

# Development Initiatives Network (DIN)



**World Habitat Day Celebration  
27 November 2008**

**The Role of Microfinance  
in Shelter Provision in Nigeria**

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# World Habitat Day 2008

## “Harmonious Cities”

- Designated by UN.
- First Monday in October every year.
- Focuses attention on the state of cities and towns and the basic right to adequate shelter.
- Emphasizes our collective responsibility for the future of human habitats.

## Key Urban Trends

- **Globally, 1 billion people are slum dwellers.**
- **In sub-Saharan Africa, over 60% of urban population are slum dwellers.**
- **Poverty increasingly has an urban face. Urbanization of poverty.**
- **In Nigeria, urban population is about 40% of total population. Up from 20% in the 1950s.**

# Financing the needs of the poor

Microcredit is the provision of small amounts of money as loans to poor or other low income groups.

# Microfinance .....

- **Much broader scope.**
- **Extends to the provision of microcredit as well as other financial services such as savings, deposits, insurance and leasing.**

# Formal microfinance milestones

- **1987: Establishment of government-owned People's Bank (no collateral for loans)**
- **1990: Introduction of private community banks (CBs)**
- **2005: UN's Inter. Year of Microcredit**
- **December 2005 – Launch of Nigeria's Microfinance Policy (NMP) & emergence of private microfinance banks (MFBs)**

## **New era ... inclusion in financial services**

- **CBs transformed to MFBs by 31 December 2007.**
- **In addition, entirely new MFBs established.**
- **Over 700 MFBs now operating in Nigeria.**
- **All MFBs regulated and supervised by the Central Bank of Nigeria (CBN).**

## **CBN requirements for microfinance loans**

- **For individuals or groups.**
- **Should not exceed 1% of shareholders' funds for individuals or 5% for groups.**
- **No collateral required.**
- **Assets, turnover or character-based.**
- **Maximum tenor of 6 mths.**
- **Repayment flexibility during loan tenor.**

## What is housing microfinance?

Mainly loans to low-income people for renovation or expansion of an existing home, construction of a new home, land acquisition, and basic infrastructure. They are small, incremental loans that fit with the way poor people build: progressively and over time.

Source: CGAP

## Key Question

**Sources of housing finance, e.g. commercial banks, mortgage institutions, generally do not have products to suit the housing/shelter needs of the poor and those of low income.**

**What can the MFBs do to close this provision gap?**

## **MFBs' permissible activities**

- **Provision of credit including for home improvement loans.**
- **Microfinance-related guarantees for their customers.**
- **Administering loan disbursements under credit delivery programmes of government bodies, etc.**
- **Arrangement of consortium lending.**

# Major challenges

- High land acquisition costs.
- Tenure insecurity.
- Microfinance tenor limits in NMP.
- Short-term nature of MFB deposits.
- Low levels of financial literacy.
- Lack of awareness of MFBs' permissible activities by target beneficiaries.

## Positive change needed

- Review of NMP so as to emphasize all aspects of housing microfinance.
- Introduce longer tenor limits for housing loans.
- Improve MFBs' access to long term funding.
- More cross-sectoral partnerships to increase access to housing finance.
- Expand financial literacy education to target beneficiaries.

## Discussion points

- **How to improve policy advocacy for housing finance-focused components in NMP.**
- **The possibilities for public-private partnerships (PPPs) in housing finance for the poor.**

# Thank you for your attention

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