Research Paper No. RP04/06/24

RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Maximizing Commercial Lenders' Sustainable Impact in Rwanda's Housing Sector

Didas UWAMAHORO
Research Officer
Development Bank of Rwanda

Frank Gakwaya ABAHO
Strategy, Research, M&E Manager
Development Bank of Rwanda

June, 2024

TABLE OF CONTENTS

List of Tables and Figures

Abstract

Rwanda's housing sector plays a pivotal role in the country's socio-economic development, particularly considering its rapidly growing population and urbanization rate. This paper investigated ways for commercial lenders to maximize their sustainable impact in Rwanda's housing sector. Through a combination of quantitative analysis from Census 2022 and existing recent surveys (EICV, FINISCOPE) and 10 key informants' interviews with commercial lenders and policy makers, the research addressed key questions regarding existing financing models, untapped opportunities, constraints, and strategic recommendations.

Findings highlighting its significant role in economic growth. With Rwanda's population projected to nearly triple by 2050, there's a pressing need for significant investments in the housing sector to accommodate the growing demand, especially in urban areas. Residential loans exhibit relatively better loan performance compared to the overall sector, underscoring their importance for economic development.

Furthermore, the paper analyzes household expenditure on rent and housing ownership patterns, emphasizing the predominance of personal savings as the primary source of housing financing. However, the paper recommends Housing Provident Funds and community-based housing loan models. Innovative credit scoring models, group lending, and social guarantee strategies aim to mitigate the risks associated with lending to this segment and promote financial inclusion.

In conclusion, the paper underscores the importance of sustainable financing practices and collaborative approaches to address affordability, accessibility, and environmental concerns in Rwanda's housing sector.

Keywords: *Commercial Lenders', Sustainable Impact.*

1. Introduction

1.1. Overview

The 2022 national survey indicates that Rwanda's population clocked 13,246,394, with an average annual growth rate of 2.3% (that is equivalent to annually adding the entire population of one district such as Nyaruguru or Nyabihu); and the country's population is projected to be 23.6 million by 2052.

Fundamentally, Urbanization significantly improves the livelihood of the citizen as it eases access to basic needs and infrastructure. The most recent census results indicated that urbanization in Rwanda stands at 28%, like in Kenya, and is lower compared to south Africa (66%) and Europe (84%). Furthermore, the census found that ownership of dwellings declined (from 80% in 2012 to 72% in 2022) in favor of tenants (from 15% in 2012 to 22% in 2022), and it was associated with urbanization (in Kigali, 61% are tenants) (NISR, 2022).

To ensure the efficiency of resources and sustainable development, the Development Bank of Rwanda (BRD) is driving key financing interventions in the housing sector such as 'GIRA IWAWE'. This catalytic role of the national development bank has incentivized increased lending from other financial institutions (particularly commercial banks) to support the demand and supply of affordable vertical residential buildings in both rural and urban areas. This saves more land for other purposes, including agriculture.

According to the FinScope report (AFR, 2021), commercial lenders play a vital role in Rwanda's housing sector, providing essential financial support for housing projects. The report shows that a sizable portion of urban households (22%) of those who build houses access financing from commercial leaders, whereas 65% use mostly their own savings. Moreover, the Central Bank indicates that commercial lenders have disbursed FRW 526 billion in residential property financing, representing 16% of the total outstanding loans as of end-December 2022 (NBR-MPFSS, 2022)

1.2. Objective of the paper

The main objective of this paper is to assess the available opportunities for commercial lenders to maximize their sustainable impact in financing Rwanda's housing sector.

1.3. Research Questions

1. How effective are the current financing models provided by financial institutions (commercial and national development banks) in facilitating access to funding to the housing sector in Rwanda?
2. What other untapped financing opportunities can be explored by commercial lenders to boost lending to the housing sector in Rwanda?
3. What are the primary constraints hindering lending to the housing sector in Rwanda to address the demand and supply gaps?
4. What are the key strategic recommendations for commercial lenders to to foster sustainable and climate-resilient housing finance in Rwanda?

2. Literature

2.1. Overview

In a rapidly changing and urbanizing world, the provision of adequate and affordable housing remains a key priority for all governments. However, the concept of housing requires a new understanding to address the pressing issues. (UN-Habitat, 2012)

A well-housed population will advance other investments, including agriculture. However, access to appropriate affordable housing on a small scale has been and remains a mirage for many urban dwellers in the middle- and low-income brackets.

The gap between this demand and supply is thus huge and unsustainable for economic and human development. Although many researchers cite building materials and services as the biggest obstacle to sufficient access to decent and affordable housing, this paper takes the position that access to appropriate finance is equally or the biggest challenge. As a deviation from the conventional, the paper argues for flexibility in access, lending, and credit systems for the middle and low-income groups in Rwanda's urban design projects.

