Table 8).

**Table 7: Registering Property**

Country	Ranking	Number of steps	Number of days	Cost as % of property
<b>Nigeria</b>	<b>185</b>	<b>13</b>	<b>77</b>	<b>20.6</b>
Ghana	43	5	46	1.1
Senegal	167	5	71	15.2
South Africa	97	7	23	6.2
India	121	7	47	7
Brazil	138	14	25.5	2.6
Egypt	84	8	63	0.7
OECD		4.7	24	4.2
Sub-Saharan Africa		6.3	57.2	424

Source: Doing Business 2015, World Bank

**Table 8: Registering Property for Selected States**

State	Number of steps	Number of days	Cost as % of property
Akwa Ibom	13	55	15.6
Anambra	13	212	12.8
Bauchi	11	33	15.7
Benue	10	99	11.1
Cross River	12	48	15.3
Delta	12	80	25.7
Ekiti	12	55	23.3
Jigawa	11	23	10.6
Kaduna	12	112	13.8
Kano	9	45	11.9
Katsina	10	32	9.6
Lagos	13	77	20.8
Niger	10	42	13.8
Ogun	12	98	16.1
Ondo	12	56	18.6
Osun	14	93	22.2
Oyo	15	60	23.8
Rivers	12	112	23.1
Sokoto	12	85	15.1

Source Subnational Doing Business in Nigeria 2014, World Bank

percentage of were Africa, 5.7 percent; South Asia, 7.2 percent; MENA, 5.7 percent; LAC, 6.1 percent; and East Asia/Pacific, 4.5 percent. Doing Business 2015.

- 41. In addition to the bottlenecks in registration, in regions where there previously was either true ownership or customary ownership of property, disputes over rights to acquire land are common and often result in lengthy litigation.** Since all land was nationalized in 1978 by the Land Use Act, many of the disputes involve whether the original holder of the land was granted continuing rights over the land or was compensated adequately for the loss of the land, in accordance with the Act's provisions. No consents are granted for parcels of land involved in ongoing litigation.
- 42. Another outcome of the Land Use Act, directly related to the complex land transaction procedures, is that it has contributed to the growth of a vibrant informal land market.** It is estimated that more than 70 percent of land transactions in Nigeria are in the informal market.<sup>19</sup> These transactions often involve full contractual formalities between the parties, but they are informal in the sense that they lack the Certificate of Occupancy and the official consent required by law and are unregistered.

### **Incomplete and Damaged Records**

- 43. Another deficiency in the title registration process is that the records are not regarded as reliable and are far from complete.** Therefore, they are not able to serve as legal evidence of rights or support effective research of records to identify all interests in a parcel of land. The records are substantially incomplete because of the large amount of illegal or informal construction upon and occupancy of land that is not registered, particularly in urban areas.<sup>20</sup> The precise extent of informal land occupancy is unknown, but estimated to cover the vast majority of land parcels throughout Nigeria. Informal property cannot be legally transferred to another party or used to secure a legal mortgage, substantially diminishing its potential market value and locking it out of a robust, market-based housing finance system.
- 44. Registration in most States is done in handwriting, with notations kept in large ledgers that record transfers from the government to an individual, and subsequent assignments of interests or rights through transfer, mortgage or easement.** There is no unique property identifier system to ensure that a specific parcel of land cannot be confused with any other parcel, or to facilitate research of a chain of title.

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<sup>19</sup> *Nigerian Land Markets and the Land Use Law*, Stephen Butler 1978.

<sup>20</sup> In some countries, registration by itself increases the value of property significantly. In Thailand, for example, once land registration and tenure reform began in the 1980s, titled land became up to 200 percent more valuable than comparable non-titled land. "*Thailand's 20 year program to title land*," World Development Report 2005.

## F. Land Administration and Registration: Next Steps

- 45. Critics of the Land Use Act say it is the main obstacle to the development of the housing and mortgage markets.** Many provisions in the Act that make land and mortgage transactions time-consuming and expensive can also be subject to inappropriate political influence and corruption. Initial efforts are underway to find a way to address these obstacles. In a key development, on May 7, 2012, the National Assembly called for Memoranda on whether the Land Use Act should be removed from the Constitution.
- 46. Although repeal or amendment of the Land Use Act may take many years to accomplish, especially given its political significance,** there are provisions in the Act that allow States to overcome some of its problems, as long as there is willingness to do so among governors and state courts. For example, Lagos State has put in place a series of reform-oriented administrative and judicial procedures that can make a substantial difference in the growth of the mortgage market.
- 47. To improve registration systems, the Government has funded computerization and digitization of records and geographic information systems** in the Federal Capital Territory and the State of Lagos, and to a lesser extent in several other states, with donor assistance. In 2005, the Lagos State Lands Bureau began an ambitious project to improve land registration, beginning with upgrading facilities, modernizing operations and making information more accessible to customers. These reforms are leading to an increasing number of properties being brought into the formal system every year, at lower cost to the occupants.
- 48. In addition to improving the physical facilities and staff capacity and computerizing the registry,** Lagos State has also implemented procedures to lower the cost and shorten the time required for registration. Under the new procedures, a Certificate of Occupancy on State land should be issued within 21 days of the submission of application and appropriate documentation. The Lands Bureau is also planning to lower the registration fee for the purchase of landed property to between 2 and 5 percent of the value of the property.
- 49. More changes can be put in place without changing the existing laws,** to begin to quickly improve the mortgage market. These include:
- Making broader use of the governors' power to grant consents to land transactions, including sales and mortgages.
  - Improving administrative procedures, including reducing the number of steps to register a property, digitalizing land registries, introducing electronic points of payment, and simplifying the overall process so that an individual is able to acquire land without the need for a lawyer.
  - Lowering the cost of land registration by, e.g., eliminating the consent fee and introducing flat fees where applicable, rather than fees as a percentage of property value.
  - Replicate good practices such as the Lagos fast-track registration procedures and land regularization program.

## VI. MORTGAGE FRAMEWORK IN NIGERIA

### A. Creation of Mortgages under Nigerian Law

50. There are three operative laws regulating the creation of legal mortgages in Nigeria:

- **The Property and Conveyancing Law Cap 100 Laws of Western Nigeria 1959 (PCL)** which applies to all states in the old Western and Mid-Western Nigeria; i.e., Oyo, Ogun, Osun, Ondo, Ekiti Edo and Delta States. The PCL applies strictly in these states, to the exclusion of common law.
- **The Conveyancing and Law of Property Act 1881 (CA)** is applicable in all other parts of the Federation, excluding the PCL States and some parts of Lagos. The parts of Lagos covered are those excluded under the Registration of Titles Law.
- **The Registration of Titles Law Cap R4 Laws of Lagos State 2004 (RTL)** applies in a limited number of places in Lagos, including Ikoyi, Ebute-Metta, Victoria Island, Surulere and Lagos Island.

### B. Conveyancing Laws: Non-Judicial Foreclosure or Power of Sale

51. **Two laws confer the power of sale upon a mortgage lender after borrower default, so long as the right is included in a clause in the mortgage contract or deed** and the mortgage is a legal mortgage. These laws are the Conveyancing and Law of Property Act of 1881, which operates in the northern and eastern regions of Nigeria and in parts of Lagos State, and the Property and Conveyancing Law of 1959, which operates in the western region. The power of sale allows the lender to seize and sell the collateral without a court order or court supervision if there is a default by the borrower. It is considered an advanced, market-oriented procedure designed to improve the efficiency of the mortgage market and lower the lenders' credit risk; however, many countries with mortgage markets in the early stages of development do not allow the sale of distressed property through this procedure.

52. **Since lenders in Nigeria routinely retain possession of the C of O as security** for a mortgage loan, the power of sale should theoretically be a speedy and efficient method of dealing with borrower default. However, mortgage lenders in Nigeria are rarely if ever able to take advantage of their statutory and contractual right to seize collateral and liquidate it by power of sale because mortgages in Nigeria are rarely "legal mortgages" or "mortgages by legal charge," which requires registration of the lender's mortgage rights in the land records for the property used as collateral.

### C. Problems and Practical Implications Arising from the Legal Framework

53. **While lenders are legally entitled to foreclose on property without a court order provided that the property is registered**, the widespread practice among mortgage lenders in Nigeria is to forego legal registration (perfecting the mortgage), thereby disqualifying them from using the power of sale to sell the collateral. Rather than go to the expense and trouble of perfecting a mortgage, many banks prefer to have the borrower maintain an account in the bank during the term of the loan and to have borrower's paychecks deposited directly into the account, to which the bank has access. However, these procedures are not always followed. Bankers sometimes try to protect themselves by estimating the cost of perfecting the mortgage at the time the loan is made, and requiring the borrower to keep sufficient funds in an escrow account for that purpose. However, lenders have stated that

10-50 percent of their mortgage loans are in some degree of delinquency at any time, and those who have not registered their mortgages are unable to foreclose.<sup>21</sup>

- 54. Furthermore, it often happens that when a property is sold, the C of O is not transferred** and the land records are not changed to reflect the fact that a new person has acquired occupancy rights. Mortgage loans are then made to the new borrower on the basis of the old C of O.
- 55. On the rare occasion that a lender takes a borrower to court**, during the period of the court proceedings—which may last for years—the mortgage debtor has an absolute right of redemption at any time. With this right as the ultimate fallback, the debtor has no incentive to speed the process and will often delay through frivolous complaints and postponements.

