

FINANCIAL SECTOR ASSESSMENT PROGRAM – DEVELOPMENT
MODULE

MALI

HOUSING FINANCE

TECHNICAL NOTE

DECEMBER 2015

This Technical Note was prepared in the context of a Financial Sector Assessment Program mission in Mali during March 2015 led by Mehnaz Safavian, World Bank, and overseen by Finance & Markets Global Practice, World Bank. The note contains technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at www.worldbank.org/fsap.



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GLOSSARY

AFD	Agence Française de Développement
AP/SFD	Association Professionnelle des SFD
APBEF	Association Professionnelle des Banques et des Établissements Financiers
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BIC	Bureau Information sur le Crédit
BRVM	Bourse Régionale des Valeurs Mobilières
CB-UMOA	Commission Bancaire de l'UMOA
CCJA	Cour Commune de Justice et d'Arbitrage
CCS/SFD	Cellule de Contrôle et de Suivi des Systèmes Financiers décentralisés
CDF	Code Domaniale et Foncier
CIMA	Conférence Interafricaine des Marchés d'Assurance
CNO	Commission Nationale de l'OHADA
CONASCOH-M	Confédération nationale des sociétés coopératives d'habitat du Mali
CMDT	Compagnie Malienne de Développement des Textiles
CPA/SFD	Centre de Promotion et d'Appui des Systèmes Financiers Décentralisés
CR	Centrale des Risques
CRRH	Caisse de Régionale de Refinancement Hypothécaire de l'UEMOA
CUH	Concession Urbaine d'Habitation
CVECA	Caisses Villageoises d'Épargne et de Crédit Autogérées
DNTCP	Direction Nationale du Trésor et de la Comptabilité Publique
FCFA	Franc de la Communauté Financière Africaine
FGHM	Fonds de Garantie Hypothécaire du Mali
IMCEC	Institutions Mutualistes ou Coopératives d'Épargne et de Crédit
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires
OPI	Organisation Patronale des Industriels
MFI	Microfinance Institution.
MTPL	Motor Third Party Liability Insurance
PESF	Programme d'Évaluation du Secteur Financier
PME	Petites et Moyennes Entreprises
RCCM	Registres de Commerce et de Crédit Mobilier
SFD	Systèmes Financiers Décentralisés
SIG	Systèmes d'Information et de Gestion
TAF	Taxe sur les Activités Financières
UEMOA/WAEMU	Union Économique et Monétaire Ouest Africaine

PREFACE

A World Bank team visited Mali from March 2-13, 2015, to complete the Financial Sector Assessment Program (FSAP) Development module. Headed by Mehnaz Safavian, the team included Axel Gastambide, Ann Rennie, Pierre Fabrice Amariglio, Pierre Larocque, Maria Pagura, Peter Wrede, Simon Walley, Mahamoud Magassouba and Fatoumata Diourté Berthe.

The FSAP Development Module was focused on: i) banking sector and legal framework (credit to the economy); ii) microfinance; iii) agricultural finance; iv) insurance; and v) housing finance. The mission carried out in-depth assessment on each topic and provided recommendations aiming at mitigating financial vulnerabilities and supporting the development of the financial sector (i.e. development of the credit to the economy while insuring financial stability).

The mission met with the Ministry of Economy and Finances and its units, the BCEAO, the Ministry of Urban and Housing and its units, the CCS-SFD, National Commission of OHADA, the CMDT, the Commercial Court, professionals associations for the financial sector and the private sector, banks, microfinance institutions (Systèmes financiers décentralisés, SFD), the IMF representative and donors.

The team is grateful to the authorities for their cooperation and for the fruitful meetings held throughout the mission.

Mali undertook a national FSAP in February 2008, following the regional WAEMU FSAP in 2007. The assessment addressed both stability and development issues related to the financial sector, and in particular it addressed concerns about the vulnerability of the banking sector to sectoral shocks (esp. cotton sector) and concentration risk. The mission had provided recommendations on the implementation of the reforms of the legal regional framework (increase of capital adequacy requirement), reform of the cotton value chain. Finally, the early FSAP supported to strengthen access to financial services (payment system, agricultural value chains), microfinance sector, housing finance and legal and judicial framework.

EXECUTIVE SUMMARY

A. Context

- 1. The housing finance market in Mali remains small and under developed.** In 2013 just 452 mortgage loans were granted, representing just 3 per cent of all mortgage lending across the WAEMU region. Access levels to housing finance are particularly low even when compared to WAEMU peers. Just 2 per cent of the adult population having a loan to buy, construct or renovate a dwelling.
- 2. Few banks currently offer a full mortgage product with Banque Malienne de Solidarite, BHM, Bank of Africa and EcoBank being the main lenders although at minimal levels.** Some Banks entered the sector upon receipt of long term funds from donors (FMO for example), while others simply offer a product to good clients when demanded without actively marketing the product.
- 3. The total annual housing need in Mali based on the household formation rate amounts to 82,500, split between 51,100 urban units and 31,400 rural units.** At present, this is not being met although reliable data on housing supply are not available. The housing needs will accelerate as the population continues to grow and the urbanization rate increases from the current level of 39.9 per cent to 50 per cent by 2030.
- 4. Mali's Slum population is increasing rapidly despite improvements in the proportion of urban dwellers living in slum conditions.** As with much of Africa, rapid urbanization and population growth are making it difficult for city planners to keep up with the volume of housing needed, even though many are achieving significant improvements in some cities.
- 5. Overall some social housing is constructed and support is provided by the state for low income housing through the Office Malienne de l'Habitat (OMH), but the numbers remain small.** It is resourced from two sources which are firstly a 1 per cent payroll tax levied on all salaried employees and secondly on a portfolio of social rental housing, giving a total budget of CFA 6 to 7 billion (USD 10 million). Much of this budget is spent in subsidies for the social housing program. The social housing program to date has resulted in 7,469 dwellings being constructed.
- 6. The Malien authorities have been working to strengthen financial sector stability which includes measures to stabilize the BHM and put it in a position where it begins to fulfill its mandate of providing credit for the housing sector.** A strategy was approved by the council of Minister for a strategic disengagement by the state from the share capital of BHM. Initially the agreed plan was for BHM to be privatized.

B. Challenges

7. A key obstacle to growing housing finance market is the lack of available mortgageable titles. As little as 15 per cent of Bamako is formally registered with title with a much smaller proportion across rest of the country.

8. Property rights are unclear in large part due to the administrative processes currently used. The cadastral project to map and establish clear property rights is a welcome move, but needs to be funded adequately. It is estimated that as much as 80 per cent of all tribunal court cases are the result of contested land rights which is an indication of the strain that such uncertainty places on the judicial system and also the difficulties in creating a secured lending framework.

9. Housing microfinance remains extremely limited with no specific products or specialized providers. Overall the microfinance sector is struggling with its core business and for the most part lenders are not in a position to contemplate more complex products.

10. Lack of long term resources should not be an excuse for lack of long term lending given that resources are available and there is also the option of making use of the regional mortgage liquidity facility (CRRH). No bank in Mali has yet used CRRH and very few banks are even members/shareholders which is an essential conditions for being able to access funds. While there may be some valid concerns around creditor risks associated with long term lending, the maturity mismatch issue could be addressed relatively easily by accessing CRRH funds and/or making better use of existing term resources.

C. Recommendations

11. Overall progress in delivery of affordable housing will require a concerted effort among all stakeholders both in public and private sector. This should be supported through establishment of stakeholder coordination group to oversee change across the housing value chain. There is a potentially vicious circle which can paralyze progress where finance is not available due to lack of titles and mortgageable properties and supply of housing is not there due to lack of finance. Coordination among stakeholders is essential to build an integrated development plan where housing developers have confidence that finance will be available to end users and lenders have confidence that the housing supply will come on stream. The role of the government is to facilitate this and create the legal and regulatory environment, a set of efficient and effective public institutions and to support affordability for those on lower incomes.

12. A fundamental review of the FGHM business model is required to ensure its long term survival or whether better option may be to redeploy public capital and liquidate FGHM. Such a review should look at moving to a sustainable model and explore options for increasing coverage and supporting expansion of housing finance downmarket.

