I. Introduction and Context

Country Context

Nigeria, the most populous African country, about 167.4 million people, the world’s sixth largest oil exporter, and Africa’s third largest economy with relative strong economic growth, is still experiencing increasing widespread under- and unemployment. Real GDP growth remained strong although there was decline in the first quarter in 2012 to 6.2 per cent, from 7.4 per cent in 2011, due to a national labor strike in January and lower agricultural output in the north due to security issues. As Africa’s leading producer of oil with large gas reserves and other natural resources, the country remains highly dependent on oil, which accounts for over 95 per cent of exports and nearly 85 per cent of government revenues.

Despite sound economic growth, reducing poverty and improving welfare, Nigeria will require stronger non-oil growth and a strong focus on employment growth. The manufacturing sector
shrunk from a contribution to GDP of about 11 per cent in 1980 to an average contribution of 4.1 per cent between 2006 and 2010, confirming anecdotal comments from entrepreneurs that it is more profitable to invest in trade that in the (long term) manufacturing sector. Over the same period, the wholesale and retail trade sector contribution to GDP increased from 14.95 per cent to 18.14 per cent and the agriculture contribution decreased marginally from 41.71 per cent and 40.84 per cent. 61 percent of the population is living on less than a dollar a day in 2010 (almost twice the rate in 1980); 4.5 million Nigerians are estimated to enter the labour market each year, but only 10 per cent are able to find formal jobs. As a result, unemployment grew from 19.7 per cent to 23.9 per cent between 2009 and 2011, affecting principally the young (15-24 age group) with a rate rising from 25 per cent in 2009 to 37.7 per cent in 2011. Un- and underemployment are seen by many as the main reason for the emergence of terrorist groups such as Boko Haram, especially in the poorer north.

Nigeria’s rapid pace of urbanization increases the importance of cities as engines of growth. Over the years, Nigeria has experienced rapid urbanization, with 50 percent of its population living in urban centers in 2010, compared to an overall average for sub-Saharan Africa of 37 per cent. The high population growth rate further fuels the urbanization process (UN 2012), presenting the country with a challenge of unblocking the potential of cities as engines of growth. The housing value chain is an important pillar for growth. Unlocking the supply response to an expanding housing market in Nigeria would provide for sustainable job growth and address housing demand. It is estimated that up to 700,000 houses in different market segments are needed annually to keep up with demand. Currently production is below 100,000, resulting in an overall accumulated deficit of about 17 million units, although there is very little data to verify this. Increasing housing supply would underpin employment growth. 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. However, the problems facing the housing market are multiple and interrelated. These relate to interest rate environment, lack of long-term finance, a weak legal and regulatory environment and the availability and cost of housing stock.

**Sectoral and Institutional Context**

Nigeria continues to be a high inflation and high interest rate environment with a moderately positive outlook. Expansionary fiscal and monetary policies in 2010 contributed to the relatively high inflation of 14 per cent. By raising its policy rate to 12 per cent, in 2011, the Central Bank of Nigeria (CBN) tightened monetary policy substantially and inflation reduced to 10.3 percent. Despite the monetary tightening, outlook for inflation in the early part of the forecast period remains relatively high. Inflation is expected to increase to 12.6 per cent in 2012, due to the reduction of subsidies, injection of funds into bailed-out banks and remaining high government expenditure. It is expected that inflation will soften to 9.6 per cent by 2014, reflecting a moderation in commodity prices. Given the inflationary pressures it is likely that the policy rate will remain unchanged at least until early 2013. During the last 12 month, T-Bill yields declined from 16 per cent to 13 per cent and 7 year government from 18 per cent to 13.5 per cent. This is partly due to the rising demand from international investors following Nigeria’s inclusion in the JPMorgan GBI-EM Index. The lack of long-term housing finance is the major bottleneck for the development of the housing market. The housing finance sector has been subject to extensive diagnostic work over recent years covering a range of different issues. Many of the development constraints have been well identified and this program aims to strategically address some of the main issues. The mortgage market is underdeveloed, with mortgage loans outstanding estimated to be around $1,426 million which is barely equivalent to 0.6 per cent of GDP. This does not compare well to the BRIC countries where,
for example, India which has a similar level of GDP/head has reached over 9 per cent equivalent of GDP in mortgage debt outstanding. Out of a total of 68 respondents to the Central Bank of Nigeria’s mortgage market survey 2012, 55 reported that access to long term funds was their biggest issue in terms of growing their business further, equivalent to over 80 per cent of respondents. Other obstacles which were also highlighted include difficulties with property registration, titling, cost and time of foreclosing were listed as second and third respectively.