## **D. Foreclosure Issues and Next Steps**

- 56. Lengthy and expensive methods of mortgage enforcement, and the failure of lenders to qualify for right to power of sale, impede the growth of the mortgage market.** Improved procedures such as standardization of mortgage documentation and procedures, and increased registration of mortgages, are currently being considered. In addition, the State of Lagos has adopted fast track court procedures for mortgage cases under a specialized commercial division of the High Court. The fast track procedures have reduced the time to resolve a mortgage enforcement case to about 8 months. Similar procedures should be adopted in other states to make mortgage enforcement more efficient. Even with these changes, however, it is essential that lenders perfect mortgages so they can avail themselves of non-judicial procedures.
- 57.** The following interventions can be taken to improve contract enforcement and foreclosure:
- Creation of specialized court division, as stipulated in the Land Use Act, to deal with mortgage foreclosure issues;
  - Strengthening the capacity of judges and lawyers to manage mortgage caseloads and promote strict enforcement of deposit requirements;
  - Establishment of licensed foreclosure administrators;
  - Strengthening of High Court judicial procedures to make mortgage enforcement less expensive and more efficient, and to foster strict compliance with deposit requirements;
  - Increasing the capacity of lenders to manage mortgage portfolios, stressing (a) the importance of perfection of title so that power of sale can be used, and (b) diligent record-keeping so that good evidence of default is available in case of litigation.
  - Enactment of adequate land use regulations.

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21. On the more positive side, bankers stated that 20-30 percent of borrowers in default negotiate a workout with the bank. This could mean renegotiating the loan terms, the bank's forbearing on collection for a short period (e.g., if the debtor is between jobs), or the bank's allowing the debtor to sell the property so it does not appear to be distressed and is more likely to bring market value, which benefits both the debtor and the lender.

## VII. CONSTRUCTION SECTOR

**58. The key provider of housing is the construction industry.** Dwellings are, essentially, an amalgamation of various materials and components assembled on site by the construction industry. Unlike most other manufacturing industries, it is mostly not factory-based, operating instead on a multitude of sites scattered across the whole country. This chapter provides a brief overview of its nature and efficiency, and the supply of the materials and components it assembles.

### A. Economic Importance of the Construction Sector

**59. The construction industry has the potential to be as a major source of economic growth, development and economic activity.**<sup>22</sup> It generates employment and offers job opportunities to millions of unskilled and semi-skilled workers most in need of economic uplift. Because of the predominance of lower-wage workers, the money generated in construction tends to be spent close to the site, so that for every dollar in wages, another dollar is earned as that money circulates locally. For every job created directly in construction, it is likely that at least one more is generated, through backward linkages, in the industries that supply materials, transportation, sustenance and parts for the construction process (Figure 8).

**Figure 8: Linkages between Housing Finance and Economic Development**



Source: Sonya William-Stanton, Poverty Literature Review Summary: Housing Finance and Poverty Reduction

### B. The Construction Sector in a Nutshell

**60. As highlighted by the GDP rebasing exercise, the Nigerian construction industry has experienced steady growth over the last decade,** with its contribution to growth rising from about 1 to 3 percent of GDP. At the same time, however, the national GDP of Nigeria experienced much higher growth, and the contribution of the construction industry to GDP remained much lower than the African average share of 34 percent.

22 IFC, Poverty Literature Review Summary: Housing Finance and Poverty Reduction

**The construction sector comprises a small number of large businesses which are registered, pay taxes, benefit from government assistance.** However, the industry is dominated by a myriad of micro, small and medium enterprises (MSMES), which provide 80-90 percent of jobs, are not registered, do not pay business taxes and rarely employ workers other than the proprietor. The industry as a whole has several weaknesses:

- Lack of skills at all levels (technical/managerial/business);
- Poor contract management skills;
- Inadequate marketing skills, ability to price and post qualifying training;
- Weak organizational capacity;
- Poor training in general and inappropriate regional technologies; and
- Lack of training facilities.

**Table 9: Construction Sector Structure**

Firm type	Characteristics	Target Market	Examples
<b>Large International firms</b>	2,000 to 20,000 staff Diversified to control as larger parts of value chain	Large scale infrastructure projects. Federal Government or large State contracts	Julius Berger Cappa and D'Alberto Costain West Africa
<b>Medium sized indigenous firms</b>	Typically 50 – 2000 staff Typically only building contractors	Small scale government contracts Commercial construction – shops, offices etc. Some housing	G Cappa Jagal Nigeria
<b>MSMEs</b>	Handful of staff Largely informal sector Poor skills	Largely private housing	
<b>Input suppliers of cement, iron and steel</b>	Typically large but inefficient Nigerian companies, with some foreign ownership (e.g., LaFarge/WAPCO), protected by tariffs, struggle in particular with reliable power. Domestic cement producers gradually increasing market share although steel and aluminum are stagnant.		Dangote (cement) Ajaokuta Steel

Source: GEM II, Housing Supply report

## C. Organization, Actors, Suppliers, Contractors and Service Providers

### Construction industry

- 61. Formal contractors.** As in many Africa countries, many of Nigeria's formal contractors have relationships with international firms or are of foreign origin (a number of Israeli, Chinese firms compete with historically dominant firms such as Julius Berger). Most of these firms take on large projects such as stadiums, major roads and bridges, but have little to do with the housing sector, as—with their capital intensive production methods and high overheads—they do not have the cost structure to produce lower cost houses for the majority of the population. A few formal contractors work with development companies or individual high-income households to build expensive and high-quality dwellings, often in gated estates, but these contractors tend to be relatively small and do not take on lower-cost projects.
- 62. Informal contractors.** Most housing construction in Nigeria is initiated by individuals who find and buy the land; negotiate for designs, permissions, builders and infrastructure; and then occupy the house once it is finished. This process, which involves a large number of people in housing supply, is very inefficient; however, it is considerably more efficient than self-help building, which relies on household members building their house using their own labor (commonly referred to as “sweat equity”). Furthermore, the construction of urban housing for the low-income majority mostly involves building in unauthorized (squatter) settlements on land for which the occupants do not have title.
- 63. As a result, small-scale, locally based, informal contractors are the main providers of housing** in Nigeria and other African countries.<sup>23</sup> Using locally sourced materials and labor-based technologies, these informal contractors provide very economical and efficient building services to the majority of households in Nigeria. They fall outside of the industry's tax and benefits systems and are not able to bid on contracts. Despite this, and with no help from official sources, informal contractors and single artisans build almost all the housing in Nigerian towns and cities. Much of it is built incrementally, a room or two at a time, to match the client's ability to pay.

### Construction Materials Suppliers

- 64. Formal.** Suppliers of construction materials include some who manufacture locally, some who import goods, and some who manufacture locally from imported materials. Most of the building materials on the market have an imported component. For example, clinker is imported for manufacturing cement, and aluminum ingots and rolls are imported to manufacture roofing sheets. Retailers base the pricing of their goods on the manufacturers' price, the distance goods are moved, inflation, and very often on shortages in the market. Prices increase whenever there is a temporary shortage on the market.
- 65. Informal.** Informal traders sell building materials such as bagged cement, cement blocks, bricks, metal grilles, stone and aggregate by the roadside. They sell more cheaply than established shops, and are willing to negotiate lower prices buying in bulk. Anecdotal evidence indicates that most informal sector traders do not keep their stock covered, so it may not be in good condition. However, many are now renting or buying dwellings next to the road and storing their cement indoors, often in residential properties.

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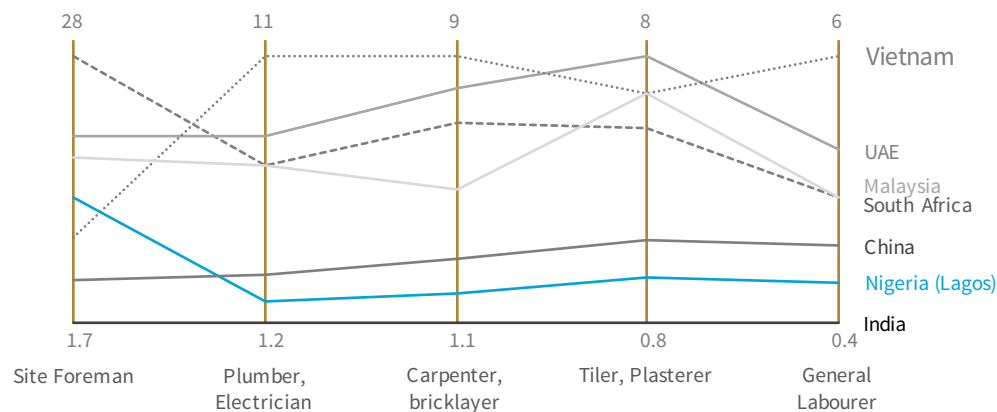
23 Un-Habitat, Ghana Housing Profile 2011.



