



FEDERAL REPUBLIC OF NIGERIA

Unleashing the Housing Sector in Nigeria and in Africa

Dr. Ngozi Okonjo-Iweala
Co-ordinating Minister for the Economy and
Hon. Minister of Finance

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Protocols

1. It is a pleasure to join you here in Washington, and to discuss this important subject of Affordable Housing. Let me begin by thanking the organizers of this conference for inviting me to deliver the keynote address today. My special thanks also to Jin-Yong Cai, to Solomon Adegbe Quaynor and to Chii Akporji for urging me to come up to Washington today to share some of Nigeria's recent housing sector reforms; and also to Klaus Tilmes and the World Bank team for organizing this Conference.

2. This is the sixth edition of this Global Housing Finance Conference, and from the list of participants, it is clear that this conference is building a reputation as the key gathering for stakeholders in Global Housing Finance. From the Conference program, I see you have a very interesting line-up of panel sessions and discussions, with topics such as: *Housing at the Base of the Pyramid*, *Affordable Housing Finance*, *Mortgage Funding and Regulation* and so on. And so I am confident that we will have a very productive and stimulating conference over the next two days.

Multiplier Effects of the Housing Sector

3. To begin, let me say that in most developed economies, the housing sector is seen as an important sector for stimulating economic growth. Housing construction indices (such as the Case-Schiller index) are some of the most common measures used by analysts to gauge economic trends in OECD countries. In tough economic times like we have recently experienced, we all keep our eyes on housing construction starts as a good bellwether for economic recovery. In fact, Chip Case (of the Case-Shiller index) once said that “**housing has brought us out of every recession in the past**”, and that the housing industry will gradually help to push the ongoing global economic recovery¹.

4. However, when it comes to African economies, and that of many other developing countries, I think this conventional wisdom on the

¹ See Floyd Norris, *Housing offers hope of strength in the Economy*, New York Times (24 January 2013).

importance of the housing sector seems to be forgotten. The housing sector is almost a big elephant in the room which seems to have escaped the attention of policy-makers, multilateral institutions, and the private sector. In fact, it is somewhat baffling why multilateral institutions such as the World Bank have not spent more time addressing this glaring omission. We are good at working on agriculture projects, on health programs, and anti-poverty initiatives. But somehow housing and construction appears to have fallen on our blind spots.

5. At the World Bank, whenever I enquired why we were not more aggressive in pushing this important source of growth, I was told that so many obstacles were in the way: complex land tenure systems, incomplete property registers, bureaucratic land titling processes, slow foreclosure policies – and the list goes on. These are real problems – but I always wondered why we couldn't tackle the problems methodically within a country and help launch their housing sector.
6. The inattention paid to the housing sector in many African countries is obvious when we start looking at the economic data. For example, let's take a look at the size of the mortgage finance (as a share of GDP) of various countries. In the UK, mortgage finance to GDP ratio is about 80%, in the US it is 77%. For Hong Kong, this ratio is 50%, across Europe the average is about 50%, and for Malaysia it is 32%. In Africa, South Africa, is the outlier with mortgage finance at 31% of GDP. For many

African countries, this ratio is low: it is only 2% for Botswana, 2% for Ghana, and only 0.5% for Nigeria.

7. Yet, I think the housing sector has a crucial role to play, particularly, in African countries. And there are three crucial roles which come to mind:

a. **First, the sector can serve as an important contributor to economic growth.** Although a non-tradable sector, the housing sector has a tremendous multiplier effect on the broader economy. We know that housing contributes to GDP through two main channels, namely: private residential investments (such as, construction of new homes); and also via the consumption spending on housing services. For example, in the USA, the private residential investments contribute about 5% of GDP, while housing services contribute another 13% of GDP, summing up to a total housing sector contribution of 18% of GDP.

b. There are also *secondary* economic impacts of the housing sector. Housing wealth is often a large component of net personal wealth (about half of net personal wealth in the USA). And in developed countries, housing wealth/assets can often be used as collateral to stimulate additional private consumption and investments. In fact, there is a whole body of economic research by the US Federal Reserve and others which estimates the elasticities of the response

of private consumption to housing wealth². And the economic effects are substantial. So my main point here is that the housing sector has important economic effects through various channels – and developing countries need to get serious about the sector.