Nigeria’s regulatory environment, especially land and costs related to building a house are among the highest in the world. Developers, lawyers in real estate and practitioners estimate that at least 20 per cent of the cost of an average house transaction is related to regulatory costs. These costs, associated with property registration, title transfer or taking a lien on the property, etc. provide incentives for informal practices, which also results in loss of Government revenue. The lack of easy and affordable access to land registration acts as a disincentive for current owners to invest or transact. Title registration, land titles certificate of occupancy, etc. is costly or near impossible to obtain for the common citizen. The opaque land allocation and city planning process also provides further insecurity to households, leading to informal practices in land transactions or related investments.

A legal framework for foreclosure exists however its implementation is not sufficiently clear and encourages informal practice. In order to keep credit risk as low as possible, lenders must be certain they have the means to seize and sell property used to secure the loan if the borrower defaults. Power of sale – non-judicial foreclosure and sale of property used as mortgage collateral, is currently available under the laws of Nigeria, but it often cannot be used because lenders regularly forego their right to perfect mortgages by registration in the property records. 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 eight months. Similar procedures could be adopted in other states to make mortgage enforcement more efficient. Lenders can be encouraged to perfect mortgages so they can avail themselves of non-judicial and fast track procedures.

The housing sector suffers from high construction costs which limit the development of affordable housing. Construction costs are high because the construction sector in Nigeria suffers from a range of serious constraints. The construction supply chain is dysfunctional; locally produced building materials such as cement are up to three times the world market price, while other inputs such as doors, windows etc. are not available in large quantities and need to be imported. In addition, the cost of missing public infrastructure is often priced into residential housing. The lack of public infrastructure, public roads, water, sewerage and power force many developers to fund investments which in most countries would be provided by the public sector over a longer period of time. Skilled labor is in low supply, resulting in a situation where the construction companies have to train their own staff. All these cost factors make housing construction in Nigeria highly expensive and limit affordability. It is estimated that the production of a 3 bedroom house in Nigeria costs USD50k, compared to USD36k in South Africa and USD26k in India.

Project approach:
The proposed project will be most effective if a coordinated approach to all parts of the value chain is implemented. The main areas are: a) land and legal framework, b) access to housing finance, and c) housing development.

A participatory systematic land registration procedure using low-cost technology will be developed and implemented, starting in 2 States (Kano and Ondo) expanding to 6 States. This DFID funded project will undertake the following: Strengthen the land registries, by taking steps to improve transparency in the provision of services. Registration procedures will be streamlined and
computerized. Standards will be developed for key registration activities (mainly on time and cost required) and clearly displayed in the offices as well as information and charts setting out the key work processes and the information that is required of applicants for registration. Systems will be established for customers to lodge complaints in the registries and to authorities outside the agencies. Training will be provided to registry staff. This project component will have about 7 million pounds for implementation until 2015.

The access to long-term finance which is the main component of this proposed IDA/IFC operation will set the platform to sustainably address access to long term finance for mortgages. Immediately, it will increase mortgages at current market conditions. In its second and third year as, information, knowledge and systems are widely established a further increase in the number of mortgages will be accompanied by an increase in access i.e. reduction in the income levels requirements. The project will also have completed the piloting of Housing Micro Finance products in year one which should allow for a further increase in access at lower income levels under prevailing conditions.

Expanding the housing market through increased access to finance will create a considerable number of jobs and economic growth. Expanding the housing market by 100,000 homes per annum would generate and sustain at least 150,000 direct jobs and as many as 1,200,000 indirect jobs. There are many social benefits associated with improved housing and home-ownership. Improved housing results in a better works space, longer work days, greater safety and improved health. Houses give the owners a true stake in their community and strengthen the communities as a whole. Lastly having a long term financing mechanism for housing is a cornerstone of any urban development strategy which enables local government to focus on planned upgrading of services and infrastructure.

The proposed housing finance project is demanded and owned by the Nigerian public and private sector. The Coordinating Minister for the Economy and Minister of Finance and the Minister of Housing, Lands and Urban Development have signaled their support for the project and their intention to borrow USD300m from the World Bank to establish the project. The Central Bank of Nigeria has indicated its willingness to support the implementation of this project by creating a dedicated Project management Unit under its management. The private sector represented by the Nigerian Banking Association, the Real Estate Developers Association of Nigeria and the Mortgage Bankers Association of Nigeria are all fully supportive of the project. In particular the mortgage lenders are willing to invest equity in the proposed mortgage liquidity facility with an initial capitalization of NGN 5 billion (around USD 3.2 million). Finally, enhancing housing finance is a major pillar of the national Financial System Strategy 2020 (FSS2020).