13. A potential growth channel which could be better leveraged for housing and funding for housing is the Malian diaspora and the flow of remittances they send back to Mali. A large proportion of formal construction is made up of Malians abroad funding the construction of a home for their return to Mali or for their family remaining in Mali.

14. Full property titles should be made more available at cheaper cost if housing finance is really to be developed. A more systematic approach is needed with much reduced costs to formalize titling system. This could either be done as systematic titling program where, once cadastral map is done, titles are granted across the country for a nominal cost, or a sporadic titling approach could be taken, which is more gradual and done on a transaction by transaction basis. A 'fast-track' titling program could be considered also with many of the fees waived. This would provide a clear benefit for mortgage borrowers and remove many of the blockages which prevent banks from lending.

15. Housing Policy for low income households as implemented through OMH is clearly insufficient at present and lacks some clarity. OMH needs greater resources if it is to come close to meeting the 50,000 unit target by 2018. OHM should proactively support the development of social housing either through housing cooperatives or through support for private schemes through demand side subsidies.

16. Titre precaire could be used as an intermediate form of collateral given the lack of full titles available at present. Many lenders had been using them and non-bank lenders also make use of them. Titre precaire can provide a simpler and more enforceable form of collateral albeit with a lesser degree of legal certainty. The weaker nature of the collateral could be reflected in larger downpayment requirements to compensate for this. This will impinge on affordability but overall may offer a reasonable compromise given that there is no real alternative until larger volumes of registered titles become available.

17. Regular data should be collected on the housing and housing finance markets to allow for informed policy making. BHM or FGHM could take on this role as a focal point for the housing market or longer term consideration could be given to establishing a more formal housing observatory which would collect data and provide market intelligence and analysis.

18. Recommendations for BHM will be dependent on its final corporate form currently being discussed. This could be as part of a new merged institution, a continuing state owned bank or a privatized institution. Whatever the corporate form, major changes will be required in the overall business model. Simply privatizing BHM will not be a solution to improve its viability. Key areas for consideration should be

- **New Strategic Plan for developing mortgage business both within BHM and broader financial sector**

- **Possible separation of key housing finance role from rest of business to enable clear focus on monoline product**
- **Return to financial health is a pre-condition for expanding balance sheet but should not be seen as a solution on its own**
- **Review of current risk management and governance arrangements.** These are what caused the current precarious financial position and should be rectified before scaling up lending programs
- **Consider a rebranding and a focus on enforcing creditor rights** – BHM has to lose its reputation as providing loans that do not have to be repaid without any consequences.

19. OHM can follow two routes in terms of supporting affordable housing (i) it should consider reforming its current subsidy program to introduce some eligibility criteria based on income, and also to combine it with private sector loan resources, (ii) it has an opportunity to work more closely with cooperatives as a means of leveraging public resources it receives. In a similar way to the UK's Housing Association system, OHM could provide financial support for Housing Cooperatives to raise bank financing.

MORTGAGE FINANCE

A. Context

20. The housing finance market in Mali remains small and under developed. In 2013 just 452 mortgage loans were granted, representing just 3 per cent of all mortgage lending across the WAEMU region. The value of loans approved in 2013 was CFA6.1 billion (USD 10.2 m). The typical loan size was CFA11.4 million (USD 19 thousand). The typical interest rate has reduced from 10.49 per cent in 2005 to 8.75 per cent in 2013. Overall in terms of loan maturity, interest rates and volumes of loans, Mali lags its WAEMU peers with the exception of Guinea Bissau.

Table 1 - Housing Finance in WAEMU Countries 2013

	Average mortgage loan maturity (years)	Typical mortgage rate (%)	2013		
			Number of new loans	Value of new loans (CFA millions)	Typical new loan size
Benin	6.80	8.47	539	20,613	38.2
Burkina Faso	7.80	6.73	1,491	48,745	32.7
Ivory Coast	7.40	7.30	696	38,137	54.8
Guinea Bissau	5.60	9.18	112	4,587	41.0
Mali	6.00	8.75	452	6,106	13.5
Niger	5.40	9.10	1,439	14,285	9.9
Senegal	8.70	6.81	7,676	60,419	7.9
Togo	4.60	9.13	2,923	10,783	3.7
WAEMU	7.40	7.44	15,328	203,675	13.3

Source: BCEAO, 2014, Study on Housing Finance conditions in WAEMU countries

21. Access levels to housing finance are particularly low even when compared to WAEMU peers, with just 2 per cent of the adult population having a loan to buy, construct or renovate a dwelling. Table 2 below shows the low level of penetration relative not only to WAEMU countries but also compared to Sub Saharan African countries and the broader developing economies peer group. The root cause is an overall low level of financial inclusion which does not then provide opportunity to develop and cross-sell other financial products.

Table 2 - WAEMU - Housing Finance Inclusion (% of adult population - 2011)

	Has an account at a formal Financial Institution	Has a housing loan for purchase, construction, renovation or upgrading of a home	<i>of which</i>	
			<i>Men</i>	<i>Women</i>
Benin	10%	4%	4%	3%
Burkina Faso	13%	3%	4%	1%
Mali	8%	2%	4%	1%
Niger	2%	5%	6%	3%
Senegal	6%	2%	3%	1%
Togo	10%	3%	4%	2%
Average WAEMU	8%	3%	4%	2%
Sub Saharan Africa	24%	5%	6%	4%
Developing Economies	41%	7%	8%	6%

Source: Global Findex Financial Inclusion Database

Note: Survey data not available for Guinea Bissau or Ivory Coast

22. A common issue in emerging markets constraining growth of housing finance is the maturity mismatch between the long term assets created when providing mortgage loans and the need to raise long term liabilities to fund these assets. This was raised as an impediment by some of the lenders interviewed during the FSAP research. However, it is also the case that there are substantial medium term resources available which could be used to fund on a duration matching basis. Table 3 below sets out the balance for the Mali banking system. There is a limited maturity breakdown of assets and liabilities. However, it is clear that long term lending represents just a small fraction of available term resources. This does not equate to a perfect match as time deposits cover deposits over 30 days, and in fact rarely exceed 1 year. But even allowing for this, the own funds alone represent 8 times the amount lent out in the form of long term loans. At present just 4 per cent of total term liabilities are lent back out in the form of long term loans. This amounts to CFA 37,800 million or equivalent to around USD 64.4 million. The reasons for this mismatch are mix of regulatory issues, but also the risk environment. Banks are very cautious about entering into long term loans, given difficult environment for creditor rights. Banks generally favor assets which are easy to liquidate and short term transactions such as trade finance.

23. Long term resources available in the banking system are predominantly in the form of term deposits and own funds, with virtually no resources from interbank market or capital market. Although at present it is questionable whether the maturity mismatch is a binding

constraint, it will certainly become so as the financial system evolves. The need for capital market resources will become increasingly important to offset any maturity mismatch arising as long term lending balances increase. Making greater use of the regional capital market should be part of the overall financial development strategy and specifically for housing making greater use of the dedicated regional facility, CRRH.

B. Challenges

24. Few banks currently offer a full mortgage product with Banque Malienne de Solidarite, BHM, Bank of Africa and EcoBank being the main lenders although at minimal levels. Some Banks entered the sector upon receipt of long term funds from donors (FMO for example), while others simply offer a product to good clients when demanded without actively marketing the product. The key reasons for not providing housing finance, are (i) the lack of long term funds and regulatory constraints impact through the transformation ratio (ii) a perception that BHM should be doing more in this sector and that it is BHM's responsibility (iii) a lack of mortgageable properties and lastly, (iv) difficulties in enforcing collateral due to inefficient and unpredictable judicial process.