- c. **Second, the housing sector can support job creation and economic inclusion.** The job creation potential for the housing sector is enormous in Africa and other developing countries. In India, we know that each new housing unit generates 1.5 direct and 8 indirect jobs. In South Africa, each housing unit creates 5.62 direct jobs and 2.5 indirect jobs. But the key point to stress here is that the sector can also help promote economic inclusion by creating jobs for our craftsmen and artisans such as masons, plumbers, welders, electricians, painters and so on. So, clearly, this is a sector which we must focus seriously on in Africa given the continent's pending demographic bulge.
- d. **Third, the housing sector also provides social benefits by contributing to community- and nation-building.** We know that home-ownership often gives citizens a true stake in their communities. After owning a home, many citizens tend naturally to be concerned about the provision of public goods in their communities – from schools, to clinics, to security. These are

² See for example, Iacoviello (2011), *Housing Wealth and Consumption*, US Fed. Reserve International Finance Discussion Papers No. 1027; and Case, Quigley and Shiller (2013), *Wealth Effects Revisited 1975 – 2012*, NBER Working Paper No. 18667

intangible social benefits which a strong housing sector can help to generate.

Nigeria's Example

8. In my own country, Nigeria, we are only recently waking up to the potential of our housing and construction sector. Granted, we are today Africa's largest economy with a GDP of \$510 billion. Yet, our housing and construction sector still accounts for only 3.1% of our rebased GDP. Total current housing production is at about 100,000 units per year, for a country of nearly 170 million. We need about 700,000 additional units each year, and so have accumulated a housing deficit of about 17 million units. And for some of our major urban centers (such as Lagos, Abuja, Ibadan and Kano), housing demand is growing at about 20 percent per annum.

9. Although we have 84 primary mortgage banks (PMBs) and 20 commercial banks, most Nigerians typically rely on private savings to pay for their homes. The size of the mortgage market has grown from N54 billion (US\$342 million) in 2006, to about N224 billion (US\$1.42 billion) in 2011. Yet, this still accounted for only roughly 0.5% of GDP. For our commercial banks, mortgage loans accounted for less than 1 percent of their total assets. Nigeria's Federal Mortgage Bank also manages a *National Housing Fund* financed mostly by contributions from public sector workers. But results from this Fund have been

disappointing: as at August 2012, only about 12,000 mortgages had been provided for a total of 3.8 million eligible contributors. Various State Governments also have housing development agencies, but these institutions have had very limited impact.

10. Moreover, we had a number of administrative and bureaucratic problems which hindered the development of our mortgage industry and the housing sector. I have my own personal experiences of attempting to purchase a townhouse in Lagos, Nigeria. Even with proof of a steady income from the World Bank, it was a frustrating process to acquire this house and obtain the necessary titles for the property. I opted to go through the regular approval channels without calling any influential friends in Government. The result was that it took me a total of about three years to finally obtain my land title, about \$12,000 in legal fees, and many days of uncertainty and frustration.

11. The lack of a proper mortgage finance market also creates frustration for many honest Nigerians with stable jobs who want to own a home but do not have large upfront funds to purchase a house outright. It leads to a situation where only the wealthy or those with access to illicit resources have enough funds to make upfront payments for new homes. I am convinced that the quest for funds to make these large payments rather than have them spread over time contributes to

petty corruption and governance problems as people squirrel away money to buy houses.

12. So at the start of the current Jonathan Administration, we made reform of the housing industry a priority. In 2012, President Jonathan directed us to convene a Roundtable on the Housing Sector and also a Retreat on Housing Finance in Nigeria to see how we could address the existing bottlenecks and unleash the potential of our housing sector. Let me stress that these two events had high-level Presidential support (and attendance). And also brought together key stakeholders such as real estate developers, banks, multilateral institutions and DFIs, and Federal and State Government institutions including the Federal Ministry of Finance, the Ministry of Lands, Housing and Urban Development, the Central Bank of Nigeria, and the Federal Mortgage Bank.

13. From our diagnostic assessments, there were four inter-related issues which we needed to address to unlock the housing market in Nigeria:
 - a. First, to maintain conducive macroeconomic policies, which provide for stable and low inflation; low interest rates; and stable exchange rates;
 - b. Second, to improve access to long-term finance, in particular by deepening liquidity of the housing finance market;

- c. Third, to simplify transactions in land registration and foreclosure processes; and
- d. Fourth, to promote good quality and efficient building and construction at reduced costs. This meant that we had to address the existing supply-side concerns in producing houses at affordable costs; and also invest in the training of skilled labour for the housing sector.