## Labor

- 66. Prospective homeowners can obtain construction labor relatively easily.** Skilled labor is typically engaged by recommendation, while unskilled labor is obtained by word of mouth through friends or relatives. Skilled laborers may also engage their own unskilled workers. The wages for unskilled labor vary; a lower rate is paid for work with materials such as soil and building blocks, and the higher rate paid for (heavier) concrete mixes. In most construction projects, workers are paid daily at the close of work. On sites where all workers are paid daily rates, the owner or a trusted relative will undertake the supervision.
- 67. Labor costs in Nigeria are not high.** At N2,500 or US\$16 per day (US\$2 per hour) for artisans and N1,500 or US\$10 per day (US\$1.25 per hour) for laborers, labor rates in Nigeria appear to be low in comparison with competitor countries (Figure 9). Interviews revealed that labor rates are surprisingly constant throughout Nigeria. Although Lagos has the highest demand for construction, the supply of laborers is also high, keeping wages low. The majority of construction workers from other African countries work in Lagos.
- 68. This is a key issue in terms of the pro-poor impact of the construction sector in Nigeria.** With a large proportion of construction materials imported (and much of the indigenous production requiring capital-intensive production processes) and fairly high foreign ownership of construction companies, the labor market is the critical linkage between the construction sector and low-income Nigerians. The strength of this linkage is obviously undermined by low wages and poor skill levels, which encourage the use of foreign construction labor.

**Figure 9: Hourly Wage Levels in the Construction Sector (US\$ in 2012), Various Countries**

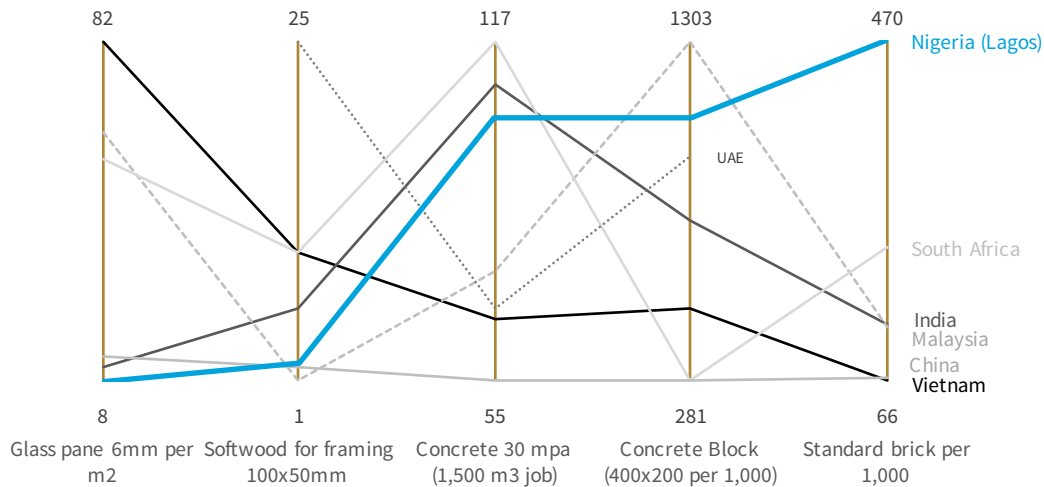


Source: Turner and Townsend (2012) and interviews with construction sector stakeholders in Nigeria.

## Building material

69. **The cost of construction materials is an important driver of construction costs.** Interviews with construction companies and development professionals suggest that building materials make up 40 percent to 70 percent of total construction costs in Nigeria, depending upon the type, scale and quality of the project. This compares with a more typical figure of 40 percent for the construction sector internationally.
70. **The perception of high cost of building materials in Nigeria is pervasive and makes intuitive sense** when considering the high import component of materials and the logistic costs of moving goods around the country. Figure 10 suggests, however, that other than brick prices, building material costs in Nigeria are not significantly higher than in comparable markets. This result is surprising and requires further investigation. There is some evidence that the quality of building supplies in Nigeria is poor, so the quality of supplies should be considered in addition to the cost. However, for the very large and vertically integrated construction companies which dominate the sector, the relevant indicator is the cost of production of their in-house supplies rather than the retail price of building supplies.

**Figure 10: International Comparison of the Cost of Construction Materials, 2012 (US\$)**

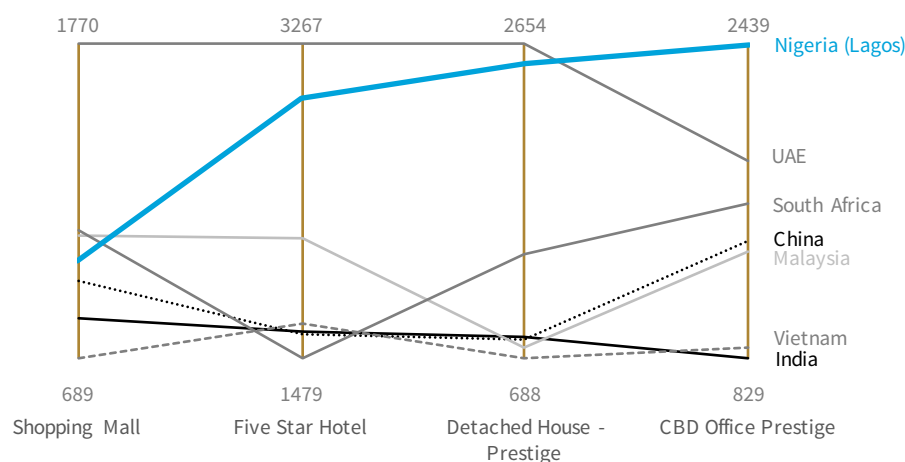


Source: Turner and Townsend (2012); Guardian website for Nigerian building supplies (Lagos).

## Construction cost

- 71. Nigerian construction costs are expensive compared with other emerging economies (even if one of the lower priced regions, Lagos, is used as a comparator).** These costs exclude the cost of land, which allows the true costs of the construction sector to be compared internationally. This contrast is particularly sharp for low-cost markets such as Vietnam. However, even for lower middle-income countries such as China and India, with rapidly rising wages and significant construction activity, construction prices are generally about twice as high in Nigeria as elsewhere (Figure 11). In short, Nigeria is a high construction cost environment where costs, but not quality, are rather similar to those prevailing in Europe.

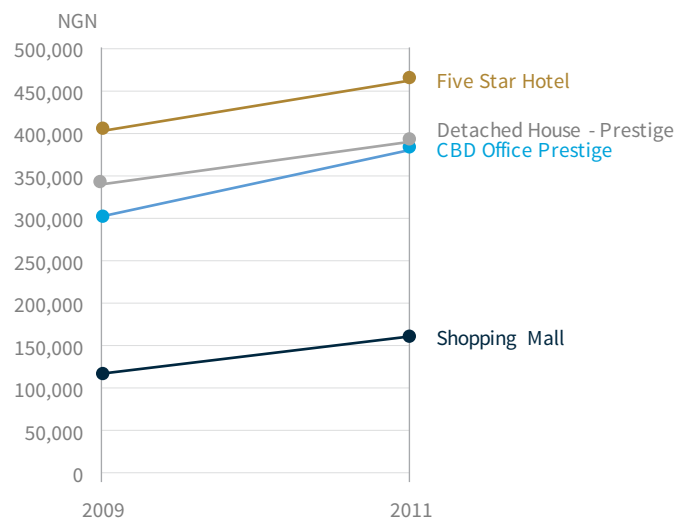
**Figure 11: International Comparison of Construction Costs (US\$ per m<sup>3</sup>) for Various Project Types, 2011**



Sources: Turner and Townsend (2012); International Construction Cost Survey 2012; Consol 2012; Nigerian building cost survey data for Nigeria.

- 72. Other than Nigeria, only the UAE is an outlier on the construction cost analysis.** There are some similarities between the two construction sectors (both rely largely on imported materials and migrant labor). There is evidence of significant recent inflation in construction costs in Nigeria. Using the same data series, average costs have risen 20 percent between May 2009 and May 2012. (Figure 12).

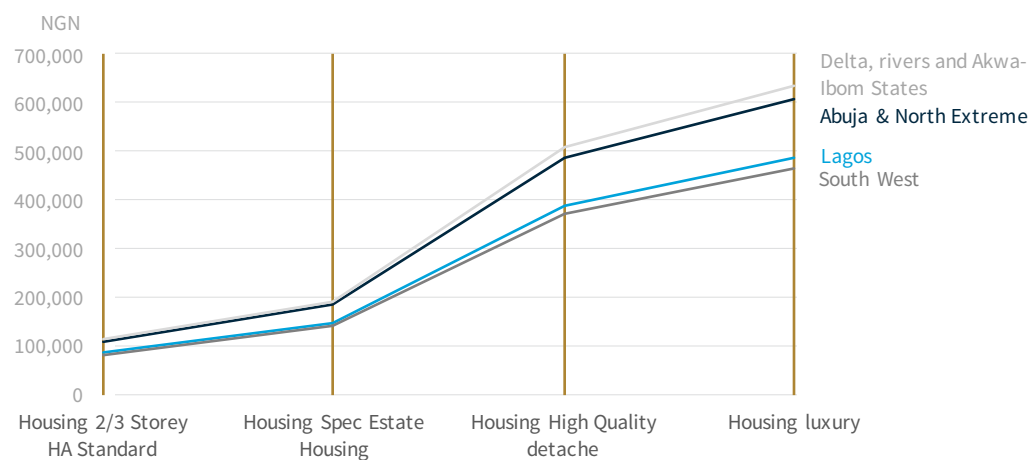
**Figure 12: Construction Costs (Naira per m<sup>3</sup>) for Various Project Types, 2009 and 2011**



Source: Consol 2009 and 2011.