25. Housing microfinance remains extremely limited with no specific products or specialized providers. Overall the microfinance sector is struggling with its core business and for the most part lenders are not in a position to contemplate more complex products. There are 126 authorized microfinance institutions as at end 2013¹. Together they had deposits worth CFA51.3 billion (USD 86 million) and loans amounting to CFA57.9 billion (USD 97 million). Of these loans, 13.9 per cent are non performing, a ratio which has steadily been rising since 2010, while at the same time overall portfolio has shrunk from a high of CFA77.7 billion in 2011. Micro-finance loans are granted for shorter periods than is ideal for housing purposes and are also directed at productive purposes only. It is estimated² that up to 30 per cent of the loans end up being used for housing purposes which is in line with experience elsewhere.

26. A key obstacle to growing housing finance market is the lack of available mortgageable titles. As little as 15 per cent of Bamako is formally registered with title with a much smaller proportion across rest of the country. The banking regulator, now requires that any mortgage loans be granted only against full legal title. Previously the so-called 'titre precaire' could be used. Although they did not have the same legal value, banks were able to physically keep the title documents which gave the creditor good leverage in enforcing repayment discipline. This could be done by way of a 'pledge'³ which would be recorded in the land use register. This system is still used by many and is more

¹ BCEAO data provided to the FSAP mission.

² Based on anecdotal evidence from market practitioners.

³ See article 63 of the Code Domanial et Foncier which provides details of how a loan can be made supported by a collateral pledge.

effective than a legal mortgage which can languish in the courts for years when the creditor tries to enforce his or her rights.

27. The Mortgage Guarantee Fund (FGHM) was established in 2000 to assist in expanding access to housing finance by providing credit guarantees. It was established alongside other public institutions including BHM, ACI and OHM to work together in a coordinated way covering the different obstacles to affordable housing from supply side, to demand side. FGHM was established with support from the Canadian Mortgage and Housing Corporation (CMHC) on whose model it is based.

28. At present, FGHM is having a minimal impact on developing the mortgage market. It covers up to 70 per cent of credit losses and pays out on losses before they are fully finalized through the court system. In theory this is an attractive product for lenders facing a difficult credit environment with no credit bureau and poor credit rights for enforcing collateral. Yet, FGHM is barely surviving with a shortfall in capital and minimal levels of new business. This is in large part due to the failures of BHM on which the FGHM model is largely dependent.

29. Lack of reliable, timely and comprehensive data hampers efforts to allocate resources and understand how housing market is developing and where blockages are. A major difficulty in undertaking a diagnostic assessment of the housing and housing finance sector has been the absence of reliable data to show trends over time and to understand the scale of the market. Some data was usefully available in the BCEAO September 2014 publication on WAEMU Housing Finance sector but even here one of the key metrics was missing. There was no information on the overall size of mortgage debt outstanding only the annual flows. For the housing market, there is very little information relating to annual housing production both in formal or informal sector, number of building certificates issued, annual production of social housing, cost of housing, etc.

C. Recommendations

30. A fundamental review of the FGHM business model is required to either ensure its long term survival or to initiate its orderly liquidation. Such a review should take account of the following areas (i) setting of premium levels based on actuarial calculations of risk (ii) reaching out to all banks to increase levels of business (iii) operating on a sustainable basis with any subsidies being clearly segregated from FGHM accounting and pricing, (iv) consider expanding coverage to provide support for those working in the informal sector (similar to the Moroccan FOGARIM model) and lastly (v) explore possible regional options for how the guarantee could work in parallel with the regional refinance facility, CRRH. FGHM has actively been seeking new products and offers such services as life insurance for mortgage borrowers, it is considering offering a title registration cover to protect lenders offering loans without perfected titles. However, its core business does need to work and unless it is able to establish itself as a viable, sustainable business it may be a better option to redeploy public sector resources to a more effective use.

31. Although a private decision for the banking sector, lack of long term resources should not be an excuse for lack of long term lending given that resources are available and there is also the option of making use of the regional mortgage liquidity facility (CRRH). No bank in Mali has yet used CRRH and very few banks are even members/shareholders which is an essential conditions for being able to access funds. While there may be some valid concerns around creditor risks associated with long term lending, the maturity mismatch issue could be addressed relatively easily by accessing CRRH funds and/or making better use of existing term resources.

32. A potential growth channel which could be better leveraged for housing and funding for housing is the Malian diaspora and the flow of remittances they send back to Mali. A large proportion of formal construction is made up of Malians abroad funding the construction of a home for their return to Mali or for their family remaining in Mali. It is estimated that as much as 40 per cent of remittances are destined to be used for housing purposes. Several banks have tapped into this market by providing correspondent banking services to attract remittances into deposit accounts. BHM has one of the largest flows owing to its established presence in Paris and its former history as a postal savings bank.

33. Titre precaire could be used as an intermediate form of collateral given the lack of full titles available at present. Many lenders had been using them and non-bank lenders also make use of them. Titre precaire can provide a simpler and more enforceable form of collateral albeit with a lesser degree of legal certainty. The weaker nature of the collateral could be reflected in larger downpayment requirements to compensate for this. This will impinge on affordability but overall may offer a reasonable compromise given that there is no real alternative until larger volumes of registered titles become available.

34. Regular data should be collected on the housing and housing finance markets to allow for informed policy making. BHM or FGHM could take on this role as a focal point for the housing market or longer term consideration could be given to establishing a more formal housing observatory which would collect data and provide market intelligence and analysis.

Table 3 - Mali Banking System Balance Sheet - (millions of CFA Francs)**Mali - Banking Sector Balance Sheet**

	2012	2013	2014	2015	
				February	March
Key Ratios					
Credit/Total Assets	50.4%	48.9%	44.9%	45.6%	45.4%
Long Term Lending/Total Lending	3.7%	3.0%	2.6%	2.6%	2.7%
Long term Lending/Term funding	5.5%	4.3%	3.8%	3.7%	3.7%
Bad debts	8.8%	8.7%	5.7%	6.3%	6.8%
Assets					
Reserves	216,109	210,633	255,620	229,957	213,060
Gross Foreign Assets	432,946	563,120	729,155	676,486	671,867
Claims on Government	111,732	171,870	328,961	355,162	328,012
Loans to the Economy	1,099,186	1,232,188	1,468,174	1,472,833	1,417,484
Short Term	648,707	748,548	913,890	904,602	844,236
Medium Term	313,607	340,399	423,585	438,202	438,740
Long Term	40,360	36,605	37,687	37,757	37,817
Delinquent	96,521	106,614	83,012	92,272	96,701
<i>Overdue</i>	<i>60,805</i>	<i>57,951</i>	<i>39,648</i>	<i>50,124</i>	<i>55,618</i>
<i>doubtful</i>	<i>35,716</i>	<i>48,663</i>	<i>43,364</i>	<i>42,148</i>	<i>41,083</i>
Other	319,654	340,463	497,230	496,008	494,914
Total Assets	2,179,636	2,518,252	3,269,140	3,230,446	3,125,347
Liabilities					
Demand Deposits	769,512	808,023	972,040	976,591	944,326
Public Sector Deposits	123,835	80,132	67,457	72,981	61,078
Individuals and Private Sector	625,467	707,009	878,056	870,777	858,438
Financial Institutions	13	56	108	62	103
Other	20,197	20,826	26,419	32,771	24,707
Time Deposits	432,968	499,153	559,063	582,808	592,450
SODE-EPIC	43,042	55,196	34,258	28,728	28,431
Individuals and Private Sector	205,486	225,106	268,777	286,063	289,253
Financial Institutions	6,103	4,132	6,254	7,208	6,208
Other	178,337	214,719	249,774	260,809	268,558
State Deposits	241,798	276,749	349,380	328,971	342,224
Demand	147,362	185,928	205,959	194,678	207,912
Time	90,822	88,271	140,453	131,365	131,425
Other	1,821	2,056	1,773	1,847	1,856
Central Bank	78,179	238,299	398,805	447,213	379,805
External	278,299	278,791	427,564	377,007	353,796
Short term	262,195	238,437	378,747	316,101	293,396
Medium and long term	16,104	40,354	48,817	60,906	60,400
Own funds	200,260	216,133	242,635	250,338	251,718
Other	177,271	198,231	317,533	264,004	257,785
Total Liabilities	2,179,636	2,518,252	3,269,140	3,230,446	3,125,347

