

# **Investigating the feasibility of adapting bank-housing finance to progressive housing – the case of Maseru, Lesotho**

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## **Abstract**

Urban settlements in Lesotho as in other developing countries experience rapid population growth exacerbating the already eminent problem of inadequate shelter. One of the factors attributable to this rapid growth is increased industrialization perceived as an antidote to the unemployment problem. The government on the other hand is unable to assist in the ever-growing housing needs. The two reasons for this state of affairs are (i) the limited resource base, making the provision of housing subsidies not practicable; and irregular incomes which characterize the major part of the economy, which make extension of loans by the financial institutions difficult. The need for survival strategies therefore compels people to employ various informal credit methods to finance their houses, which are built incrementally. Therefore the purpose of this paper is to investigate the feasibility of adapting bank-housing finance to progressive housing, using the Maseru as the research focus.

In order to achieve the above aim a household survey was conducted coupled with structured interviews. The structured interviews were held with the commercial banks as well as the government housing authorities. These interviews were mainly to elicit their views about the option of Microfinance of housing. It was established that the respondents as well as the government authorities were not aware of this option. The banks were neither aware of it and the risk issue brought skepticism. As such these made the phenomenon not practicable in the short-run in Lesotho. However the room for improvement calls for the need to mobilize the formation of a revolving fund to which the commercial banks could on-lend, as a solution to a lacking housing finance.

## 1 Introduction

Inadequate shelter is a common problem in most developing countries. The push factor in this regard is the rapid population growth, which makes city growths unmanageable. At the heart of the major causes is Industrialization, which is perceived as a panacea to a disturbing problem of unemployment. This situation is also true for Maseru and other urban areas in Lesotho. People migrate from rural to urban areas in large numbers to look for jobs. However income earned is hardly enough to attract the housing finance from the financial institutions. Consequently these people with meager savings are compelled to build their houses progressively.

The informal savings associations providing informal credit are instrumental in the process of progressive housing. They range from moneylenders to financial cycles, charging various interest rate levels. However these informal associations are not without problems. Ferguson (1999) contends that “These funding sources share a common problem, which is they dribble in unevenly and, often, slowly because they remain unconnected to formal institutions and markets. The overall result is that much of the built environment<sup>1</sup> in cities improves unevenly and slowly”. Nonetheless those with low incomes seem to endure the associated difficulties in the absence of other options.

## 2 What is progressive housing?

Ferguson et al (2003) point out that the progressive housing process starts with the acquisition of land, it may be through squatting or the purchase of a lot in a subdivision. In this context once land has been occupied, a household builds a small, makeshift, temporary dwelling to secure the property, which is gradually replaced when a complete house is built (Ferguson et al, 2003). Ferguson et al (2003) move for the formalization of the progressive housing as it accounts for more than 70% housing initiatives in the developing world. The reason being it is through this means that most people particularly the low incomes can build their wealth. However in most countries this form of housing remains neglected, and Lesotho is no exception in this regard. In the Kingdom of Lesotho the situation could be viewed as the *laissez-faire*, where most dwellings are owner constructed from reserves accumulated over a certain period of time. There is little or no government intervention.

### 2.1 Important elements of the housing process

For a win-win situation, it is imperative for the government to “provide and actively promote access to the elements of housing process for the user. These elements include, among others, the laws, land, building materials, tools, credit, know-how and land tenure” (Nientied et al, 1985 cited in Marais, 2003). All these elements need to be articulated in the National Housing Policy, which is elusive in Lesotho.

Key to housing investment and finance is the security of tenure. For an individual it ensures sense of ownership, and security of invested funds to the financial institution. In Lesotho in the past under the customary system land was allocated by chiefs, issuing a certificate of allocation called

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<sup>1</sup> Built environment is the phenomenon relating to the quality of home construction in this case as well as the neighborhood environments.

form “C”. However the fraudulent practices of land being exchanged for money stopped the practice. The current legislation namely Land Act No.17 of 1979 now prohibits the chiefs the power to allocate land without consulting the urban land committees. The recommended tittles to land under the current legislation are the leases. Both individuals and banks view these as appropriate tittles. However Maseru urban is largely made up of stands on which most people are still in possession of inappropriate and old titles, form “C”. This makes banks less willing to finance housing investments in most areas.

Finance is particularly needed for the building materials. This is mainly because they involve large imported component from the RSA. The local technology is underdeveloped. Similarly Onibokun (1990) referred to the underdevelopment of the local technology in Nigeria as causing increasing dependence on foreign technology and imported building materials. This factor makes them less affordable to those with limited incomes. The construction only starts when most of the materials have been purchased, which in most cases takes up to three years. The policy suggestion of incentives to the suppliers of building materials is therefore essential.

Both the tools and know-how, associated with labour, are equally important in the costs. This is because when construction gets underway they are considered together with building materials. However there are tendencies to neglect the cost of acquiring land when all the costs of construction of a house are added up. The reason for this is that it is incurred earlier in the process of construction. This is not in order as it also counts. In essence the policy advice is needed on the cost effective construction methods in order to ease the cost of labour in progressive housing.