2.2. Mobilize savings and domestic finance

Given that developing countries have limited financial resources for housing and related infrastructure, it is critical for sustainable housing to define financial solutions (UN-Habitat, 2005). Housing finance sources may include conventional mortgage finance, subsidies, microfinance, migrant remittances, and informal finance (Tibaijuka, 2009). Much evidence points to traditional formal finance (e.g., mortgage finance) being largely expensive (unaffordable and inaccessible) for the poor, while high levels of subsidization to achieve affordability (i.e., supply-side subsidies) being unsustainable (ESCAP, 2008). In this situation, some countries have been exploring diverse ways to alter housing finance schemes.

Model 1: Housing Provident Fund (HPF)

This model was piloted by Singapore, China, and Mexico as Alternative Housing Finance Schemes. The HPF was rolled out in Shanghai in 1991 to mobilize private resources to secure long-term funds for meeting housing needs without state subsidy. Modeled on Singapore's HPF, the Chinese HPF scheme involves a compulsory monthly contribution by all employees and employers of a share of workers' salaries to the Fund. While HPF has shown to have several limitations, it is an effective housing finance model that supports housing finance in China. In Mexico, organizations such as FONHAPO (the National Peoples Housing Trust) and SEDESOL (the Secretariat for Social Development) provide mortgages to those without credit histories, seasonal or temporary workers, and those participating in Mexico's large informal economy. (UN-Habitat, 2005)

Model 2: Community Based Housing Loans

A fast-growing strategy for channeling housing finance is getting group loans by the community organization (e.g., against collective land as a credit security), which then on-lends to its members, and takes responsibility for managing the repayment process and making mandatory group monthly repayments to the lender. In these group loan strategies, the whole community is collectively responsible for repaying the loan and developing internal systems for ensuring the repayments are made in full each month, even if some members might have repayment problems. Although savings groups may have no legal power to penalize late-payers, there are several techniques they can work into their loan management systems to accommodate the inevitable repayment problems and to help their neighbors who have problems making repayments. These systems are positive, supportive, realistic, and highly social. When communities design and manage

Model 3: Affordable Housing Programme-My House My Life

Despite a remarkable reversal of inequality in Brazil since the adoption of socially progressive redistributive policies in the 2000s (Cronin, 2011), the country of more than 200 million people has a large proportion of the population living in substandard shelters. To address this, the Brazilian government launched the “My House, My Life” program in 2009, which aims to build 3 million homes for low-income families in just five years. The program is administered by the public Caixa Economica Federal Bank. The second phase of the program, starting in 2011, has been allocated BRL 140 billion, and as in 2012, it was protected from budget austerity cuts.

MCMV provides incentives for housing developers, provided they will offer new homes at a government-approved cap price. Currently, low-income households are eligible to receive an allowance to buy these homes (e.g., up to 90% of the house price if earning less than three times the minimum wage, i.e., less than about USD 1,000), as well as a low-interest mortgage to cover the rest. Before MCMV, mortgages in Brazil were only available for the wealthiest families; only 10% of Brazil’s real estate was mortgaged.

MCMV also attempts to incorporate green concerns; e.g., in the second phase of MCMV, single-family houses have to be equipped with solar water heaters, although there are also shortcomings arising from a lack of consistent sustainability requirements. It is very often that new homes, especially in larger cities such as Rio, are built far from the centers of commerce and lack public transportation and community facilities, thus undermining their overall sustainability.

3. Paper Methodology

The paper used a combination of quantitative and qualitative methods for a thorough analysis. A quantitative data re-analysis from secondary sources includes censuses and surveys such as EICV, FiniScope, price statistics, and national accounts, with a more focus on households that have do not own houses, taking into consideration the FRW depreciation against USD from the data source and reports (MPFSS, LFS, and IBES, among others).

Additionally, qualitative primary data collection and analysis from commercial lenders and developers, borrowers, industry experts, and policymakers explored the best practices for local resource mobilization. The paper collected data from 7 key informants' interviews consisting of two commercial lenders,