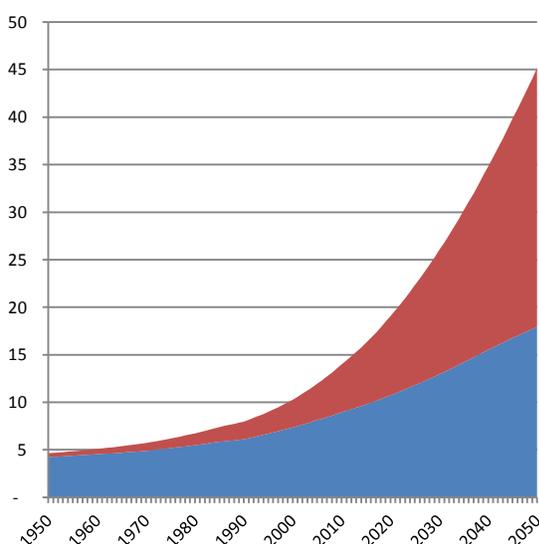
HOUSING AND LAND MARKET

A. Context

Housing Demand

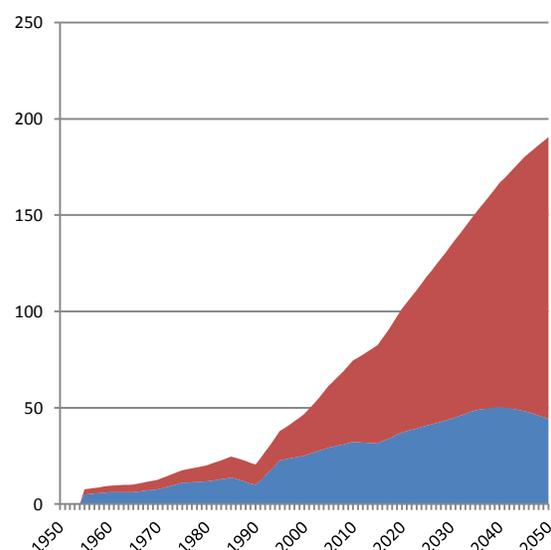
35. The total annual housing need in Mali based on the household formation rate amounts to 82,500, split between 51,100 urban units and 31,400 rural units.⁴ At present, this is not being met although reliable data on housing supply are not available. The housing needs will accelerate as the population continues to grow and the urbanization rate increases from the current level of 39.9 per cent to 50 per cent by 2030. The President has pledged to construct 50,000 new affordable 'social housing' units, of which 40,000 are to be completed during the current presidential term which runs to 2018.

Figure 1 - Mali Population - 1950-2050 - millions



Source: UN Populations Division Database 2012

Figure 2 - Mali Annual Rural & Urban Housing Needs (000s)



Source: Author Calculation

36. The challenge⁵ in Bamako is amplified due to lack of available land for housing. The Bamako urban area (i.e. Bamako District and a large part of the 8 adjoining *communes rurales*) has been absorbing a very large share of the rural-urban migration that, adding to an already high natural population growth results in strong demographic pressure and a young population. On the basis of the 2009 population census projections and plausible assumptions regarding the urbanization rate in the peripheral communes it can be estimated that around 2,350,000 people were living in the urban area of Bamako in 2011, of which 1,987,000 (85%) were living in the core district of Bamako. Figures

⁴ Calculated using UN Populations Division population forecasts, and household size data from the 2001 Mali Demographic and Health Survey.

⁵ Based on WB research Paper 6687 on land markets in Mali and Bamako

from the 1998 and 2009 censuses indicate that the population in Bamako District has increased by 4.8% annually, while the annual growth rate of the population in the eight communes has been even higher, ranging from 6.2% to 17.2%. If the overall annual rate of population growth during the next twenty years remains in the range of 4.5% (which can be considered a conservative estimate), the population of the city would reach 3.5 million in 2020 and about 5 million in 2030. On this basis, assuming that the average household size and land consumption remain unchanged, an additional 5,200 ha of urban land will be required by 2020 to cope with the demand for residential land and nearly 12,000 ha by 2030. This would thus require a sharp increase in the provision of land for housing.

Policy Context

37. At end 2011, Mali published its Strategic Plan for growth and Poverty reduction - 2012-2017 which included a series of actions to improve land management. The objective of those measures was to improve access to land in order to facilitate greater production of affordable housing. A new coordinating Ministry was established for management of state land (the 'Domaine') and all land issues. This places a greater focus on land, which was previously incorporated together in a joint ministry with Housing and urban issues. Alongside the creation of the new Ministry the government set itself priorities in the housing sector which included (i) the establishment of an agency able to effectively bring land into serviceable use (ii) establish a workable and efficient cadastral system and (iii) embark on a large scale social housing program.

38. The overall Housing strategy is summarized as :

"To provide citizens of Mali with equitable access to land and decent housing, as well as providing land security to producers and economic agents"⁶

39. The government's three key targets for achieving this strategy and improving the housing sector have been delivered but have not been able to offer the scale necessary to meet Mali's housing needs. This is the case for the cadastral program which although underway, has yet to record a significant proportion of Mali's urban land mass. Likewise with social housing, there are a number of initiatives which are being delivered but the numbers are small with production only reaching a few thousand per year. Lastly the Land improvement agency ACI was established and has been working effectively in bringing land into use in the Greater Bamako area, but again it is on a limited scale and has thus far mainly benefited commercial development or upper income residential developments.

40. Along with much of Sub-Saharan Africa and certainly most of West Africa, land markets in Mali are one of the major obstacles to increasing volume of construction and also in ensuring housing remains affordable. The spatial expansion of cities relies predominantly on informal processes to access land for housing, urban services and infrastructure.

41. Mali's Slum population is increasing rapidly despite improvements in the proportion of urban dwellers living in slum conditions. As with much of Africa, rapid urbanization and population growth are making it difficult for city planners to keep up with housing needs, even though many are achieving significant improvements in some cities. UN-Habitat define slums as being households living in urban areas which lack one of the following (i) durable housing (ii) sufficient living space (iii)

⁶ Original version in French: « Favoriser un accès équitable des citoyens à la terre, à un logement décent et une sécurité foncières aux producteurs et promoteurs économique »

easy access to water (iv) ⁷The most recent data⁸ available indicate that Mali has a slum population of just over 3 million people. This amounts to 63 per cent of the urban population. This is on a downward trend in proportional terms from 93 per cent of the urban population living in slums Based on past trends and expected population growth, as estimate by UN-Populations Division,

Table 4 - Mali - Slum Population 1990-2010

	1990	1995	2000	2005	2010
% of Urban Population living in slums (Mali)	94.2%	84.8%	75.4%	65.9%	65.9%
Number of slum dwellers (Mali)	1,901,955	2,066,289	2,247,323	2,496,161	2,742,945
% of urban dwellers living in slums (SSA)	67.5%	64.3%	61.0%	61.1%	55.8%

Source: UN-Habitat

Land and Property Registration⁹

42. In thinking about Mali’s land issues it is useful to consider three different needs and functions which have to be satisfied if land can be effectively utilized to create new housing:

- Cadastral mapping – land needs to be properly recorded and mapped with accurate recording of plot boundaries and locations.
- Title Registration – ownership of individual plots needs to be accurately recorded to ensure that property rights are clear and enforceable
- Registration of liens – a register needs to be able to record and register any charge placed over a property to be an accurate, reliable and legally binding record of land used as collateral for loans.

In the case of Mali, much of the infrastructure to deliver these 3 areas is currently lacking. However there is recognition of the importance that efficient land management can play in the development process and the Malien authorities have established a program to develop a cadastral system across the country.

43. An attempt to formalize land markets has been made through the creation of a parastatal land development agency in 1992, the *Agence de Cession Immobilière (ACI)*. It introduced formal land market mechanisms into a land delivery system dominated by informal and customary practices and, at government level, a land administration undermined by corruption, clientelism and political interference, land being frequently allocated at preferential prices on the basis of political affiliation.

⁷ For more see <http://ww2.unhabitat.org/mediacentre/documents/sowcr2006/SOWCR%205.pdf>

⁸ From UN Habitat listed as 2009 data, but it is likely that data actually refer to earlier years going back to 2005 potentially.