The banking industry in Lesotho as the source of formal credit is not as flexible as in the case of RSA. Basically similar banking products to those sold in the RSA are on offer, however they may not be suitable to Lesotho banking environment. The incentives are very limited to see these banks investing in the lower income market. Making things even worse is the fact that most people in Lesotho still receive their salaries by means of cheques and this translates into loss of business for the banks as their pool for investment is diminished (FinMark Trust, 2003).

For informal credit, in addition to informal associations, other non-bank financial services include the moneylenders, co-operatives and the Rural Savings and Credit Groups (RSCG). However a poor repayment record is generally a problem. Exceptionally RSCG are able to make credit available, and they can also substitute loan collateral with peer pressure. Hence arguably it is evident that micro credit – whether for housing or micro enterprise – can help form a solid foundation for financial institutions and the financial sector, in general, in developing countries (Harper, 1998 cited in Ferguson et al, 2003).

## **2.2 Micro finance Products in Lesotho**

On the same note the only one known formal micro finance scheme, operated by Basotho Enterprise Development Corporation (BEDCO), has been functioning as a pilot project. However it is now being restructured due to poor repayment record. The loans offered under this scheme are mainly for financing young businesses. However in practice part of the money has been diverted to other investments such as housing. Likewise (Brown et al, 2001 cited in Ferguson et al, 2003) found out that, “micro finance institutions – such as Mibanco in Peru and those of Bolivia – typically find that about 20% of credits that they have extended ostensibly for micro business go for housing”. Given the existence of this minimum infrastructure, the establishment

of this financial vehicle is not really an ambitious idea. However a huge challenge ahead is the fact that it is not reflected in any government documents addressing housing.

### **3 Methodology**

A case study design was adopted using a variety of data sources (e.g. questionnaires, structured interviews) for in-depth analysis of the units to be studied. The survey was conducted through administered questionnaires, complemented by structured interviews of the commercial banks and urban land authorities in the government. Both the time factor and financial resources hindered against piloting the questionnaire, to improve accuracy of results. The questionnaires for the homeowners addressed the demographic variables of the population. For example age groups of respondents, level of education, type of employment, level of income, monthly investments on construction etc. The interviews with commercial banks focused on the following indicators; banks' efforts to increase account holders, banks' willingness to extend loans, information required for loan application, possibility of being involved in micro finance of housing, possibility of on-lending to savings associations or co-operations etc.

The issues directed to the Housing Department were; the availability of the national housing policy, whether progressive housing was addressed in the housing policy etc. Those that were discussed with the Lands Survey and Physical Planning were; types of tenures, efforts to regularise the land titles, the department's capacity to execute regularisation timeously.

Initially a general survey of the areas to be studied was undertaken in the form of a drive around in some parts of Maseru urban areas, to gain a pictorial view of these areas. The three villages namely; Ha Tsolo, Ha Matala Phase I and II as well as Ha Foso were selected. They seemed to provide relevant information on the subject of study. Moreso in these villages, the rate of construction of new houses was on the rise, and the areas were also selected to account for different sections of Maseru.

The method of sampling adopted was purposive instead of random. This is basically picking up as many cases as possible that would give the required information. Berg (1989) argues, "When developing a purposive sample, researchers use their special knowledge or expertise about some group to select subjects who represent this population". The purposive sampling was pursued because all the villages studied resembled an informal setting. Even where dwellings appeared to be situated in a layout, the houses were not numbered. Even worse relatively little landscaping was done. Therefore the small passages between the houses would not allow a certain pattern of movement between the houses for systematic sampling. Hence the dwellings were picked in a purposive manner. The ones that could provide information were picked.

A sample of 76 respondents was attained of which units in Ha Tsolo formed 44.7% of the units constituting the sample and the number was 34 of the respondents. For Ha Matala Phase I and II 19 respondents were captured and these formed 34.2% of the sample. And lastly 21.1% were drawn out of Ha Foso and this came to 16 respondents. To augment data there were interviews as well. The structured interviews were held with both the Credit Manager in Mortgage Section of Lesotho Bank (1999) limited and the Personal Banking Manager in Nedbank; both lasted for two hours approximately. In the Ministry of Local Government the Housing Economist was interviewed, and there were also some

Villages	Tsolo	%tage	Attitude towards bank loans	Matala	%tage	Attitude towards bank loans	Foso	%tage	Attitude towards bank loans
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Frequencies & Proportions	Freq	Propn %		Freq	Propn %		Freq	Propn %	
	20	58.8%	+ve(yes)	13	50	+ve(Yes)	12	75	+ve(Yes)
	14	41.2%	-ve(No)	13	50	-ve(No)	4	25	-ve(No)
Totals	34	100%		26	100		16	100	

Source: Fieldwork Data - July/Aug, 2004

### *Source of credit facilities*

It was found out that in all the study areas only a few respondents were using formal credit in the construction of their dwellings. It seems they were not using it primarily because of fear of long-term debt. However they would be willing to borrow providing the banks were willing to loan them despite their low level of incomes. Basically there was limited access to formal credit caused by their low incomes culminating in serious construction delays. The average completion time of the projects was three years. Lack of finance induced the use of informal savings associations, which were charging high interest rates. However this was not a problem to the people given the availability of money when needed and the less stringent conditions compared to the accredited financial institutions.