**73. There is evidence of significant regional variations in construction costs per m<sup>2</sup> across Nigeria**, even when quality of construction is held constant. Construction costs are lowest in the South and West of Nigeria and highest in the North and the Delta. Regional variation is relatively constant across the quality spectrum (i.e., the cost difference between the least expensive and most expensive regions—the South West and Delta, respectively—is 37 percent across all housing quality types except the most luxurious housing (Figure 13).

**Figure 13: Housing Construction Costs (Naira per m<sup>2</sup>) in Different Regions of Nigeria, 2011**



Source: Consol 2011; Nigerian Building Price Book for Builders and Developers.

**74. Interviews with construction companies and builders' merchants indicated that construction costs are lower in the South and West of Nigeria** because imported building materials (which constitute about 60 percent of total inputs) are mainly brought into the country through the port of Lagos. The cost of materials increases with increasing distance to the North and East. In addition, several important indigenous sources of construction materials are located closer to Lagos than to other regional markets in Nigeria.

## VIII. THE FINANCIAL SECTOR AND THE LACK OF MORTGAGES IN NIGERIA

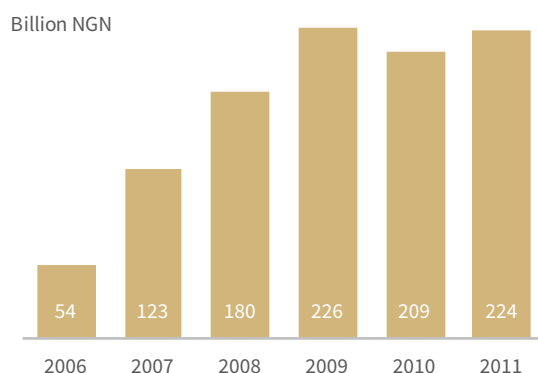
75. **Like many African countries, Nigeria has little formal sector finance to offer the majority of prospective homeowners.** The pattern throughout history has been to establish institutions to provide housing finance, ostensibly targeted at ordinary urban Nigerians. These initiatives, however, instead turned to the high-income market for safer lending, and the majority of urban households remained without any recourse to housing finance.
76. **The unstable macroeconomic environment does not encourage private sector institutions to be involved in housing finance.** Banks are understandably risk averse and so only lend to the least risky clients—the rich and permanently well-paid. It is a well-known feature of Nigerian finance that people do not tend to borrow to build housing; they borrow to do business and then use business profits to build housing.

### A. Overview of the Mortgage Market

#### Size of the market

77. **The Nigerian mortgage market remains underdeveloped despite its remarkable growth over the last decade.** From 2006 to 2009, the market grew from N54 billion to N226 billion, at an average annual rate of 35 percent (Figure 14). In 2010, due to the banking crisis, outstanding mortgage loans experienced a decline of 8 percent, before starting to grow again. In 2011, the market was at N224 billion. Despite this rapid increase, access to mortgages remains scarce. The ratio of mortgage loans to GDP stands at 0.6 percent. This is low for a country with Nigeria's relatively well-developed financial system.

Figure 14: Value of the Nigerian Mortgage Market, 2006-2011



Source: CBN survey data.

- 78. Nigeria lags behind its peer countries despite its growing economic and relatively developed banking system.** Outstanding mortgage loans to GDP ratios in South Africa, Ghana, and Senegal, for example, stand respectively at 34, 4, and 2 percent.<sup>24</sup> (Figure 15).

**Figure 15: Ratio of outstanding mortgage loans to GDP for selected African countries**



Source: CBN data and World Bank databank.

## Access to housing finance

- 79. The large majority of Nigerians are excluded from access to housing finance.** Only 2 percent<sup>25</sup> of households had an outstanding loan from a formal financial institution to purchase a home in 2011. Housing in general is self-financed by accumulation of equity over a long period of time, or financed by friends and relatives.
- 80. Housing finance is largely out of reach because of unfavorable conditions and terms of the loans.** Loans are denominated in Naira at fixed rates, but with interest rates between 17 percent and 22 percent. The maturity varies from 5 years to 15 years. Only the subsidized loans obtained through the National Housing Fund scheme have a maturity of 30 years and an interest rate of 6 percent. The high interest rates are related to the country's inflation rate of about 12 percent, and the high cost of funding for Banks. Risk-free Treasury bills paid 13 percent in January 2013, but the rate is expected to fall significantly in the next five years.
- 81. Other factors which may contribute to keeping interest rates high are the cost of registering liens,** and large spreads charged by lenders to protect themselves against inflationary pressures. These large spreads indicate that competition is ineffective. Average deposit rates stood at 5.93 percent in December 2011. Average and maximum lending rates for mortgages stood at 14 and 28 percent, respectively, during the period under review, 2009- 2011. Overall, Nigeria has some of the highest real interest rates in the world. Several factors explain the size of this spread.
- 82. The concentration of portfolios and deposits in a small group of banks illustrates the degree of market power on the supply side.** The Nigerian mortgage market is driven by 7 banks, which together account for 74 percent of the total market. Most of the 97 other banks lack the financial capacity to compete with these dominant banks. Establishing the Mortgage Refinance Company will reduce barriers to entry and should create more competition by creating a level playing field for access to long-term funds. This, in turn, should put downward pressure on spreads. In addition, better foreclosure procedures and an improved legal environment in general are expected to also reduce operating costs and credit risk for lenders. Some studies have found that judicial efficiency substantially affects ex-ante spreads and net interest margins.

<sup>24</sup> World Bank databank. 2010

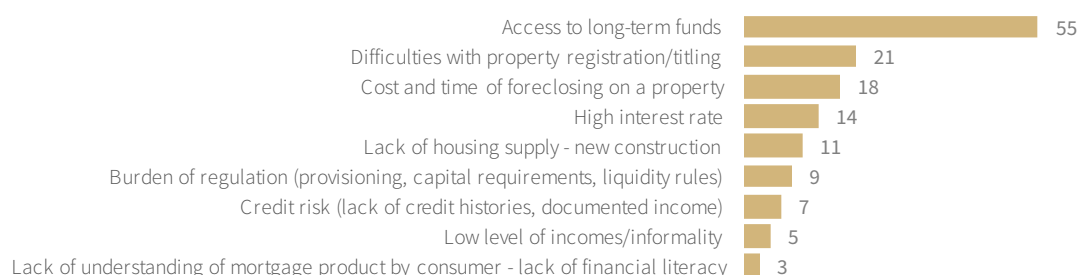
<sup>25</sup> Findex database

- 83. It is common for lenders to require personal guarantees as collateral for mortgage loans, in addition to the lien.** Fifty five out of 76 surveyed lenders require personal guarantees for mortgage loans. Personal guarantees are often a second-best choice, since lenders have difficulty enforcing their rights in case of default. Personal guarantees are provided by family members, friends and cooperatives. The theory is that the creditor will be compensated by guarantors, who must then work out an accommodation with the debtor. Cooperatives, for example, have proven their effectiveness, since they exhibited low default rates. The typical loan to cooperative members is intended for members to buy or build homes or buy land. Cooperatives collect savings from their members, and these savings serve as collateral in case of default. Given their successful track record, more and more lenders have begun expanding lending to them to cooperatives.
- 84. High fees reduce the affordability of mortgage loans. Average fees charged vary between 6 and 7 percent of the amount of the loan, and can be as high as 10.75 percent.** The borrower must pay fees in advance, including legal costs (usually about 2 percent), processing fees (about 1 percent), management fees (about 1.5 percent), and taxes, including VAT (about 5 percent). These fees are more burdensome in Nigeria than in other countries.

## B. Key Challenges

- 85. Access to long-term funds is a major impediment to the growth of mortgage finance in Nigeria.** A survey of financial institutions carried out by the Central Bank of Nigeria in 2012 overwhelmingly showed that this was the top obstacle to growth in the mortgage market—higher than foreclosure, housing supply and title registration (Figure 16). Without access to long-term funds, lenders are either unwilling or unable to further extend maturity mismatches on their balance sheets, despite being allowed to do so by the regulatory framework.<sup>26</sup> The lack of access to long-term funds also prevents lenders from making the necessary investments in staff and systems to establish large-scale mortgage lending operations.

**Figure 16: Mortgage Market Obstacles Survey, 2012**



Source: WB/CBN 2013

Note: Respondents were asked to rank their top 5 obstacles to market development, however many respondents ranked several obstacles as number one, so overall frequency is higher than survey participants.