Table 1: KII Sample allocation

	Respondents	Respondents
KII		
1	Commercial Bank	2
2	Development Bank	2
3	MFIs	3

Source: Researcher

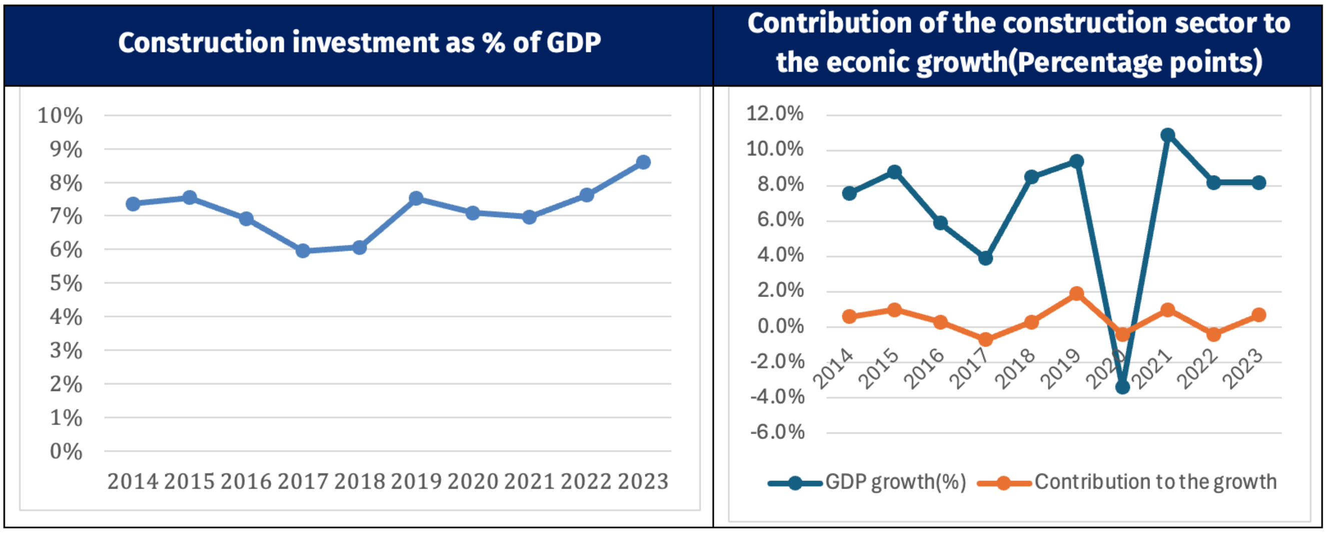
4. Findings and Discussions

4.1. Construction investment

The data shows fluctuations in the share of construction investment in GDP over the years, ranging from a low of 6.0% in 2017 to a high of 8.6% in 2023. There is an overall upward trend observed from 2014 to 2023, indicating a gradual increase in the contribution of construction investment to the GDP. Investment in housing stimulates demand for construction materials, labor, and other related industries, leading to job creation and income generation.

The contribution of the construction sector to GDP growth varied across years, influencing the overall economic performance. In years with higher contributions from construction, such as 2019 (1.9%) and 2021 (1.0%), the GDP growth rates were notably higher, indicating the substantial impact of construction activity on economic growth.

Figure 1: construction investment as a % of GDP and Sector contribution to the economy growth.



Source: NISR, National Account, 2023

In summary, the construction sector plays a significant role in driving economic growth in Rwanda by contributing positively to GDP expansion in most years. Its contributions highlight the sector's importance as a key driver of economic activity, employment generation, and infrastructure development. Policymakers should recognize and support the construction sector's role in fostering economic growth through targeted policy incentives and investments to ensure sustainable and inclusive development.

4.2. Population growth whereas the size of the country is stable.

Rwanda ranks as the second-most densely populated country in Africa and among the top 20 globally. As such, the country's approach to housing should align with best practices observed in the most densely populated economies worldwide. Examples include Macau (20,497 people per square kilometer), Monaco (15,255), Singapore (7,681), Hong Kong (6,480), and Mauritius (644).

Between 2002 and 2050, Rwanda's total population will almost triple, from 8.1 million to 23.1 million. Correspondingly, population density will increase significantly, from 378 H/Km2 in 2002 to 876 H/Km2 in 2050. This substantial rise indicates a higher concentration of people within urban areas, leading to increased pressure on available land.

Moreover, the urbanization rate will surge from 17% in 2002 to 66% by 2050. This rapid urbanization highlights the shift of the population from rural to urban areas, further exacerbating the demand for housing in urban centers.

Table 2: Trend for population with projections

	2002	2012	2022	2028	2035	2050
Total population (millions)	8.1	10.5	13.3	15.1	17.5	23.1
Population Density (H/Km2)	378	415	501	572	664	876
Urbanization rate (%)	17	17	28	36	45	66

Source: NISR, RHPC 2022

To ensure the efficient use of land and accommodate the growing population, significant investments in the housing sector are imperative. There is need to increase investments – on both the demand and supply sides – to ensure provision of adequate housing infrastructure to meet the rising demand, particularly in urban areas experiencing rapid urbanization. Without adequate investment in the housing sector, there is a risk of overcrowding, informal settlements, and inefficient land use practices, which can have adverse social, economic, and environmental consequences.