**Relationship to CAS**

The CAS 2010-2013 strategic focus aimed at (i) improving governance, (ii) maintaining non-oil growth and (iii) promoting human development (i.e., as identified in the Seven Point Agenda and reaffirmed in stakeholder consultations) to transform Nigeria’s economy. The proposed operation supports directly the focus on maintaining non-oil growth and indirectly on supporting improving human development through better access to housing. The proposed operation will support the development of the housing value chain by providing better access to long-term finance. Nigerian firms in the housing value chain will be better able to respond the existing market demand. The proposed project supports the focus of the current CAS on growth strategy to removing identified constraints, critical for poverty reduction, and promoting fast growing sectors where there is also potential for employment creation.
II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective is to develop a vibrant housing mortgage finance market in Nigeria

Key Results (From PCN)

1. Number of existing mortgages refinanced
2. Number of new mortgages by primary lending institutions increased
3. Average size of existing mortgages decreases
4. Number of micro-finance home improvement loans
5. Volume of mortgage loans outstanding increased

III. Preliminary Description

Concept Description

The Housing Finance Program seeks to address the key barrier of access to finance to developing accessible and affordable housing in Nigeria. It will be implemented jointly with IFC, and with parallel funded projects in land registration and construction sector by the UKAid and GIZ.

The proposed program has three components:

Expanding the Mortgage Market (USD 250m) – The focus of this component would be the creation of a mortgage liquidity facility. This type of institution is the simplest and most effective way to intermediate long term funds held in pension funds and by investors into housing. The liquidity facility provides primary mortgage providers i.e. commercial banks that have mostly short term deposits the ability to issue a longer term loan, even at indexed fix rate. This model has been successfully implemented in Egypt, Tanzania, Jordan and Malaysia among others. This secondary market instrument will support primary mortgage providers. The initial World Bank funding will allow the facility to begin operations, and establish itself in the market, while it prepares itself for a bond issuance which is the key to ensuring its long term sustainability.

Housing Microfinance (USD 15m) – The mortgage market is important to develop but needs to be complemented by solutions for lower income households who cannot access such loans (c.90 per cent of the population). A line of credit and technical assistance for micro finance institutions to provide micro loans on a long term basis for housing expansion, renovation, etc. In addition several approaches can be pursued including developing the rental framework which can have a big impact in promoting investment into rental housing which is the main form of tenures in urban centers in Nigeria.

Affordable Housing Supply (USD 25 m) – The main cost component in residential housing is how residential land is planned and made accessible and how developers are required to build. This TA component will support local governments and state Governments, in urban planning, develop transparent criteria that encourage “green growth”, green construction including building techniques focused on sensitivity to site development, reducing energy and water use, having a healthy indoor air quality, and incorporating environmentally friendly building materials; and the provision of domestic raw materials for housing construction, building technology and other areas linked to reducing the cost of housing and making large scale affordable housing developments possible. The technical assistance will also be made available to SEC and other capital market institutions to develop sustainable access to long term funding.

Collaboration with other projects GIZ, GEMS, IFC, etc.: The collaboration with GEMS (Investment
Climate and Construction) and GIZ will focus on the business environment for housing and the construction supply chain for residential homes. The two agencies aim to enhance the supply side of the housing market, while the World Bank project aims to enhance the funding of the demand side as well as the developers in the supply chain. The collaboration with IFC will focus on working with the mortgage liquidity facility and primary mortgage institutions.

The GEMS Construction project has been operational since April 2010, based in Lagos, but with operations beginning also in Kano and Kaduna. It is a 5 year £13.5million project, aiming to generate 12,000 income increases by 2015, 5,600 full time equivalent jobs, and £300million in increased sales in targeted companies. Its five main focus areas are:

- Skills development: working with the construction sector and public and private training providers to improve quality and range of technical training, and apprenticeships. 500 trainees will benefit this academic year from various training supported by the project; 2000 more in 2013.
- Business membership association services: it is working with BMOs with memberships in the tens of thousands to deliver services such as artisan databases and procurement training. 1000+ artisans have registered with a GEMS supported artisanal database to improve marketing, standards, and client linkages. 300 artisans have benefited from improved contracting training.
- Low cost housing: the project is supporting the development of low cost housing PPPs with Lagos State government.
- Supply chain innovations: the project is developing interventions to create the linkages, skills and technology required to stimulate new business models in the areas of sawdust fuel briquettes (currently working with 14 sawmill companies), improved concrete block-making, and site waste removal and recycling services
- A £3million Challenge Fund will provide matching grants on a competitive basis for private sector innovation investments; disbursements will begin in Q4 2012.

Improve the land registration, legal and regulatory reform (DFID TA) – This component will provide technical assistance to States to improve title registration, land titles certificate of occupancy, etc. It will reduce costs, associated to registration, title transfer or taking a lien on the property, etc.

IV. Safeguard Policies that might apply

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