- 86. Development of the mortgage market is also constrained by the shortage of affordable housing.** The cheapest house built by a private developer costs about US\$31,250 (N 4.6 million) in Lagos, and US\$15,600 (N2.3 million)<sup>27</sup> outside of Lagos. A large part of hous-

<sup>26</sup> The regulatory situation will likely change over the coming years, as the Basel III international framework is implemented globally with new standards on liquidity management.

<sup>27</sup> Africa Yearbook 2010.

ing supply is concentrated in luxury houses that the middle-income population cannot afford. The high price of houses mostly derives from the high cost of construction; most construction companies and developers have to carry the cost of creating rudimentary infrastructure such as sewerage, water, and power, which can add 30 percent of the cost of construction.<sup>28</sup>

- 87. Other challenges include the lack of an appropriate legal and regulatory framework** for the development of a primary mortgage market.

### **Why are maturity mismatches an issue?**

- 88. A common source is insolvency is illiquidity**, which is often preceded by a drop in confidence brought on by falling profits or bad loans. A drop in confidence in a bank can lead savers to withdraw their deposits from the institution; then the bank's credit lines dry up. A classic example is the run on the Northern Rock Bank in the UK during the 2008 financial crisis.
- 89. Nigerian banks distinguish between the contractual maturity and the behavioral maturity of their deposit base.** Essentially, this means that although a large part of the deposit base could be legally withdrawn at very short notice, in practice, its "behavior" is to stay put and take the form of quasi long-term funds. This so-called "stickiness" of the deposit base is especially prevalent when large deposits are held by the public sector, which can be more reliable than those held by individuals. Another source of stickiness may come from depositors such as SME's or corporations that maintain a minimum credit balance on their transaction accounts. This stickiness can also be enhanced by offering bonuses to depositors for maintaining higher balances, or for only making only a certain number of withdrawals of a given time period, or by having some short-term contractual notice obligations. Many regulators around the world accept some behavioral long-term deposit base as part of an institution's liquidity requirements.

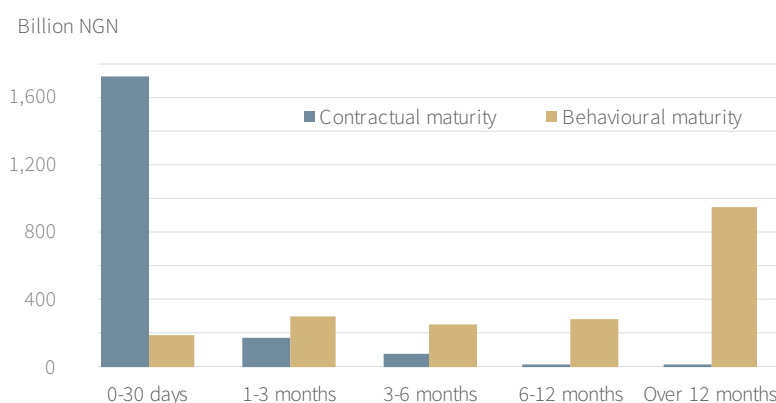
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<sup>28</sup> Interviews with construction and real estate development companies.



90. Figure 17 gives the example of a large Nigerian deposit money bank<sup>29</sup> with a substantial variation in the maturity profile of its deposit base in contractual versus behavioral terms. A standard tool for understanding liquidity risk is the “liquidity ladder,” which categorizes an institution’s assets and liabilities into maturity “buckets” ranging from very short-term one-day buckets, up to 7 days, 1 month, 3 month, 6 months, 12 months, and beyond. The shorter the maturity, the greater the level of matching expected, as there is greater urgency in ensuring funds are available before claims fall due. Although Nigerian banks are currently relatively liquid, this reflects their holdings of short-term tradable assets, largely government securities. In practice, the holdings are heavily mismatched in terms of the maturity profiles on their balance sheets. There is almost no long-term funding to match long-term assets, with the vast majority of funding coming in the form of deposits. The assumption in Figure 17 is that demand and sight deposits have a maturity of between 0 and 30 days, which is a conservative approach.

**Figure 17: Analysis of Bank X Deposit Base by Behavioral and Contractual Maturity**



91. Figure 18 provides a full maturity breakdown for a typical large Nigerian deposit money bank. Reporting would typically be done using behavioral maturity, so the analysis has been adapted to show contractual maturity of deposits. It is clear that a mismatch of more than N800 billion, or a third of the balance sheet, exists in the 1-5 year bucket. Beyond 5 years, the bank’s equity provides some comfort, although it may not be very economical to use equity to fund lending activities.

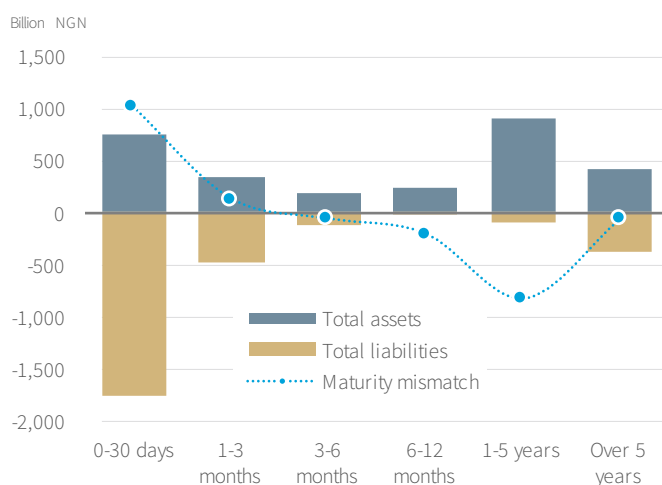
92. Looking at the whole banking sector, data for the 10 largest banks<sup>30</sup> in Nigeria show that overall liabilities are, on average, consist largely (84 percent) of short-term customer deposits. Other sources of long-term funds are extremely limited, representing on average just 11 percent of the balance sheet. The remainder of funding is equity, for the most part.

29 Data were obtained from the bank’s annual reports and are fully available in the public domain. Full sectoral data on this basis are not available, and situation will differ across institutions, depending on their funding sources and strategy. However, overall mismatch analysis would still apply to a large degree across all mortgage lenders, given the lack of alternative long-term sources of funding.

30 Compiled from publicly available bank reports.

- 93. Current regulations applying to both Deposit Money Banks and primary mortgage banks focus on ensuring that the short-term liquidity position is covered.** The requirement is that 30 percent of deposit liabilities are held as liquid assets. This means investing in government securities or holding funds as cash or short-term placements. Given that financial markets are still developing, there are limited options in terms of types of liquid assets. This requirement provides a lot of strength to the system, but ignores larger, more structural issues in the funding makeup of the Nigerian banking system. The regulatory rules which have been applied in the UK, for instance, have a clear limit on the amount of maturity transformation in which banks can engage, where mismatches in each of the time buckets are capped to a certain level and there is also a limit in terms of using short-term funds for long-term funding set at 15 percent.

**Figure 18: Maturity Analysis of Bank X Balance Sheet Using Contractual Deposit Maturity**



- 94. Liquidity constraints will tighten when the Basel Committee's proposals (Basel III) are adopted.** Basel III strengthens the liquidity framework by developing two minimum standards for funding and liquidity, initially published in 2010:

- **Liquidity Coverage Ratio (LCR)**, to promote short-term resilience of a bank's liquidity profile by ensuring that it has sufficient High Quality Liquid Assets (HQLA) to survive a significant stress scenario lasting for a month. The stock of HQLA must be equal to or greater than the expected net cash outflows over a 30-day stress scenario.
- **Net Stable Funding Ratio (NSFR)**, to promote resilience over a longer time horizon (one year) by creating additional incentives for banks to fund their business with more stable sources of funding on an ongoing basis. Thus, the amount of available stable funding must be greater than the required stable funding. These amounts are determined using weighting factors designed to reflect the stability of the funding and the duration of the assets.

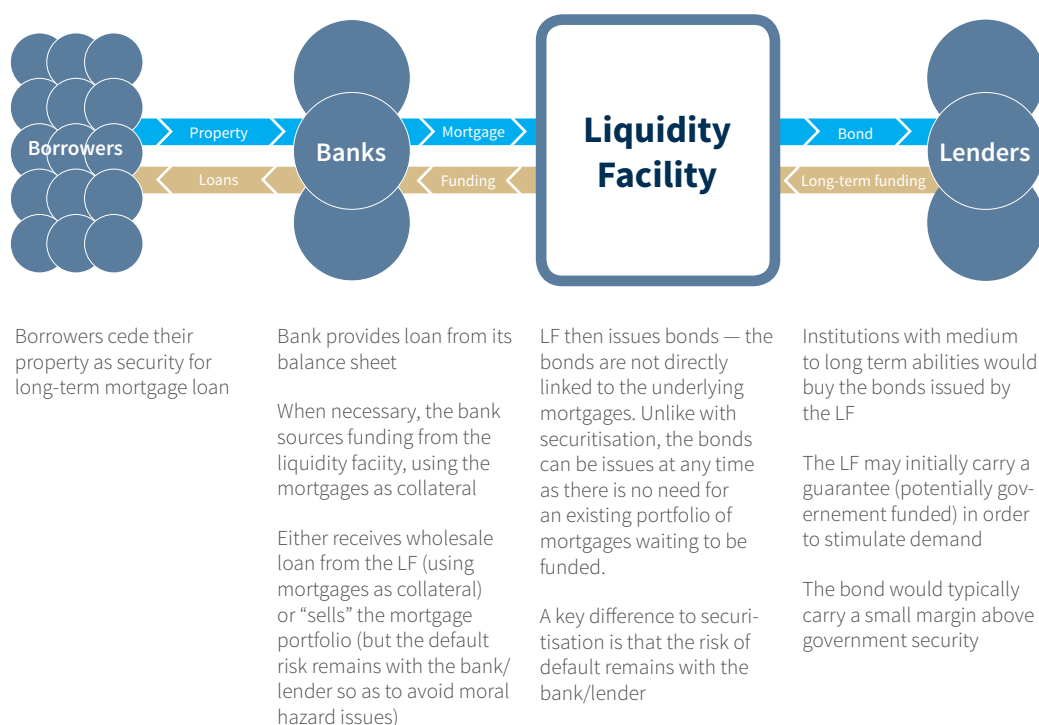
- 95. Basel II and Basel III set out several further best practice recommendations.** "Liquidity monitoring tools" should be developed together with the LCR and the NSFR ratios, to ensure a stable and prudent liquidity management. Specifically, three analyses are recommended:

- Contractual maturity mismatch: Cash flows from on and off-balance sheet items must be assigned to defined time bands based on their maturity.
- Concentration of funding, in terms of counterparties, products/instruments, and currency.
- Available unencumbered assets must be marketable as collateral in secondary markets and eligible for the central bank's standing facilities.

## C. Role of Mortgage Liquidity Facility in Bridging Maturity Mismatch

96. The Nigeria Mortgage Refinance Company (MRC) is a type of institution known as a **mortgage liquidity facility (MLF)**. These facilities serve as a source of liquidity and long-term funds, allowing lending institutions to present illiquid mortgage assets for refinancing and receive cash in return; i.e., to transform an illiquid asset on their balance sheet into a liquid one. This is a key benefit for lenders that rely on deposits as their main funding source, as it allows them to use an MLF as part of their asset/liability management process. The second benefit of MLFs is that they provide long-term nature, typically 5-7 years, matching the typical duration of an amortizing mortgage loan (Figure 19).

**Figure 19: Mechanics of a Mortgage Liquidity Facility**



Sources: Genesis Analytics and World Bank.

97. The role that MLFs can play in linking the capital market with housing finance can be summarized as follows:

- **The provision of secure long-term funding at attractive rates.** Lowering the cost of funds, which can lead to a lowering of mortgage rates, improves affordability and extends the range of potential borrowers.
- **For large commercial banks,** MLFs can be lender-of-first-resort to provide short-term liquidity. Large banks are able to raise their own bond financing, but still need a liquidity management tool which allows them to convert assets on their balance sheet (marketable bonds are loan portfolios) into cash at relatively short notice.
- **MLFs can help build up a safety net for lenders and borrowers** in emerging markets, where volatile interest rates and inflation can dampen confidence. The availability of long-term fixed rates can help provide a degree of certainty to help the markets develop with confidence.

- **By acting as a central refinancing platform**, MLFs are able to act as a force for standardization in the market, pushing primary mortgage lenders (PMLs) to adhere to best practice. MLFs are able to set criteria for the types of loans they will refinance, with standardized documentation, underwriting processes and risk characteristics.
- 98. As an MLF, Nigeria's MRC has the potential to** (a) establish itself as a low-risk, efficient market intermediary linking capital markets to the housing market; and (b) act as a market catalyst for other reforms such as market standardization. Once established, MRC will fulfill two key roles in the financial system:
- It will provide mortgage lenders with access to medium/long-term funding, allowing them to match the weighted maturity of the mortgage assets they are originating;
  - It will provide a liquidity window that allows mortgage lenders to trade mortgage loans, which are otherwise relatively illiquid, into cash.
- 99. Fulfilling these roles will help the Government achieve its objective of a mortgage market in excess of 200,000 loans** outstanding during the project period. Financial modeling has been used to help determine what is needed in terms of funding and growth levels to meet this target. The target does imply a 30 percent growth in the mortgage market over the period, and would mean a significant increase in capacity in the industry to handle additional lending volumes. MRC would also have to grow at a significant pace, building up its balance sheet at a compound growth rate of 60 percent over the project period. While the mortgage market and MRC are starting from low and zero bases, respectively, these assumptions are challenging but feasible.
- 100. In addition, MRC will play the role of providing a deep and liquid supply of corporate bonds to the market for institutional investors.** These bonds are expected to be treated as eligible liquid assets by the central bank, and will therefore offer a better return to banks than they can currently obtain from government securities. The bonds will also provide an alternative investment option for pension fund administrators and other institutional investors.
- 101. Growth in the mortgage market will especially impact the primary mortgage banks, but deposit money banks will also need extra resources.** Based on the expected growth in the mortgage market from N300 billion to N1.1 trillion over the project period, there will be a clear need for additional funding resources to prevent a further deepening in the maturity mismatch. As a proportion of total lending, the growth in the mortgage market would represent a relatively modest 11 percent rise in the loan portfolio of the top 10 banks. In practice, this growth would also be spread across the primary mortgage banks. However the long-term nature of the lending will cause further imbalances on the balance sheets of the deposit money banks; and many of the primary mortgage banks without access to large deposit bases will simply be unable to expand at that pace.

## D. Mortgage Affordability

- 102. This section discusses the enormity of the problem of improving housing access,** and what can be achieved through reductions in interest rates and extensions in loan maturities. At present, interest rates are around 20 percent a year, with loan maturities of around 10 years. This means that only 7 percent of the urban population can currently afford a mortgage loan for a basic N2 million loan (US\$13,000) to purchase an N2.4 million (US\$15,000) property. This implies that 93 percent of the urban population is currently excluded from the formal housing market. The situation in rural areas is even more restricted, as incomes are much lower.
- 103. Affordability is affected by three parameters within the scope of housing policy—**loan maturity, interest rate, and cost of housing. The other variable, income of the borrower, is

beyond the scope of this project. All three parameters can be affected by multiple factors. Even marginal changes in any factor can help lead to shifts along the affordability matrix towards the top right-hand side (Table 10).

**Table 10: Proportion of Urban Population Able to Afford NGN 2 Million Mortgage Loan**

Interest rate %	5 years	10 years	15 years	20 years	25 years	30 years	Loan maturity
5	7	18	30	43	51	55	
7.5	6	16	22	28	34	39	
10	5	13	18	21	23	24	
12.5	5	12	15	17	18	18	
15	4	10	12	14	14	14	
17.5	3	8	10	11	11	12	
20	2	7	8	9	9	9	
22.5	1	6	7	7	7	7	
25	1	4	5	6	6	6	
27.5	0	3	4	4	4	4	
30	0	2	3	3	3	3	

Sources: Nigeria Household Expenditure Survey 2010, WB calculations.

Assumptions: (i) Loan payments do not exceed 40 percent of household income; (ii) regular amortizing loan; (iii) based on mortgage payments only, excluding cost of deposit or transaction costs.

**104. Housing Affordability Parameter 1 – Interest Rate.** The interest rate on a mortgage loan consists of several elements: (a) the overall cost of funding, (b) administrative costs for loan servicing and underwriting, (c) costs associated with credit risk, and (d) a spread to allow for a return on capital.

- **Overall cost of funding is typically the largest cost.** This is in part determined by the benchmark cost of funds as set by the yield curve, based on government debt issuance.
- **Administrative costs are the second largest component of the interest rate.** In nascent markets, staff costs tend to be high due to the absence of automated systems and to the low volume of business, which means that each mortgage carries a high level of fixed costs. It is not unusual for lending institutions to require 300-400 basis points to cover administration and processing costs in low-turnover, labor-intensive markets.
- **Credit risk is the third largest expense built into the interest rate.** The credit risk is calculated using Probability of Default (PD) and Loss Given Default (LGD) calculations, which together provide the overall expected loss on an asset. The PD in Nigeria is high due to the difficulties in underwriting a loan without reliable credit scoring information to assess borrowers and to know with certainty whether the borrower already has other loans. The LGD is high due to the difficulties in foreclosing on properties, the lack of reliable property valuations, and the lack of a liquid property market to resell foreclosed properties.
- **The return on capital** is also high, based on these other factors.

**105. Housing Affordability Parameter 2 – Loan Maturity.** Loan terms in Nigeria tend to be around 10 to 12 years. With interest rates of 15 percent or more, there is very little value in extending loan maturity beyond 10 to 12 years. Much more significant benefits would accrue once the interest rate falls below 10 percent for longer-term funds.

**106. Housing Affordability Parameter 3 – House Prices.** High construction costs limit the development of affordable housing. The construction supply chain is dysfunctional. Locally produced building materials are not available in sufficient quantities. In addition, the cost of providing public infrastructure is often priced into residential housing. Skilled

labor is in low supply, resulting in construction companies needing to train their own staff. All of these cost factors make housing construction in Nigeria very expensive and limit affordability. It is estimated that the production of a three bedroom house in Nigeria costs US\$50,000, compared to US\$36,000 in South Africa and US\$26,000 in India.