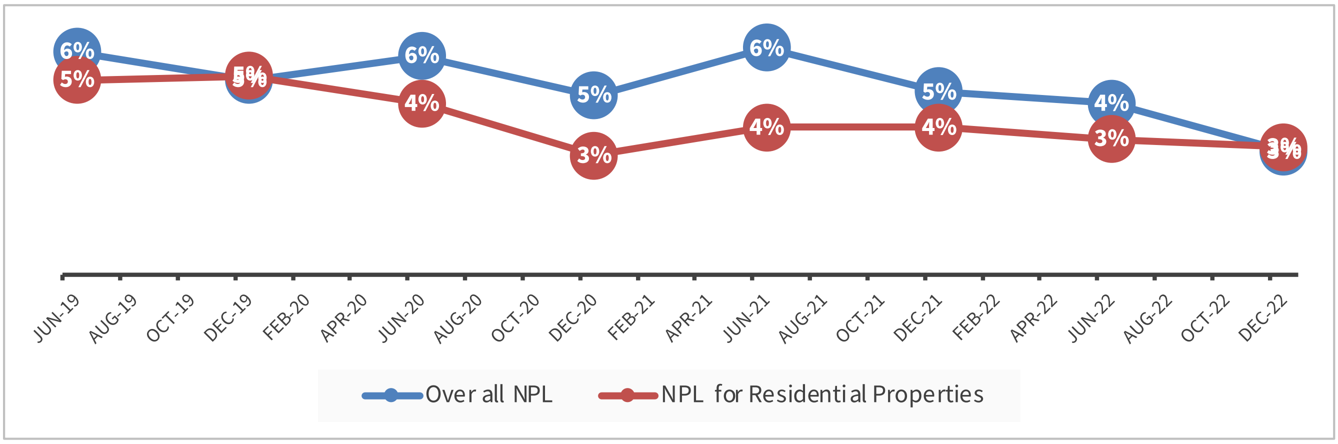
Therefore, policymakers, urban planners, and real estate developers should prioritize investments in the housing sector to effectively address the housing needs of the expanding population. This entails the development of affordable housing solutions, sustainable urban planning strategies, and infrastructure investments to ensure the efficient use of land and promote inclusive and sustainable urban development.

4.3. Performance of loans to residential/housing sector

A review of data from the Central Bank regarding the the outstanding loans by activity in Rwanda for the year 2022, the sector's total outstanding loan amount was at FRW 3,306 billion. Among these outstanding loans, residential property loans account for FRW 526 billion, representing approximately 16% of the total outstanding loans.

Furthermore, a review of the share of the sector's overall non-performing loan (NPL) compared to NPL specifically for residential properties over several periods from June 2019 to December 2022. Analyzing these findings indicates that the NPL for residential properties consistently remains below the NPL for the overall sector during each period. This suggests that the residential property sector is performing relatively better in terms of loan repayment compared to the overall sector, which implies investment opportunities in the sector.

Figure 2: Sectoral Non-Performing Loans trends(June-2019 to Dec-2022)



Source: NBR, MPFSS, 2019-2022

4.4. House demand in Rwanda

In urban areas, most residents are tenants (481,325), but there's still a significant number of owners (431,137). This indicates a substantial portion of urban residents have achieved homeownership; furthermore, tenant-occupied households are predominantly found in the City of Kigali at about 61%, a level that is at least three times higher than the percentages observed elsewhere in the country. This higher demand for rental housing in urban areas could be attributed to factors such as higher population density, employment opportunities, and migration trends, whereas in rural areas, there are more owners (1,942,381) than tenants (255,244), emphasizing the significance of house ownership related to Rwandan culture.

In Rwanda, about 72% of the 3.31 million private households are owned by the households occupying them, while about 22% are occupied by tenants and 4% are free lodging. The analysis by area of residence reveals that, in urban areas, households occupied by tenants (about 50%) are slightly more common than owner-occupied households (about 45%). On the other hand, in rural areas, the percentage of owner-occupied households (about 83%) is fairly above the national average, while the percentage of tenant-occupied households (about 11%) is about half the national average. The high prevalence of owner-occupied households in rural areas.

Table 3: Housing demand trends (by location)

	Urban	Rural	Rwanda
Owner	431,137	1,942,381	2,373,518
Tenant	481,325	255,244	736,569
Hire purchase	1,092	2,049	3,141
Free lodging	35,330	110,115	145,445
Staff housing	11,461	16,555	28,016
Temporary camp or settlement	1,343	16,516	17,859
Other	2,556	5,535	8,091
Not stated	43	61	104
Total	**964,287**	**2,348,456**	**3,312,743**

Source: NISR, RPHC 2022

4.5. House demand by types of contracts and income

4.5.1. Distribution of the house demand by types

EICV5 shows that across both urban and rural areas, 63.6% of renting households have a permanent job, and 36.4% have an informal job. furthermore, in urban areas, 53.8% of renting households have a permanent job, while 46.2% have a temporary job whereas in rural areas, a higher percentage, 77.0%, of renting households have a permanent job, while 23.0% have an temporary job.

Table 4: Distribution (Percentage) of the renting household by types of job and residence

	Permanent Job	Temporary Job	Total	Total Household
Urban	53.8	46.2	100	259,995
Rural	77.0	23.0	100	189,231
Total	**63.6**	**36.4**	**100**	**449,226**

Source : Data re-analysis EICV5, 2016/2017

4.5.2. Distribution of the house demand's income by types

These findings show the average monthly salary (in FRW) for renting households categorized by types of job and residence (urban or rural). The below table indicates disparities in average monthly salaries for renting households based on job type and residence, with Temporary job holders earning more in both urban and rural areas compared to those with permanent jobs.