### *Factors affecting establishment of Micro finance of housing*

From a policy perspective the participation in these savings association could be looked at as a reasonable platform for the establishment of the Micro finance of housing. Various innovative credit control mechanism employed by the communities in their different savings associations could be borrowed by a formal Micro finance institution. However there were factors obstructing the establishment of Micro finance of housing. Firstly most respondents were not aware of it. The government as a driving force was less informed of it and as such it had not been a policy issue. Another major impediment was the poor repayment record that was generally a problem in Lesotho. In addition some respondents were not bank account holders due to their irregular incomes, one condition for Micro finance of housing to operate effectively. They are also expected to have appropriate land titles, namely; leases. Unfortunately most of the respondents held inappropriate land titles, i.e. form Cs. The table below displays different proportions of respondents in the three villages, those with and without bank accounts.

Table 2: Percentage of Bank Account Holders Relative to the Three Villages

Villages & Variables	Tsolo	%tages	Bank a/c holder	Matala	%tages	Bank a/c holder	Foso	%tages	Bank a/c holder
Frequency & Proportion	Freq	Propn %		Freq	Propn %		Freq	Propn%	
	23	76.5%	Yes	25	96.2%	Yes	13	81.3%	Yes

	11	23.5%	No	1	3.8%	No	3	18.8%	No
Totals	34	100%		26	100%		16	100%	

Source: Fieldwork Data – July/Aug, 2004

The research established that both Lesotho Bank (1999) limited/ Standard Bank and Nedbank were also not aware of Micro finance of housing. However they mentioned they were willing to buy in on the idea providing they could make money out of it. They were also concerned about the risk involved. In essence the banks are reluctant to lend to community-led schemes because they are unclear as to how to analyse the risks involved, and rarely have the systems in place to manage such loans (Payne and Majale, 2004).

The commercial banks further mentioned that because of low incomes most people cannot afford to save money in advance to be used as equity, a requirement before a loan could be granted. They were also concerned about the inappropriate tenures of most people. Their belief was that most stands around Maseru urban are not mapped-out. As such they cannot be used as collateral during borrowing. And lastly, above all, in the case of non-payment of loans they were looking at locations where there would be attractive resale values for repossessed properties. All these factors combined were making the Micro finance of housing less viable to both the banks and the respondents at large at least in the short-run. The table below shows the landscape of tenure of the three villages.

Table 3: Types of Tenure held by Respondents relative to the Three Villages

Villages	Tsol o	%ntage s	Type of tenure	Matala	%ntage s	Type of tenure	Fos o	%ntage s	Type of tenure
Frequenci es & Proportio ns	Freq	Propn %		Freq	Propn %		Freq	Propn %	
	8	23.5	Lease	16	61.5	Lease	4	25	Lease
	26	76.5	Form C	10	38.5	Form C	12	75	Form C
Totals	34	100%		26	100%		16	100%	

Source: Fieldwork Data – July/Aug, 2004

According to one of the commercial banks the financial system does not preclude banks from operating effectively and efficiently. Except that certain statutory procedures restrict its proper functioning. For example the legal system still views women as minors. Other impediments are the non- existence of the credit bureau as well as the lack of a uniform Identity Document (ID) system.

## 5 What the paper recommends

However the above notwithstanding, it is important that the financial system is interlinked with the National housing policy to ensure that the banks also reach out to the informal sector. More so, the informal sector is where the bulk of housing initiatives essentially derive. This therefore calls for the empowerment of the Community Based Organisations (CBOs). This could work jointly with NGOs in housing finance through establishment of a Revolving fund. To which the commercial banks could on-lend. Arguably, linking savings groups to institutions that provide capital can offer more powerful route to expanding localized financial activities (Boonyabancha, 2001). For sustainability of the fund there is a need for capacity building, also key is the consumer education. To address the repayment crisis the daily savings could also be encouraged for the self-employed.

In the same vein the increased staffing of the land administration office could also expedite the processing of leases, an obstacle to bank housing finance. The surveying cost of individual stands, the requirement of obtaining the lease, is not affordable to the self-employed. Payne et al (2004) contends, "It is imperative that the relationship between standards, regulations and procedures be related more clearly to the costs and resources available to meet them". Therefore a review of the regulatory framework to accommodate the informal sector is necessary. The improved housing finance and the regulatory framework could lead to improved quality of houses, with people's wealth leveraged through the emergence of the secondary housing market. This could also fuel the Lesotho's so called 'illiquid property market'.

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