## E. Dealing with High Interest Rates and Inflation

**107. A major limitation on affordability is the high rate of inflation, which is a key cause of high interest rates.** One possible solution is to introduce a system of indexed mortgages, which would effectively ensure that the loan price is based, both from the borrower's and lender's point of view, on real rather than nominal interest rates.<sup>31</sup>

**108. Conceptually, spreading the cost of a mortgage loan over a longer period makes sense.** By indexing the mortgage, the borrower is effectively being charged a “real” rate of interest over the lifetime of the loan, keeping payments constant in real terms. In a standard mortgage product, the payments are kept constant in nominal terms, which means that over time, their real worth decreases as inflation erodes the value of money. By keeping the mortgage payment constant in real terms through indexation allows for the mortgage to amortize over a longer period and thereby increase upfront affordability.

**109. Different forms of indexation have been tried in other countries with varying degrees of success.** A common issue is the reliability of the data used for the index. Especially in emerging economies, inflation data can be unreliable and undermine confidence in a system that depends on objective, timely data. There are also risks that indices produced by government statistical departments may be subject to political interference.

**110. The implementation of an indexing system itself can be complex,** due to the different financial stocks and payment streams involved in a mortgage system. The outstanding mortgage balance, the monthly mortgage payment, the borrower's income, the lender's source of funds, and the value of the housing collateral are all subject to different price dynamics and influences. Using a single index to capture all of these influences leads to a disconnect among different flows. For instance, a borrower's income may not keep pace with a price inflation index. Alternatively, using a wage index may not accurately capture changes in prices, resulting in losses for a lender. So although the initial concept appears simple, practical implementation implies a degree of sophistication and reliability of data.<sup>32</sup>

**111. Overall experiences with indexation have been mixed.** Latin America has piloted several versions of indexation, some of which have worked for reasonable periods of time, but have not been able to stand up to crisis. This was the case in Mexico, where the “Tequila crisis” overwhelmed the system. In Colombia, there was a reasonably successfully experience with Price Level Adjusted Mortgages (PLAMs)—until a sharp deterioration in the economy, along with a Supreme Court ruling that required a change in the index, led to high levels of default and a serious asset/liability mismatch for lenders. The most successful example is Chile, which has benefited from a very stable and decreasing level of inflation, as well as a well-developed capital market and pension system able to provide the funding for inflation-indexed mortgages.

**112. A final example is Ghana, where the Home Finance Company (HFC), a non-bank financial institution, is virtually the sole lender.** HFC was created in 1991 as the implementation agency for the housing finance component (US\$7 million) of an IDA urban loan.

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<sup>31</sup> This proposition is also advanced by Paul Collier, who argues in support of indexed mortgage loans as a means of improving affordability in high-inflation environments. *Rethinking Cities*, Chapter 11: Housing and Urbanization in Africa, Collier, Paul and Tony Venables, Oxford University 2013.

<sup>32</sup> For more details see *Dual Index Mortgages: Lessons from International Practice and Conditions of Development in Poland*, L. Chiquier, Housing Finance International 1998.

The aim at the time of its creation was for HFC to become a central provider of long-term funds to mortgage originators, and a catalyst for development of the market. To meet this two-fold objective, HFC developed an IDA-related product for moderate-income groups (the “Pilot Scheme”), followed by other schemes targeting more diverse populations. Practically all of HFC’s loans under this scheme were based on an indexation principle to allow for a positive turn on capital raised through bonds issues,<sup>33</sup> but with mortgage payments not to exceed 25 percent of a borrower’s income.

**113. During the surge of inflation in the mid-1990s, which led to a severe fall of real wages,** the indexation mechanism would have implied unbearable increases in mortgage payments, or alternatively, unsustainable negative amortization, had it not been temporarily altered. The appreciation of the balance of loans under the Pilot Scheme was capped to a floating benchmark tied to the bank’s prime rate; and HFC negotiated with its investors (the Government of Ghana and the Social Security and National Insurance Trust, SSNIT) a symmetrical limitation on the appreciation of its bonds.

**114. Several lessons<sup>34</sup> can be drawn from the experience with inflation-indexed mortgages.** First, although they can ameliorate the impact of inflation on mortgage payments, improving affordability and reducing the risk of default, they can only do so within a range of inflationary outcomes. Severe shocks such as those seen in Colombia, Ghana and Mexico will overwhelm the instrument, leading to adverse results. Second, there must be a matched funding source for the instrument. Lenders without a matching liability will not be able to manage the cash flow risk these instruments generate. Finally, these instruments are very complex, presenting challenges to both lenders and borrowers. It is likely that many borrowers with indexed loans do not really understand their dynamics; and experience suggests that the lender’s staff may not understand them either.

**115. When looking at the current situation in Nigeria and the potential for indexed products,** several preconditions need to be assessed: (a) quality, independence and robustness of data on price inflation and wage inflation; (b) capacity of lenders to service and underwrite highly complex products; (c) inflationary outlook for Nigeria; (d) sources of long-term inflation-indexed funding (v) consumer protection issues around selling of such products and consumer understanding. Even a cursory assessment would indicate that many of those conditions cannot presently be met; however, a longer-term program to create the conditions for indexed mortgages would have benefits for a large percentage of the population.

## F. Conclusion

**116. The mortgage market in Nigeria has grown significantly in recent years, but remains constrained by many factors.** At present, the growth is not sufficient to provide even a fraction of the housing investment needed to meet the housing needs of the rapidly increasing population.

**117. Maturity mismatch is one of the biggest impediments to large-scale growth of the mortgage sector.** This was the assessment of the financial community in a survey; and the analysis in this report confirms this conclusion. Banks are predominantly collecting short-term deposits and are building up a significant asset base in the 1-5 year maturity bucket. Part of the reasoning behind such a position may be to view the behavioral maturity structure of their deposits rather than the contractual one. However, in a country with relatively volatile inflation and a weakening currency, this strategy carries some risks. In addition,

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<sup>33</sup> Bonds were placed with the government for one third of the Pilot Scheme, and with SSNIT for most of the remainder of the funding needs.

<sup>34</sup> This paragraph is largely drawn from *Chapter 3: Mortgage Instruments in Housing Finance Policy in Emerging Markets*, ed. L. Chiquier, L. and M. Lea, World Bank 2008.

new global standards for banking risk under Basel III impose much greater restrictions on maturity mismatches for financial institutions.

- 118. There are multiple other constraints on the mortgage market that have not been covered in this paper.** These include the cost and time it can take to register property, and the difficulty in enforcing mortgage collateral through the court system, both of which add a significant cost to banks in terms of additional risk, operational expense, and simply a lack of mortgageable properties. In addition, the mortgage market is limited by the supply of affordable housing. There are numerous reasons for this, including a lack of primary raw materials, import tariffs on cement, shortage of skilled workers, lack of professionalism and project management skills among developers, access to finance for developers, and lack of access to serviced land. All of these issues, and possible solutions, have been treated in depth in other papers.
- 119. Recommendation 1 – Develop a simple long-term financing solution able to support both deposit money banks and primary mortgage banks.** Several options are available. The simplest solution would be to create a mortgage liquidity facility, otherwise known as a mortgage refinance company. MLFs provide long-term funding by linking mortgage lenders with the holders of long-term funds such as pension funds, insurance companies and other institutional investors. Another solution would be to develop securitization or covered bonds; however, this approach would require a much more mature mortgage market with higher levels of origination, more data availability to allow for a historic track record, and more developed institutional investors.
- 120. The mortgage liquidity facility operates on several levels:** (a) by providing long-term funds, it allows lenders to extend the average maturity of their balance sheet and reduce mismatches; (b) by providing a refinance window to convert some of their illiquid long-term mortgage assets into cash, it allows lenders to more fully use their shorter-term deposits with confidence, as they would still have access to liquidity should any issues arise; (c) by insisting on market standards for refinancing of mortgages, the facility is able to improve overall underwriting standards and assist with overall market development.
- 121. Recommendation 2 – Develop a proactive approach to deepening access to mortgage products for those with lower incomes.** The affordability sensitivity analysis shows clearly the potential market that could be achieved under favorable conditions. Some of those conditions are dependent on the overall macroeconomic environment, while others can be affected by policy actions. For instance, one of the key affordability constraints is access to a deposit for purchasing a home. The cost of registering a title transfer, plus the cost of a mortgage loan, in addition to a down payment, can be prohibitive for many on low or modest incomes. A possible solution is to allow slightly larger mortgage loans, extending to 90 percent loan-to-value (LTV), but with a risk-sharing mechanism in place to avoid creating excessive levels of risk for lenders. A mortgage insurance product could be introduced to cover some of this risk, allowing lenders to extend higher LTV products, but sharing some of the risks.
- 122. Recommendation 3 – Further work is needed on the potential of inflation-proof mortgage products.** It is not clear at present whether indexed mortgage products that effectively charge a real rate of interest would provide an effective solution in the Nigerian market. However, the recent issuance of inflation-linked bonds could provide a market for raising inflation-linked funding for mortgage loans. One of the other key obstacles is the reliability of data needed to index mortgage payments to a measure of earnings, and of consumer price data to index mortgage principal to inflation. If some of these hurdles can be overcome, an inflation-proof product could be a major step towards limiting the damaging impact of high inflation and macro volatility.