Across both urban and rural areas, households with a permanent job have an average monthly salary for renting of FRW 145,808, while households with an Temporary job have a higher average of FRW 228,199.

Table 5: Average monthly salary (FRW) for renting a household by types of job and residence

Urban/Rural	Permanent Job	Temporary Job
Urban	218,429	256,369
Rural	76,045	147,140
Total	**145,808**	**228,199**

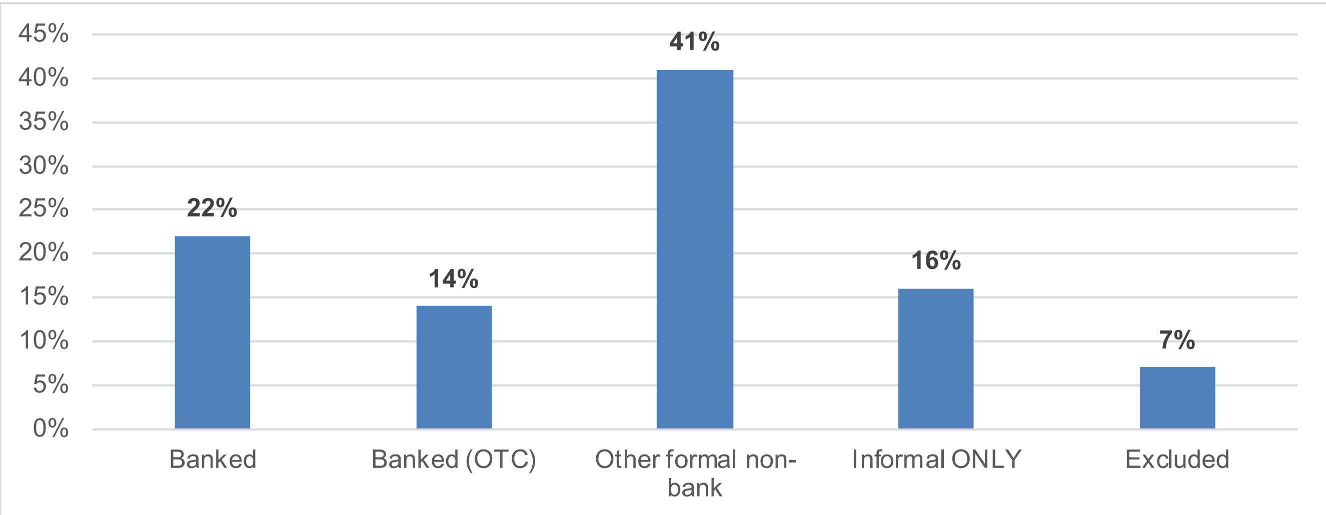
Source : Data re-analysis EICV5, 2016/2017

4.6. Financial inclusion and role of Fis to drive home ownership

4.6.1. Financial Inclusion levels in Rwanda

The FinScope Access Strand serves as a crucial metric for assessing and categorizing financial inclusion efforts. The figure illustrates the percentages of adults categorized as financially included and financially excluded. Approximately 93% (equivalent to 6.7 million individuals) of Rwandans fall under the financially included category, indicating that they utilize either formal or informal financial products or services to fulfill their financial requirements. Specifically, in 2020, the proportion of adults with access to banking products or services stood at 36%.