⁹ Much of this section is based on a combination of interviews with government officials and also the WB research paper 6687 on land Markets in Mali and Bamako.

B. Challenges

44. Property rights are unclear in large part due to the administrative processes currently used. The cadastral project to map and establish clear property rights is a welcome move, but needs to be funded adequately. It is estimated that as much as 80 per cent of all tribunal court cases are the result of contested land rights which is an indication of the strain that such uncertainty places on the judicial system and also the difficulties in creating a secured lending framework.

45. Over the last 5 years, there has been a steady increase in land prices in the urban and peri-urban areas of Bamako (with several observers mentioning annual increases of up to 100% in some locations). This has further stimulated the demand for land due to expectations of further increases. The disappearance of cheap options to access land may have been exacerbated by the upgrade from affordable to more expensive land tenure forms (for those who can afford it or benefit from good personal links with the land administration).

46. Housing supply is limited due to a number of failures and obstacles preventing both housing cooperatives from gaining access to development finance and private developers being able to move into larger scale developments. The Professional Real Estate Developers Association (APIM), expressed its frustration at the lack of opportunity for developers and the difficulty in raising bank financing for debt or equity. There are some supportive measures in place such as special tax measures in support of affordable housing providing some tax concessions on VAT, income tax, import taxes on materials and stamp duties. Yet these have had limited impact to date with broader issues around getting access to serviced land, and financing.

C. Recommendations

47. Full property titles should be made more available at cheaper cost if housing finance is really to be developed. Estimates suggest that anything from just 5-15 per cent of titles in Bamako are formal titles with lower ratios outside of Bamako. A program is underway to develop cadastral map which will lead to an easier process for registering titles. However, the cost remains very high with little incentive for an individual to convert their titles at present. A more systematic approach is needed with much reduced costs to formalize titling system. This could either be done as systematic titling program where, once cadastral map is done, titles are granted across the country for a nominal cost, or a sporadic titling approach could be taken, which is more gradual and done on a transaction by transaction basis. Either way, the cost has to be brought down. At present FGHM provides some support in formalizing titles as part of its guarantee service. A 'fast-track' titling program could be considered also with many of the fees waived. This would provide a clear benefit for mortgage borrowers and remove many of the blockages which prevent banks from lending.

AFFORDABLE HOUSING FINANCE

A. Context

48. Overall some social housing is constructed and support is provided by the state for low income housing through the Office Malienne de l'Habitat (OMH), but the numbers remain small. OMH has three principal objectives which are to (i) support development of construction techniques and materials, (ii) invest directly into institutions aligned with OMH goals and (iii) provide support across public sector in terms of housing activities. It is resourced from two sources which are firstly a 1 per cent payroll tax levied on all salaried employees and secondly on a portfolio of social rental housing, giving a total budget of CFA 6 to 7 billion (USD 10 million). Much of this budget is spent in subsidies for the social housing program. These are given in the way of interest rate buy downs on private loans for social housing, or in providing financing for social housing which is sold on a rent to own basis over a 25 year period. A social housing program does exist in Mali, largely funded by the OMH, but it remains small, under-resourced and not benefitting those who most need help. New housing construction amounts to as little as a few thousand units per annum.

49. The social housing program to date has resulted in 7,469 dwellings being constructed. Of these, just over half (51 per cent) have been occupied by salaried workers, and 40 per cent by non-salaried, with the remainder being taken up by Malien living abroad. This last category in itself raises questions about program beneficiaries. The latest round of social housing is the N'Tabocoro development where OHM is providing a 10 per cent subsidy on the price of the house together with a 25 year loan at 0 per cent.

50. Around 207 housing cooperatives exist which are brought together under an umbrella organization of the national Federation of Housing Cooperative societies of Mali (CONASCOH)¹⁰. The cooperatives are typically organized around professions, such as the teachers housing cooperative, and require regular payments or 'cotisation'. They receive some support from OMH, the main government housing agency. This is in the form of loans or loan guarantees.

51. Provision of housing micro-finance loans is virtually non-existent in Mali. Interviews with lenders both large and small yielded very little interest or knowledge of any small scale loan programs focused on housing. Only one lender did provide housing finance, but these were generally mortgage loans made to those working in the informal sector rather than housing micro loans for incremental construction or home improvement. This area certainly has potential for growth and development, but will take time given lack of product and providers at present.

¹⁰ Confédération nationale des sociétés coopératives d'habitat du Mali (CONASCOH-Mali).

B. Challenges

52. As an organization OHM is in a good position to support access to housing/housing finance for those on lower incomes, however it needs to do so in a more effective way. It provides support through a number of channels but these are not well understood among different government departments or in the private sector. Ideally OHM needs to find a mechanism to leverage the resources it obtains through the 1 per cent payroll tax. It also needs to ensure that resources are targeted to those who need them the most. The current program as implemented in the N'Tabacoro development is clearly very generous, and not an effective use of resources, given that a 0 per cent loan is not needed for a full 25 years, nor is it clear that there is an income criteria used to establish eligibility for the scheme.

53. The housing cooperative movement remains limited and short of resources despite the OHM support. The Mali Housing Bank (BHM), should be the main counterpart for loans to housing cooperative but in practice it has limited resources and not able to meet demand. In response, housing cooperative are seeking to set up an apex savings and credit institution to better serve their needs. In practice only one cooperative thus far has managed to build housing. This is in the case of the SISO cooperative for teachers, which has built 100 units for its members. However, the reality for most cooperatives at present is that they have managed to acquire some land from the state but then not been able to access finance for building houses, in turn this has meant that they are no longer contributing to their cooperatives solidarity pool through 'cotisation'.

C. Recommendations

54. OHM can follow two routes in terms of supporting affordable housing (i) it should consider reforming its current subsidy program to introduce some eligibility criteria based on income, and also to combine it with private sector loan resources, (ii) it has an opportunity to work more closely with cooperatives as a means of leveraging public resources it receives. In a similar way to the UK's Housing Association system, OHM could provide financial support for Housing Cooperatives to raise bank financing. In the UK the regulator is the Homes & Communities Agency which is also the main grant making body for affordable housing. The OHM could take on a similar role to include:

- **Capital transfers for the initial land purchase** – this would provide the initial equity which together with accumulated savings could provide sufficient funds for a loan to be raised by the housing cooperative
- **Technical/project management assistance** in developing housing. Housing Cooperatives often lack necessary basic skills to engage in multi-family housing developments. Some support could ensure a greater probability that good quality housing is achieved and that loans are repaid. If the housing is not built, it is likely loans will be defaulted on.

- **Regulation of housing cooperatives** to ensure adherence to strict governance standards and financial management probity. Strong regulatory oversight would strengthen sector and make it more credit worthy.
- **Review current subsidy mechanisms and thresholds** – the current mechanism needs some changes to ensure that it works better in practice and targets those who need support. It may also be useful to be more fully transparent about how the subsidy process works. For example holding open forums or publishing details in newspapers/websites. At present the scheme is poorly understood.
- **Consider a loan guarantee scheme for housing cooperatives** – the UK system is focused on building houses for social rental, with the rental income providing the stream of income to repay the loan. In Mali, where the housing cooperatives are geared towards homeownership an alternative mechanism needs to be found. This could be more reliant on physical collateral or land/housing units, as well as accumulated savings. During construction phase a guarantee full or partial by OHM could help ease access to finance.

55. Consider establishing some housing microfinance pilot schemes to test out new product with willing providers. Given the lack of familiarity with such products a pilot scheme could be a useful way to test the market and introduce some of the concepts around medium terms, unsecured finance for housing purposes.

56. Cooperative movement should be developed as a channel for delivering housing to Maliens across economic classes. This will require a number of steps in order to ensure sufficient financing can reach cooperatives. The recommendation would be to (i) provide technical support to cooperatives in terms of planning housing needs, as well as the general planning support for issues like schools, health clinics and transport, (ii) the cooperatives need to be made credit worthy, this may require them to change their legal status or to create a vehicle which allows them to borrow directly (much like UK Housing Associations). (iii) borrowing from banks would necessitate Cooperatives to have some own funds, alongside their land holdings, this implies stronger enforcement of the 'cotisation' savings product, (iv) there are governance issues at some cooperatives, again support could be provided, the envisaged body for this is CAMASC¹¹ which has never been established and lastly (vi) there has to be some clear criteria for prioritizing members who receive housing, this is critical as some cooperatives have mixed membership in terms of economic strata.