## IX. HOUSING MICROFINANCE

### A. Rationale for Housing Microfinance

- 123. In growing urban centers in Africa, the majority of homeowners build their own houses incrementally,** as rural dwellers have always done, using locally available materials. To finance incremental housing, most households use savings or general microfinance. It is generally assumed that between 15 to 40 percent of general microfinance loans are used for purposes of housing development.
- 124. The majority of Africa's urban dwellers do not qualify for mortgages (see Affordability section).** Recent data from the World Bank's Financial Inclusion Index (FINDEX) show that formal access to and usage of credit in Africa is very low. In Mauritius, which has the highest rate of formal borrowing, only 14 percent of adults said they had taken out a formal loan in the last 12 months. Mortgage lending is out of reach for many households in Africa, given the longer terms and amounts for borrowing, the need for collateral, and the lack of flexibility around payment terms, which makes it difficult for people with irregular income streams.
- 125. It is in this context that housing microfinance has emerged to finance the process of incremental self-build.** HMF adjusts to the financial capacities and cash flow of the borrowers, providing loans for relatively small amounts, typically US\$5,000–US\$10,000, based on the client's capacity to repay. The repayment periods are relatively short in comparison with mortgages, typically one to five years, and are either unsecured or based on collateral other than the property itself.

### B. Benefits of Housing Microfinance

- 126. The benefits of housing microfinance include economic development, income generation, and urban improvement.** HMF fuels the upgrading and improvement of informal homes, and has substantial additional benefits such as income generation. The majority of HMF borrowers and households are headed by women or have women as the principal income earner, doing home-based work. Improving the home expands the hours in the day they can work, their ability to mind children, and their access to clean water and sanitation. Home improvement entails the sale of building materials and the employment of low-skilled and medium-skilled workers (plasterers, masons, carpenters). All of these boost the economy and economic development. Finally, home upgrading improves neighborhoods and is part of the process of formalizing informal neighborhoods. Though these benefits have seldom been quantified, they are significant. Aside from beneficial effects on the city and its households, housing microfinance also creates behavioral changes that strengthen communities and local governance.

### C. Housing Microfinance in Nigeria

- 127. The absence of long-term finance has contributed to the lack of innovation in financial products to reach lower income segments.** A financing mismatch in financial institutions, particularly in microfinance banks (MFBs), has limited the ability to respond to market demand. Anecdotal evidence from microfinance banks suggests that home improvement loans are often disguised as productive loans because they are more easily available. Based on consultations within the microfinance industry, these loans could represent as much as 25 percent the microfinance portfolio. Smaller loans are often needed for home improvements, expansion, upgrading roofing, water supply or connection to the power grid.

- 128. None of Nigeria’s existing 889 MFBs currently offers formal housing microfinance products.** Their portfolios consist primarily of small loans for microenterprises ranging from below US\$100 to around US\$1,500, with maturities between 3 and 9 months. The development of a housing microfinance market is a complex task, and the MFBs are understandably cautious about venturing into this new line of business. Despite the existing market potential, it is unlikely that MFBs will significantly expand to HMF in the near term without initial external support.
- 129. At the same time, and based on initial engagement with MFB sector,**<sup>35</sup> the MFBs have a strong interest in moving into housing microfinance. Several MFBs are considering specific housing products, largely related to home improvement and incremental construction. Further, all MFBs indicated the need to better understand the market potential of HMF, the need for technical assistance to develop tailored HMF products, and the need to understand funding constraints in this market segment. .
- 130. Research conducted for this report indicates that in the Nigerian context,** the “pure” housing microfinance loan would be between US\$1,6000 and US\$4,800, with a term of 16 to 36 months and an interest rate of no more than 3.5 percent per month. The loans would be used for incremental improvements such as adding a toilet or a corrugated metal roof, adding a room, laying a foundation slab. A typical customer would own her own property, with or without legal title.
- 131. MFIs seeking to expand into HMF will require an exemption from banking-type regulations,** as well as significant technical assistance in product design and some seed capital/grant funding so that innovating HMF providers can originate an initial pool of loans with money they can afford to lose.
- 132. Other key elements needed for an effective housing microfinance program** include (a) a borrower who has occupied the dwelling for several years; (b) a property with “good bones” – a foundation, ground floor walls, well-built window and door apertures; and (c) signs that the occupant has been making immovable improvements to the property; e.g., a water tank, connection to an electric meter, plastering of interior walls.

## D. Existing Activities: Products at the Fringes, Empty Spaces

- 133. Several leading Nigerian MFIs are moving into HMF,** though tentatively and with significant capital limitations. No MFIs has yet committed to HMF as a major business line. Several existing MFIs (such as Accion and Infinity) report that they know their customers use microfinance for housing loans, but few keep any statistics, in part because maturity limitations, funding limitations, and microfinance’s emphasis on income-producing uses discourages such reporting.
- 134. For MFBs and MFIs to move aggressively into the HMF market, they will need:**
- **Risk capital, ideally as restricted grants or equity,** so they can build loan portfolios without having to worry about liquidity or immediate repayment. Risk capital will need to be mandated for HMF, not mortgage finance and not microfinance.
  - **Technical assistance in product innovation,** business models (including possible hybrid value chains with building materials companies), and capital strategy.
- 135. Risk capital without technical assistance and an HMF mandate** will result in the recipient MFIs reverting back to their regular microfinance business. Technical assistance without HMF-mandated risk capital will lead to hesitant exploration, but no urgency and no scale.

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<sup>35</sup> Based on responses from 18 MFBs via short survey and/or meetings.

136. A small number of private mortgage institutions, such as Abbey Building Society or First Generation Mortgage Bank. Ltd., have expressed interest in housing microfinance and are making moves to develop appropriate products.

## E. Obstacles to the Development of Housing Microfinance

137. **The lack of HMF in Nigeria, despite the evident need**, implies that there must be substantial barriers to its emergence. In our view, these barriers fall into three categories: lack of positive deviance role models, inherent risks at the property and borrower level, and funding obstacles, especially in establishing HMF businesses.

### Funding and collateral challenges

138. MFIs face several challenges in expanding into HMF, including:

- **Term restrictions.** The Central Bank of Nigeria currently restricts MFIs and MFBs to loan products of 12 months or less.
- **Regulatory limits on lending to a single borrower.** Based on the concept of microfinance, CBN guidelines stipulate that credit is subject to a single obligor limit of one percent for an individual/corporate entity and five percent for a group. These caps tend to discourage the larger loans suitable for housing microfinance.
- **The microfinance ethos.** MFI lenders expect their money to be used directly in an income-generating activity, and have no means of gauging whether home-based workers or improved home conditions will boost income.
- **An inability to perceive or gauge the level of HMF effective demand**, due to:
  - *Deflection or even suppression of HMF demand.* People who might want to improve their homes are unconsciously (or even consciously) coached to present their requests in terms of 'productive activity.'
  - *A shortage of useful credit histories.* While MFIs and MFBs can readily identify their best customers and their loan histories, this information tends not to be connected to housing or home improvement needs.
  - *Lack of awareness of asset-based lending.* Microfinance is consumer finance for the base of the pyramid—it operates on a 100 percent loss-given-default model, where collateral is presumed to be basically of zero recovery value. Asset-based lending tolerates higher risk of default because there can be collateral recovery value. However, when microfinance lenders are presented with asset-based lending, such as potential improvements to a property, they tend to be unable to incorporate this collateral into their credit decision making.
- **Limited share capital, which makes HMF an expensive bet.**
- **Lack of positive deviance role models** for successful HMF lending, which leads to the ironic situation of those most motivated to move into HMF (such as Infinity) having the fewest resources; and those with the resources to move into HMF (e.g., Accion) not being motivated to provide it.

### A typology of other risks for housing microfinance

139. **Risks relative to a housing microfinance business** can occur at several levels:

- **Property level: *the borrower, the activity.*** Individual loans may fail for any of a number of reasons.
- **Business level: *how the entity originates and services loans.*** As the entity moves from doing individual loans to creating a portfolio of loans, the entity's business practices may degrade or become inconsistent.

- Capital markets level: providing periodic liquidity. Even assuming the entity can successfully originate and service loans at scale, capital markets disruptions may prevent it from scaling or even from remaining viable.

**140. Housing microfinance can fill a demonstrable need**, yet it does not yet exist as a ready-to-expand business. HMF is not simply “just another product” that an MFI can offer; it is larger and with a longer term, and therefore requires a different risk-management approach (before, during, and after the loan is made). MFIs that want to move into HMF need to set up a dedicated business unit, and that takes some effort.

**141. Despite the challenges**, a handful of Nigeria’s leading innovators in microfinance are seeking to move into the business space with innovative products that address the need for HMF.



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This report summarizes the results of the analytical work on housing market finance carried out by the World Bank Group at the request of the Ministry of Finance. The purpose of the work was to inform the policy dialogue about how best to develop a sustainable housing finance market in Nigeria, and improve the effectiveness of interventions aimed at stimulating the housing market and providing quality housing to the population. The work was funded by DFID and carried out over 2013 and 2014.