Figure 3: Financial inclusion

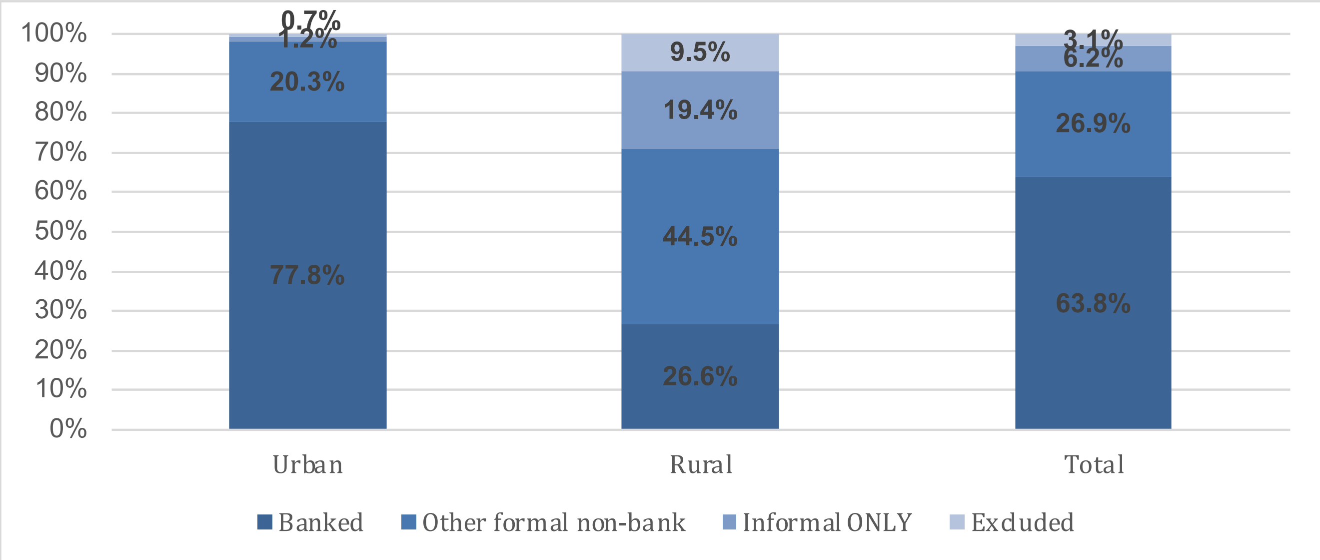


Source: FinScope, 2020

This data represents the levels of financial inclusion among renting households categorized by urban and rural areas.

Figure 4 shows that most renting households have access to formal banking services. In urban areas, 77.8%, whereas in rural areas, only 26.6%. Overall, 63.8% of renting households are banked. This shows greater potential opportunities where the banks can explore different lending scenarios by segmenting the repayment capacity of its clients, aiming to design a respective product.

Figure 4: Financial inclusion for renting households by location



Source: FinScope, 2020

4.6.2. Financial Institutions' role in accelerating home ownership

Overall, personal savings remain the primary source of housing financing in both urban and rural areas, followed by loans from banks. MFIs, SACCOs, and savings clubs play relatively minor roles in housing finance compared to personal savings and banks. While banks play a significant role in urban areas (21.8%), their contribution in rural areas is notably lower (2.4%). Similarly, MFIs and SACCOs contribute slightly more to rural areas (3.7%) compared to urban areas (0.8%). Role of Savings Clubs: Savings clubs play a more significant role in rural areas (4.1%) compared to urban areas (0.4%), indicating a potential preference for informal savings mechanisms in rural communities.

Table 7: Role of Financial Institutions (Banks, MFIs & SACCOs and Savings) for house owning a house-Percentage

	Urban				Rural			
	Bought it	Built it	Other	Total	Bought it	Built it	Other	Total
Used my/our savings	66.0	65.2	2.4	64.9	67.1	75.2	18.4	74.6
Saving groups	0.4	1.6	-	1.4	4.1	5.0	-	5.0
Inherited money	4.1	3.8	-	3.9	4.9	5.0	5.7	5.0
Bank	21.8	19.2	-	19.5	2.4	1.2	-	1.2
MFIs & SACCO	0.8	2.7	-	2.4	3.7	1.9	4.5	2.0
Other	7.0	7.5	97.6	7.9	17.7	11.7	71.4	12.2
Overall	100	100	100	100	100	100	100	100
Total	72,805	320,955	2,404	396,164	86,625	1,580,121	6,869	1,673,616

Source : Data re-analysis FinScope, 2020

4.7. Rental expenditure

Considering the depreciation of the Rwandan currency against the USD during the survey period, analysis of the EICV5 data indicates that the demand for housing, as reflected by household spending on rental fees, falls within the range of FRW 14,000 to 28,000, with 81,949 households falling within this category. Following closely are households in the range of FRW 28,000 to 49,000, totaling 64,870 households.

The data suggests a correlation between the rent amounts (in FRW) range and the number of rooms in households. In lower rental ranges, most households tend to have one or two rooms, whereas higher rental ranges correspond to households with three or four rooms being more prevalent.

These findings underscore the necessity for collaborative efforts among various stakeholders to address the housing demand. This may involve financing low-income earners collectively or facilitating rent-to-own arrangements based on their repayment capacity. Such initiatives could potentially extend tenant durations by enabling family ownership or inheritance arrangements.

Table 8: Percentage of renting in urban area by family size and renting amount.

Number of rooms						
Ranting range (FRW)	One	Two	Three	Four	Total	Number of Households
<7,000	6%	9%	4%	2%	7%	18,737
7,000-14,000	16%	11%	13%	8%	13%	33,509
14,000-28,000	40%	27%	14%	44%	32%	81,949
28,000-49,000	25%	28%	19%	10%	25%	64,870
49,000-75,000	8%	9%	18%	8%	10%	24,873
75,000-100,000	2%	4%	9%	10%	4%	10,234
100,000-150,000	2%	6%	7%	10%	5%	11,972
>150,000	2%	5%	16%	8%	5%	13,851
	100%	100%	100%	100%	100%	
Total	105,218	119,555	25,427	9,796	100	259,995

Source : Data re-analysis EICV5, 2016/2017

The data shows that rental fees in urban locations (particularly Kigali) are borne by 189,000 households, and 12% (22,000 households) have a rental cost ranging above FRW 100,000 per month. Further analysis shows that these households can afford to service the 'rent-to-own' arrangement (if option is available), with most of the beneficiaries preferring the one-to-three-bedroom housing units. Withgovernment interventions, the borrowers can access the housing loans up to a maximum tenure of 20 years, at 11% or less interest, to acquire a mortgage loan of FRW 12,000,000 (RHA, 2024), at a monthly loan repayment instalment amounting to FRW 123,000. On the other hand, those prospective beneficiaries in need of borrowing and monthly repayment instalment of less than FRW 100,000 can afford a house in a rural area where the cost of land is not too high.