57. Housing Policy for low income households as implemented through OMH is clearly insufficient at present and lacks some clarity. OMH needs greater resources if it is to come close to meeting the 50,000 unit target by 2018. Some suggestions at present include using a cement tax

¹¹ Centre d'appui au association mutuelle et societe cooperative.

which could then be redistributed in social housing. The advantage of this is that increased activity in housing sector would raise demand for cement, thereby overall balancing out impact of tax. This approach has been used in a number of other countries including Morocco. Alongside this OMH, should consider better defining its programs with clear published criteria for receiving subsidies, together with a program specifically targeted at Housing Cooperatives. All of this should be prepared as a business plan with targets on number of social housing units to be delivered annually.

MALI HOUSING BANK

A. Context

58. The Malien authorities have been working to strengthen financial sector stability which includes measures to stabilize the BHM and put it in a position where it begins to fulfill its mandate of providing credit for the housing sector. A strategy was approved by the council of Minister for a strategic disengagement by the state from the share capital of BHM. Initially the agreed plan was for BHM to be privatized.

59. Since its inception in 1996 the Banque de l'Habitat du Mali has failed to deliver on its mandate to develop the housing finance sector and provide affordable financing for homebuyers. It was created following the transformation of the Postal and Savings Bank (SCPCE). As early as 1998, it was put under a special supervisory regime by the banking regulator due to lack of capital and governance issues. By 2006, it had reached a situation where over 75 per cent of all its loans were non-performing. The State has intervened on multiple occasions to put more capital in, taking the share of public ownership from just 5 per cent to 79 per cent in 2010.

60. BHM currently has six stated objectives, only one of which directly focuses on its role as a housing bank. The other five objectives are more focused on its postal accounts franchise and general banking operations. For a state housing bank with large and repeated government investments, these objectives do not seem fully compatible with BHM having a leading role in developing the housing sector:

BHM Corporate Objectives¹²

- *To provide financial support towards the development of the housing sector in Mali*
- *To gather savings and provide an adequate return especially to those who do not have full access to the banking system due to their geographic location or due to their modest resources*
- *To provide within Mali and outside full banking services, including checking accounts, credits and other banking services.*
- *To administer all post office savings and checking accounts on behalf of the post office*
- *To support a more commercial approach to post office banking services*
- *To engage in all activities, be they financial, commercial or real estate which will help grow and develop BHM.*

61. While BHM was being prepared for privatization, it benefited from technical assistance from the IMF as well as having recourse to a consulting firm. Several key issues have been raised

¹² See BHM website at <http://www.bhm-sa.com/>

which make a potential privatization difficult, these include (i) the large number of small individual shareholders who have been heavily diluted following several recapitalizations by the State (ii) limited profitability and market share putting into question its long term viability and (iii) the large amount of fixed assets currently on its balance sheet which are in breach of regulatory norms and are also not generating any income. The latest available accounts for 2013, show that loan assets fell slightly, as did its own funds due to increased provisioning.

B. Challenges

62. The investment bank retained to oversee a privatization failed to find willing investors into a privatized BHM. A new approach was proposed in April 2015 to merge BHM with an existing and financial stable public sector bank, the Banque Malienne de Solidarité (BMS).

63. The proposed merger with BMS will need to address some of the key issues which have led to BHM not performing for the past 20 years. Simply restoring its financial health will not resolve the failure of BHM to deliver on its mandate. The key issues which need to be addressed are:

- **Perception of BHM loans as 'public housing subsidy'** – This is a perennial problem with public sector lenders, where a moral hazard exists when making loans, especially to those on lower incomes. The government is often reluctant to fully enforce its creditor rights which in itself weakens repayment discipline. In the case of BHM, over half its loan portfolio is non-performing, in part due to poor underwriting, but also the lack of consequences when defaulting on a loan. This reputation will be very difficult to shift – there are two possible approaches (i) under its new incarnation, it could rebrand itself and distance itself from its former public sector lending role (ii) it needs to take stringent action on enforcing all of its lapsed credits and regain a reputation as a lender that will pursue its creditor rights.
- **Long term funding shortage for BHM** – Although BHM does have significant liabilities through diaspora savings, very little of this is truly term funding. Most of it is stable but contractually is instant access and therefore not suitable to entirely fund a mortgage portfolio. BHM is not currently a shareholder in the regional mortgage liquidity facility. Given that it should be taking a leading role in developing the housing finance market in Mali this seems incompatible. It may be an issue of lack of capital resources or simply low business volumes which do not require further liquidity, but as part of its long term plan, becoming a shareholder of CRRH should be a priority.
- **Governance and staffing** – Many of the issues which have arisen over the years with BHM come from a lack of experience in real estate lending and poor risk management which ultimately is a governance issue which management and Board of directors should take responsibility for, The current legacy portfolio of bad loans came from loans to developers done without proper controls, which resulted in many of the development never being

completed. Funding was also short term, on the interbank market which eventually dried up. Going forward governance issues need to be addressed with fresh commercial experience brought in, and improved risk management policies.

- **Financial health** - The fixed assets on its balance sheet are largely real estate, residential and commercial property, which it has obtained after enforcing collateral on non-performing loans. Unlike other banks which have struggled to do this, BHM benefits from a special privilege which enables it to convert the status of its loans to state debts which gives it greater enforcement powers. However, it is likely that the value of the collateral has been over-estimated and would not be realized if sold at market value. This is the reason why its balance sheet should be cleaned up to ensure a fresh start. Without a restart it will struggle to gain investor confidence and access to credit lines. It is key that it is able to raise long term funding as its reliance on diaspora deposits or government funding will not be sufficient going forward.
- **Mandate to develop housing finance sector** – the proposals from the government focus on the overall new BHM/BMS group and its reach as a large banking entity nationally and regionally. There is a plausible argument that BMS has superior banking expertise and skills which will help BHM in improving its systems and administration. However, BMS does not have a housing finance franchise, so it is not clear how BMS will be able to turn BHM's housing finance operations around. The key prize for BMS in a merger is likely to be the diaspora remittances/savings business which BHM inherited from its previous incarnation as the postal savings bank. This will provide BMS with a solid stream of long term deposits.

C. Recommendations

64. These recommendations should be viewed in the context of whatever the final solution for BHM's corporate form is. This could be as part of a new merged institution, a continuing state owned bank or a privatized institution. Based on the challenges detailed above the key aspects which need to be considered are:

- **New Strategic Plan for developing mortgage business both within BHM and broader financial sector**
- **Possible separation of key housing finance role from rest of business to enable clear focus on monoline product**
- **Return to financial health is a pre-condition for expanding balance sheet but should not be seen as a solution on its own**
- **Review of current risk management and governance arrangements.** These are what caused the current precarious financial position and should be rectified before scaling up lending programs

- **Consider a rebranding and a focus on enforcing creditor rights** – BHM has to lose its reputation as providing loans that don't have to be repaid without any consequences.

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COUNTRY CASE STUDIES

The three case studies below of India, Morocco and Egypt represent three different countries with different challenges and development issues. All three saw an important role played by the State in catalyzing the process while at the same time leveraging this role through strong private sector participation. All three have faced difficulties in addressing the needs of their low income population in terms of provision of housing. The challenges span not only provision of housing finance but also on the supply side the provision of affordable housing. Although at different development levels from Mali, some of the tools and sequencing approaches are still relevant. The Egyptian case where the State has managed to turn around a failing housing subsidy system into one which delivers and targets those who most need it. The Indian example shows how a state housing bank can provide the catalytic role to develop the whole sector. The NHB acts as a regulator, liquidity provider, investor and subsidy agency for the housing sector. It does so in an efficient and effective way in tandem with the market. The Moroccan example shows how a guarantee can usefully be deployed for the benefit of those on lower incomes or working in the informal sector, which accounts for the majority of the population in Mali.