14. This was our assessment in Nigeria, and I think this diagnosis may be applicable to many other African countries. The problems were well-known to us and what was now needed was action to tackle the challenges. Too often retreats and studies are organized on a problem, but afterwards the necessary actions are not quickly implemented. Napoleon Bonaparte, once said that: **Take time to deliberate, but when the time for action has arrived, stop thinking and go in.** So following the Presidential retreats in Nigeria, we went straight to work and set about tackling the bottlenecks in the housing market one after the other.

15. We immediately established a Housing Finance Programme Committee, which I Chaired, with representatives from the Ministry of Lands, Housing and Urban Development, the Central Bank, and Nigeria's mortgage and commercial banks, with the support of the World Bank and IFC. I must thank both institutions because as soon as we mobilized our team, they geared up to support us. The Committee

was tasked with developing a facility that would significantly scale-up access to mortgages for Nigerians. Let me share with you some of our recent work on this.

Developing the Nigeria Mortgage Re-finance Company (NMRC)

16. We worked to establish the Nigeria Mortgage Re-finance Company (NMRC), which is a public-private sector led initiative aimed at improving access to finance for Nigeria's housing market. Shareholders of the NMRC include the Nigerian Federal Government, the Nigerian Sovereign Investment Agency (i.e. the Nigerian sovereign wealth fund), development finance institutions (such as the IFC and Shelter Afrique) as well as various primary mortgage banks and commercial banks in Nigeria.

17. The NMRC is essentially a *re-financing* institution which provides our mortgage lending banks with increased access to liquidity and long-term funds. By deepening the available liquidity in the housing finance market, the NMRC will help to bridge the funding costs for residential mortgages in the country. To finance the NMRC, we successfully negotiated a US\$300 million financing Agreement between the Federal Government and the International Development Association (IDA) on very concessionary terms. Of this sum, about US\$250 million will be disbursed in installments to NMRC as Tier 2 Capital subject to various performance indicators. Another US\$25 million is also allocated for the

establishment of a Mortgage Guarantee Facility for lower income borrowers; while US\$25 million will support the development and piloting of Housing Microfinance Products.

18. I am pleased to inform you that President Jonathan officially launched the NMRC in January 2014 in Abuja, and the Company is now in operation. The launch of the NMRC has created a buzz in Nigeria's housing markets, and now we see many other State Governments and private investors committing additional funding to the housing sector.

Simplifying land titling procedures

19. Simplifying land titling is another task we have focused on. Houses must be built on land, and people invest in their homes only if they can be assured of security of tenure. Families also want assurance that their real estate investments will serve as a secure asset for themselves and their loved ones. Due to Nigeria's Federal structure, ownership rights for land are vested in the office of the Governors of various State Governments. And the delays in obtaining the so-called "Governor's consent" for land titles creates frustration and uncertainty for many housing developers and home owners. The World Bank estimated that this registration process can take between 6 months and 2 years, and costs about 21 percent of the value of the property. In South Africa, similar land registration cost only 6 percent of the property value and is completed in much shorter time.

20. We needed to cut through this red-tape and so we initiated a pilot scheme with some selected State Governments which were willing to fast-track their land approval procedures. These States are: Abia, Anambra, Bauchi, Bayelsa, Delta, Ekiti, Gombe, Kano, Kwara, Kaduna, Lagos, Edo, Enugu, Nasarawa, Ondo, Rivers, Ogun and the Federal Capital Territory (FCT). In these States, the Governors have to commit to supporting the NMRC initiative by providing the enabling environment for mortgage origination. Specifically, we asked these State Governors to commit to simplifying property registration; to provide access to serviced plots of land for developers; to implement a standardized mortgage and foreclosure law; and to assign dedicated officials to liaise with the NMRC on this initiative.

Addressing supply-side constraints

21. Building a house in Nigeria is expensive! The construction costs for a simple three-bedroom house in Nigeria is about N8 million (or US\$50,000); compared to US\$36,000 in South Africa and US\$26,000 in India. The costs are high for **three reasons**: high costs of building materials, high costs of *skilled* labor, and the costs of associated public infrastructure (such as sewers, roads, etc.). We are working to address these challenges.

22. About 75 percent of households in Nigeria's urban areas live in dwellings constructed with concrete. Cement prices in Nigeria are also reportedly about 30-40 percent higher compared to neighboring countries or to the world market prices. We are therefore exploring the use of local inputs and alternative building materials which are cheaper, of good quality, and also environmentally friendly. Some effort is also needed to modify consumer tastes to appreciate the cost-effectiveness of these new homes. I know some developers at this Conference have innovative technologies and expertise this area, and I will encourage them to consider investing in Nigeria. We are also working to improve training of our craftsmen in the housing industry – and I will talk more on this later. And finally, both State and Federal Governments are committed to investing more in public infrastructure (such as roads and sewerage systems) to open up new areas for property developers.