Table 9: Percentage of renting in urban area-Kigali by family size and renting amount.

Number of rooms						
Ranting range (FRW)	**One**	**Two**	**Three**	**Four**	**Total**	**Number of Households**
<7,000	2%	3%	0%	0%	2%	4,256
7,000-14,000	14%	9%	9%	3%	11%	20,511
14,000-28,000	41%	27%	10%	51%	32%	60,611
28,000-49,000	26%	31%	19%	11%	27%	50,985
49,000-75,000	9%	10%	21%	8%	11%	20,395
75,000-100,000	2%	5%	11%	9%	5%	8,745
100,000-150,000	2%	8%	9%	9%	6%	10,833
>150,000	3%	7%	21%	9%	7%	12,650
	100%	100%	100%	100%	100%	
Total	**80,377**	**83,536**	**18,095**	**6,979**	**188,986**	**188,986**

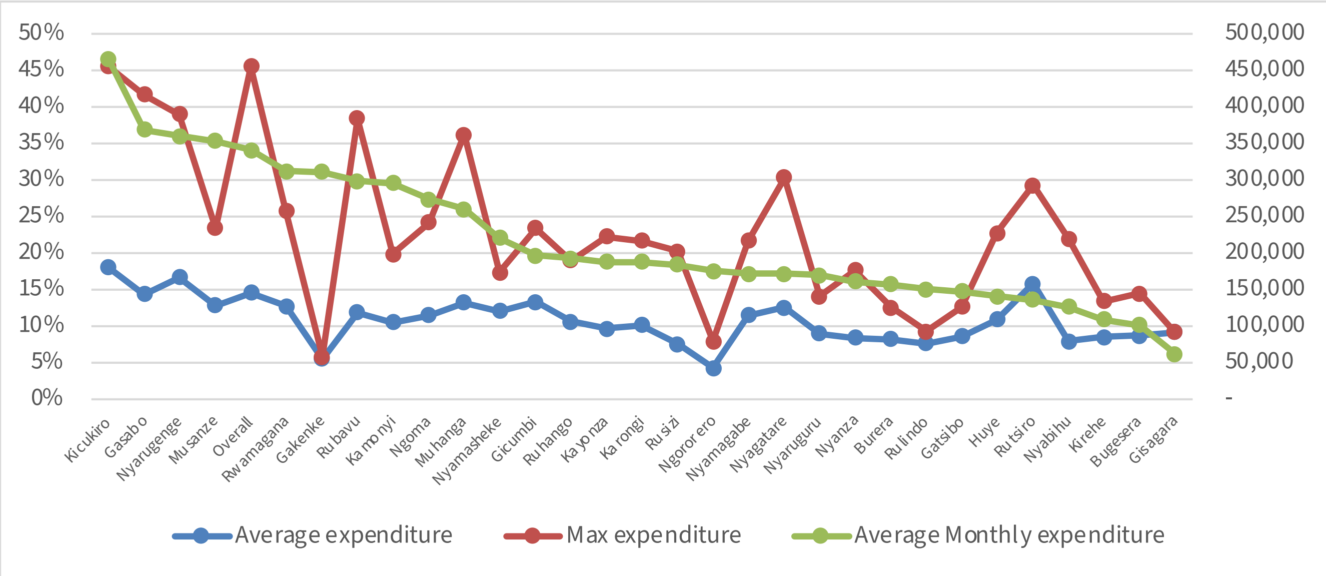
Source : Data re-analysis EICV5, 2016/2017

4.8. The category for upper limit share of the expenditure allocated to house renting

4.8.1. Urban Households

Overall, the findings provide valuable insights into expenditure trends across different districts in Rwanda, highlighting the diversity of economic conditions for urban housing access. The average expenditure on housing is 15%, whereas the maximum is 46% of the total expenditure. The findings show that the average expenditure is FRW 340,700.

Figure 5: Maximum and average shared of renting expenditure in total expenditure for Urban.