A. Morocco

Box - The Moroccan FOGARIM Guarantee Scheme for Low Income Housing Finance

Created in 2004, FOGARIM primarily targets low-income households with irregular earnings. It provides guarantees covering 70 percent of losses on mortgage loans. Given the type of income, the main selection criteria are prices (limited to USD 25,000), the level of monthly installments, capped at about the equivalent to USD 200 (upper income threshold) and 40% of the households' income (lower threshold). Guarantee can be enforced after 9 month arrears, and once the foreclosure process has been initiated. After an initial phase where guarantees were granted for free, FOGARIM switched to a risk-linked premium system, where the amount of premiums is inversely linked to the size of the down payment.

In 2009, FOGARIM was merged with another guarantee fund that target the moderate income civil servants, middle class independent workers and non-resident Moroccans buying or building houses up to US \$100,000 in value.

The consolidated fund, Damane Assakane was guaranteeing MAD 9.3 billion at the end of 2010 (USD 1.2 billion), while its own funds amounted to MAD 0.95 billion.

A reform of the guarantees was underway in 2011. In the "social housing" compartment, the price ceiling has been lifted to USD 100,000, and the maximum monthly instalment to USD 300. For other categories, the price ceiling should be removed but the guaranteed amount capped at USD 50,000. Claim processing will be overhauled, with payment first and validity checks afterwards.

Source: Hassler (2011)

B. India

Background

The housing sector in India historically had significant gaps in terms of credit flow and market infrastructure. The market reforms and liberalization through the 1990's contributed substantially to the productivity and efficiency of this sector in terms of credit flow and its absorption in the market. A number of policy measures have been initiated through the partnership between the Centre and State Governments. As a result, integration of the financial market with the “real” housing sector which was a serious challenge when the reforms began in the early 1990's, is getting to be addressed. Besides the network of formal financing institutions, a large number of microfinance institutions (MFIs), community based organisations (CBOs), self-help groups (SHGs) etc are operating in the urban and rural space, serving the housing and housing finance needs of these segments of the population.

Institutional context

To tackle the problem of housing shortage and lack of affordability in housing finance, various Policy interventions have been initiated by authorities at the Central, State and regulatory levels. Recognizing that subsidy in interest rates has an important role to play in stimulating demand for housing credit among the lower & middle income segments of population, the Government of India had introduced interest subvention of 1 per cent for one year on all individual housing loans up to Rs 10 lakh (USD 16,000), provided the cost of the unit does not exceed Rs 20 lakh (USD 32,000) from October 1, 2009 to September 30, 2010.

During the last decade, Banks have assumed a dominant role in the provision of mortgage finance in the country. The housing loan portfolio of banks has been on the rise during recent times. On account of their large network, they have made considerable in-roads in making housing credit available to far flung areas. The emergence of Regional Rural Banks, Micro Finance Institutions in housing also contribute to a “niche” segment of the market. At the same time, the Apex Cooperative Housing Finance Societies (ACHFS) continue to play a pivotal role in lending for housing to their primary societies and members.

Housing Finance Companies (HFCs). HFCs are specialized institutions lending for housing) registered with the National Housing Bank are a major component of the mortgage lending institutions in India. The 53 HFCs registered with the National Housing Bank as on March 31, 2011 have a network of approximately 1,300 branches spread across the country. The market share of HFCs is approximately 30-35 per cent of the retail housing finance market catering primarily to the borrowers in the formal sector.

The Housing Development Finance Corporation (HDFC). HDFC is a private-public partnership institution. As the first specialized housing lender in India, it was incorporated in 1977 with the primary objective of promoting home ownership by providing long-term finance to households for their housing needs in India. It initially received funding from its investors and through the issuance of bonds. Subsequently, HDFC and other HFCs were funded by the National Housing Bank. HDFC launched a retail deposit program in 1991 and created a bank subsidiary in 1995. HDFC was a pioneer in instruments (first ARM in 1999), securitization (2000),

internet loan approval (2001), and business process outsourcing (2001) in India. It has promoted private sector housing-finance companies in Bangladesh (Delta Brac) and Sri Lanka.

National Housing Bank (NHB). Created as a regulator and liquidity facility for the sector, NHB is the apex level financial institution for the Housing Finance System established in 1988 by an Act of Parliament (National Housing Bank Act, 1987). NHB was instrumental in building the mortgage market in India. The NHB's board's recent guidance is to sustainably support the low income housing finance market. NHB is strategically placed as the government owned apex financial institution in the sector able to address, articulate, and support policy and developments in the housing sector and the housing finance system. The Primary Lending Institutions (PLIs) on NHB's client list include HFCs, urban cooperative banks, state owned commercial banks, regional rural banks and at the other end of the spectrum, MFIs and NGOs. PLIs receive wholesale funding from NHB.

Funding for the housing finance

NHB has two funding products: "refinance" for HFCs and banks, and "prefinance" for MFIs and others. It takes a small (+100 bps) spread for its efforts. NHB funds against conforming secured mortgages presented by the PLI. NHB takes the corporate credit risk on the PLI, and also receives a charge against the mortgages presented by the PLI. The PLI bears the risk on the retail mortgages. NHB's "prefinance" product recognizes that the smaller PLIs, primarily MFIs, do not have the balance sheet to originate and then distribute. Instead, NHB advances the funding to the MFI before it originates the retail mortgages.

During the year 2010-11, an aggregate amount of around USD 2.67 billion was disbursed by NHB, out of which 97.4% was disbursed under the Refinance Schemes of the Bank. Refinance disbursements made to various categories of PLIs, including Housing Finance Companies (HFCs), Scheduled Commercial Banks (SCBs), Scheduled Urban Cooperative Banks (UCBs), Regional Rural Banks (RRBs) and Cooperative Sector Institutions (ACHFS and ARDBs). HFCs and SCBs are the main recipients, accounting for 28.2% and 69.2% respectively of the total refinance disbursements for the year 2010-2011.

The HFCs primarily depend on loans from banks and financial institutions besides their owned funds- equity and reserves. Borrowings through bonds and debentures, inter- corporate deposits (ICDs), commercial paper, sub-ordinate debt and fixed deposits from public are the other sources of funds for HFCs.

On the back of the growing primary mortgage market, the securitization market for residential mortgages will add considerable value and depth to the system. NHB will be expected to play a key role in the promotion of affordable housing and development of a deep and vibrant secondary mortgage market in the country.

Experience through the global financial crisis

The financial markets in India were not insulated from the global financial crisis, albeit to a limited extent. Although the risk perceptions regarding the growth of the Indian economy in the immediate future have somewhat increased, the impact on the domestic economy is expected to be relatively moderate.

The Reserve Bank of India (RBI) has been pursuing an anti-inflationary monetary Policy stance since October 2009, with a view to containing inflation and mitigating inflationary expectations in the economy. The sustained increase in Policy rates has been reflected in the increasing borrowing as well as lending interest rates.

Housing loans, due to their high sensitivity to interest rates, increase the possibilities of default on the part of the borrowers. In December 2010, the Reserve Bank of India had strengthened the prudential norms relating to housing loans to prevent excessive leverage. Despite Policy tightening by the RBI and the Government, housing credit witnessed higher growth during 2010-11 when compared to the growth experienced during the previous year. However, since Policy tightening measures were implemented towards the end of the year, the impact of the same would be experienced in the immediate future.

C. Egypt

Egypt's mortgage market is a relatively recent development for the financial sector. Egypt has made significant progress in launching a mortgage finance system, reforming the land and property registration system, formulating a more conducive property tax law and a Unified Building Code, implementing a new Rental Law, and expanding the variety of affordable housing typologies offered under social housing programs.