Outstanding Tasks

23. Despite our recent progress, we still have a number of outstanding tasks which we are still working on. Let me highlight some of our ongoing work in standardizing our mortgage and foreclosure laws, developing rent-to-own schemes, supporting mass housing programs, and training our local craftsmen.

24. **Standardizing mortgage and foreclosure laws.** As I mentioned earlier, Nigeria's land titling laws are administered by State

Governments, and these laws tend to vary as you move from one State to another. This obviously creates administrative hassles for both housing developers as well as mortgage institutions who operate across different parts of the country. So at present, we are working with some of our leading law firms to develop a model mortgage and foreclosure law for Nigeria. This model law will simplify legal procedures for developing mortgages, and also streamline foreclosures procedures. And once this model law is finalized, we hope it will be promptly passed by the legislatures in our pilot States to ensure that we have common legal standards for issuing mortgages in these States.

25. **Standardizing mortgage origination documents.** We are also working to introduce uniform underwriting guidelines for our mortgage and commercial banks. These guidelines are currently being developed by the NMRC with support from the IFC and our local banks. A common, uniform, underwriting guideline will clearly reduce transaction costs in our mortgage industry. Our objective is clearly to further develop our mortgage market such that the NMRC can consider additional products such as purchasing mortgages from PMBs, pooling them together, and securitizing them in our local capital markets.

26. **Rent-to-own schemes.** The Federal Government, via the Federal Mortgage Bank, is also currently working in partnership with private developers to establish rent-to-own schemes which will enable Nigerians to ultimately own houses which they live in after a number of

years of paying rents. This is known as the *rent-to-own* or *rental purchase* scheme. Basically, the house is leased in exchange for an annual rent, with the option to purchase the house at some point during the agreement. We hope to kick-off this program in Nigeria in the coming months.

27. **Mass (social) housing schemes.** As we develop the housing sector, we are also focused on ensuring that the housing markets are inclusive. Therefore, we are also working with various private developers and financial institutions (such as the IFC) to develop mass (social) housing schemes across various parts of the country. This will ensure that many more of our citizens have access to decent and safe housing, and are also supplied with basic infrastructure services. We are also developing a guarantee mechanism (using parts of our World Bank credits) to support access to mortgages for qualified applicants from lower income households.

28. **Training for local craftsmen.** We are also working with some of our local private sector companies to establish training schools for our local artisans – including the plumbers, painters, electricians, welders, carpenters, interior decorators and so on. We have some of these training schools in Nigeria at present, but given the projected growth in the size of our housing market, we clearly need to train even more skilled craftsmen. The President has allocated resources for this

initiative, and we are working with some of our private sector leaders to develop these schools.

29. **Developing insurance products for the housing industry.** Finally, let me add that as our housing market kicks off, we are also seeing renewed interest from our insurance companies in developing insurance products specifically for the housing and construction sector. Of course, there are the usual products such as mortgage indemnity guarantees, home insurance products, and so on. But in Nigeria, some insurance companies are even looking at introducing “title duration insurance” products which can provide insurance cover during the intermediate time when land titles are being finalized, and so enable developers and buyers/banks to transact business quickly and efficiently while titles are being finalized.

Conclusions

30. To conclude, let me say that the task of kick-starting the housing market in Nigeria is only beginning. It is work in progress. But even at this early stage, we believe it has stimulated interest among developers, mortgage institutions as well as aspiring home owners. I believe our recent experiences in Nigeria will provide some lessons – and hopefully some inspiration – for policy-makers in other developing countries who are looking to kick-start their housing markets.

31. Let me also stress that throughout our work in Nigeria, we have benefited from President Jonathan's steady support, and also worked collaboratively with stakeholders from the private sector and government. The challenges faced by the housing sector in most countries are inter-connected, and so will clearly require close collaboration from all stakeholders.
32. I could summarize this address by re-stating all the economic growth, the GDP numbers and the job creation which the housing sector provides. But, at the end of the day, owning a home is a dream for many families – whether here in Washington or in Abuja, Nigeria. Many hardworking families and young people in our countries have this aspiration of obtaining their own homes. It is a deep yearning for many across the world, and all of us gathered here today must continue to work hard to make this dream a reality.
33. I wish you a very successful conference.
34. Thank you very much for your attention.