Just after the Egypt's revolution in 2011. The Peruvian economist Hernando the Soto published an essay¹³ in the Wall Street Journal discussing the relationship between property rights and the causes of the revolution. He succinctly summarized one of the drivers of discontent with the Mubarak regime as: *"More than 90% of Egyptians hold their property without legal title. No wonder they can't build wealth and have lost hope."*

So although much has been achieved, much also remains to be done in scaling up Egypt's mortgage market and bringing housing finance within the reach of lower income groups. This chapter should be seen within the context of the broader financial sector development, but also merits stand-alone consideration as a roadmap of recommendations for future development of the mortgage sector.

Mortgage Market Development

Egypt's Mortgage Market grew rapidly during the period 2006 to 2010, although it still remains small relative to the overall economy and the overall size of the financial system. Much of the initial growth was led by the banks and the Mortgage Finance Companies (MFCs) followed. Although recently data for banks have been difficult to obtain it would appear that during 2010 and into 2011, very little mortgage lending was done by banks.

Future growth of the sector is likely to depend at least in part on (i) further lending by MFCs, assuming they are able to fund their expansion (ii) growth in the government's lending programs, possibly under the National Housing Plan subsidized loans program which is being phased out or more likely, under the Mortgage Finance Fund Affordable Mortgage Finance Program.

¹³ Hernando de Soto, Op-ed: Egypt's Economic Apartheid, The Wall Street Journal, 3 February 2011

Figure 3 - Mortgage Debt Outstanding

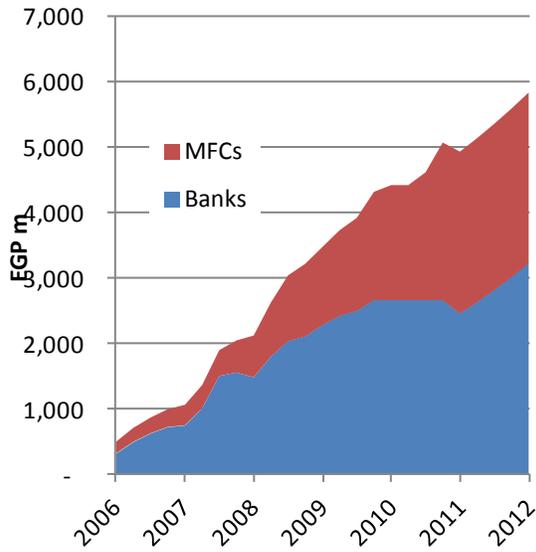
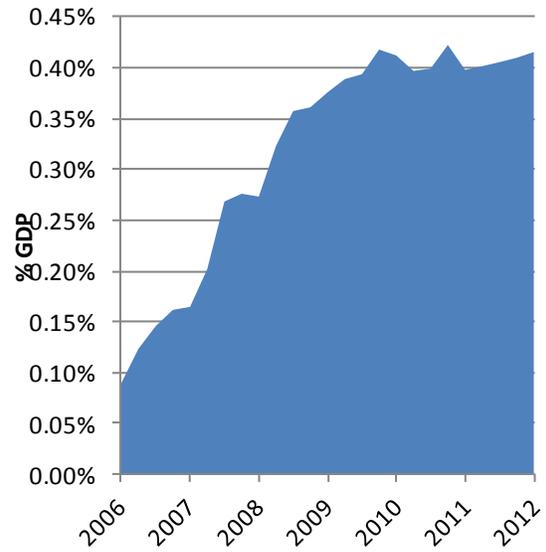


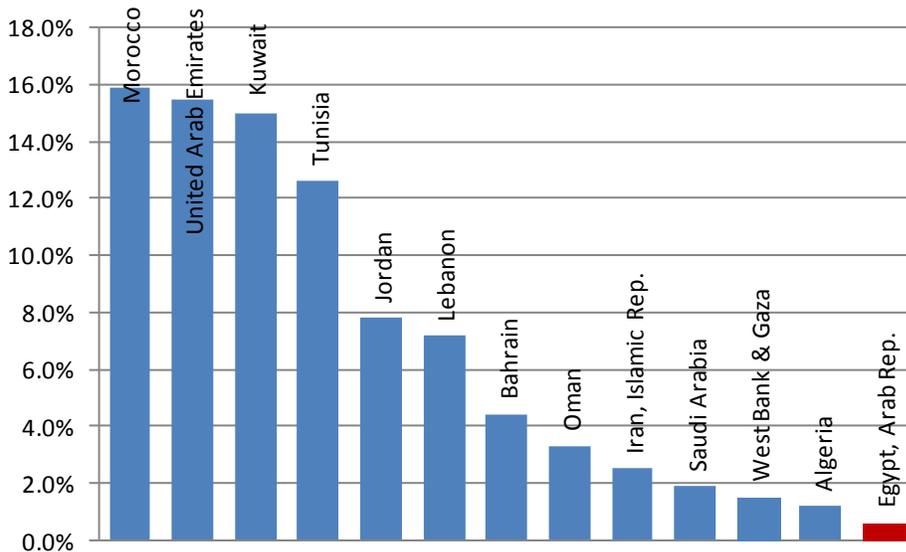
Figure 4 - Mortgage Debt Outstanding



Source: Egyptian Financial Supervisory Authority, IFS Database

Despite the rapid growth in Egypt’s mortgage market, it still lags many neighboring economies.

Figure 5 - Mortgage debt to GDP - (most recent data available)



Source: World Bank mortgage database collated from Central Banks and other national sources.

Path of Mortgage Market Reform 2001-2009¹⁴

The government introduced a number of reforms to promote mortgage and housing finance starting in 2001. Most notably was the introduction of a legal framework that paved the way for mortgage finance, the establishment of a regulatory authority, the setting up of a fund to support low and middle-income housing, and the creation of specialized mortgage finance companies. Moreover, the mortgage foreclosure regime was modernized, the property registration system was improved and fees reduced, and the private credit bureau became fully operational. In July 2009, a new law was issued to create a supervisory authority for non-bank financial institutions.

One of the central goals of Egypt's previous financial sector reform program was to create a vibrant mortgage lending market. A number of major reforms were undertaken to achieve this. The building blocks for housing finance which were put into place, including:

- **Enactment of the Real Estate Finance Law 148 of 2001**—the basis for all the reforms, which established the institutions to regulate the mortgage sector, creating the Guarantee and Subsidy Fund (GSF), and prescribing the rules for the types of loan products which banks and mortgage finance companies are permitted to offer borrowers.
- **Creation of the Mortgage Finance Authority (MFA)**, whose functions were incorporated into the remit of the Egyptian Financial Supervisory Authority (EFSA) in July 2009—a key step in creating a secure and strong regulatory environment to protect the interests of lenders and consumers. The importance of strong regulation has been underlined during the current crisis.
- **Establishment of a mortgage liquidity facility**—the Egyptian Mortgage Refinance Company (EMRC) in June 2006, that enhances mortgage lenders access to term re-financing which is crucial for the establishment of long-term lending and better management of financial risks (See Box 1).
- **Enforcement of foreclosure**—the ability to enforce collateral rights is essential to lenders if they are to properly value the collateral in a secured loan. The first cases of foreclosure went through the courts in 2008, establishing the necessary legal precedents to give comfort to mortgage lenders.
- **Streamline property registration**—this process has been significantly improved, through a nationwide mapping and titling program. In addition, the time it takes to register a mortgage and the fees charged have been significantly reduced. The government continued to make an effort to address property-registration issues to facilitate the development of primary markets.
- **Enhancement of consumer protection and financial education**—minimum disclosure requirements pertaining to loan information and consumer education programs are being conducted by the EFSA.

¹⁴ Drawn from Affordable Mortgage Finance Program Project Appraisal Document (2009).

These programs are designed to familiarize Egyptian consumers with new financial products and to ensure that they are aware of the terms and conditions of the product when securing a loan.

- **Set-up the first private credit bureau**—i-Score was established to provide timely and accurate information on credit worthiness, which will serve to improve the underwriting process and lower the credit risk for lenders.

These building blocks have helped in gradually developing the mortgage sector in Egypt, attracting foreign capital into the sector and a steady growth of mortgage loans both in number and geographic spread around the country. Nine non-bank MFCs were created, and others are currently being formed, but they still only account for a small share of lending due to inadequate availability of long-term funds and delays in registering property titles in the new urban communities.