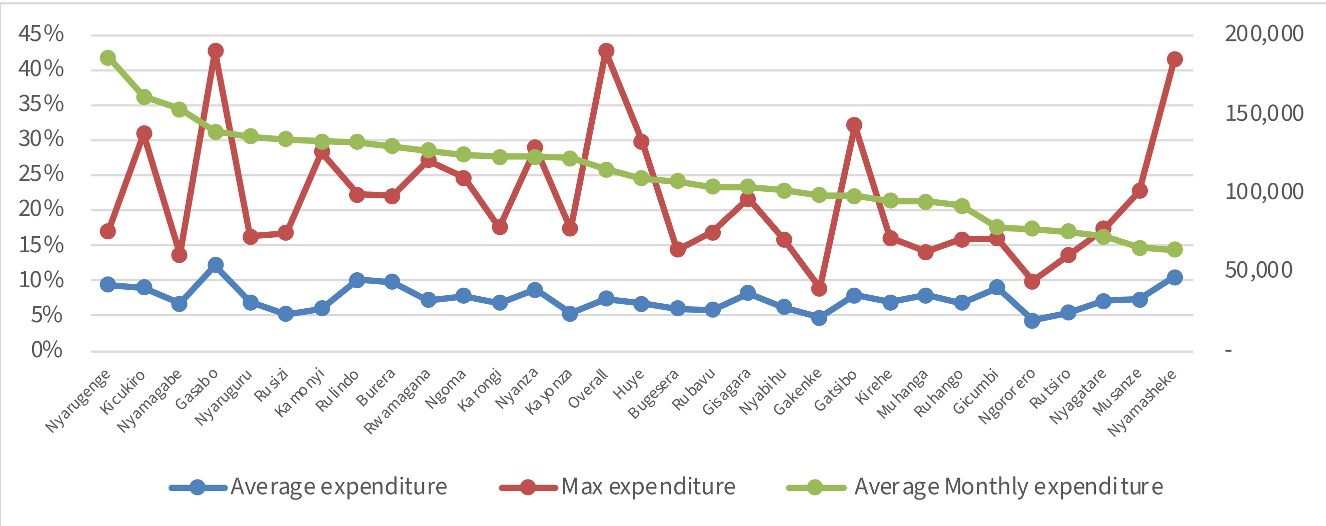


Source: Data re-analysis EICV5, 2016/2017

4.8.2. Rural Households

Overall, the findings provide valuable insights into expenditure trends across different districts in Rwanda, highlighting the diversity of economic conditions for housing access. The average expenditure for rural housing is 7%, whereas the maximum is 43% of the total expenditure.

Figure 6: Maximum and average share of renting expenditure to total expenditure for Rural.



Source: Data re-analysis EICV5, 2016/2017

4.9. Financial products are available to own a house in Rwanda

4.9.1. Gira Iwawe project

The Rwanda Housing Finance Project (RHFP) – under its acronym 'Gira Iwawe' – was initiated in 2019 by the Government of Rwanda (GoR) with funding from the World Bank and implemented by BRD. The project has a budget of US$150 million andaims to enhance housing finance accessibility for households whilst fostering the development of the capital market in Rwanda.

Presently, BRD is executing the project primarily via On-Lending finance to nine partner financial institutions (commercial lenders) including: Bank of Africa, BPR, NCBA, Equity Bank, I&M Bank, Zigama-CSS, Umwalimu-SACCO, and Muganga-SACCO.

Under the Gira Iwawe projects, funds are provided to commercial banks at a subsidized rate of 6%, while end-borrowers are offered mortgage loans – at 11% interest for households with a formal income of FRW 1.2 million; and at 13% for households with incomes ranging between FRW 1.2 million and 1.5 million respectively – with a maximum tenure of up to 20 years.

According to recent data from BRD, the project has facilitated the financing of 5,089 affordable mortgages over the past five years. Among these, the majority (73%) have benefited from an 11% interest rate, resulting in a monthly loan repayment instalment amount equivalent to FRWapproximately 160,000 for a mortgage of FRW 10,000,000.

Table 10: Gira Iwawe project performance from 2019 to end 2023

Tenure	Average amount (Frw)			Total Mortgage
	Monthly income	Monthly Instalment	Loan	
Less than 5	604,956	213,153	14,313,708	182
From 5 to 9	355,500	155,237	7,878,143	800
From 10 to 14	310,972	160,753	10,026,281	2,892
From 15 to 20	353,556	240,013	18,906,411	937
From 20 and above	505,581	256,568	23,152,038	278
Overall	**344,625**	**181,329**	**12,194,146**	**5,089**

To ensure long-term sustainable resource mobilization and product diversification, in December 2023,BRD explored alternative fundraising sources through the first-ever SLB issuance by a national development bank. The innovative new asset class introduced to the market via the Rwanda Stock Exchange enabled the Bank to raise FRW 33 billion from mainly local investors. These funds will be invested in strategic long-term projects (including provision of affordable mortgages to boost supply of green housing units) and this will further incentivize the commercial lenders to increase lending to end-beneficiaries in the housing sector in Rwanda.

Key informant recommendations:

i. The Gira Iwawe facility supports commercial banks in refinancing their mortgage portfolios, resulting in availing affordable mortgage interest rates and longer tenure in the market.

ii. Implementing an on-lending strategy is viable, particularly at concessional rates, responding to the wealth quantiles of the end borrowers.

iii. BRD has successfully promoted financial inclusion across diverse sectors, including the military, police, health, education, and public service, facilitating the mortgage financing for ownership of approximately 5,000 houses.

4.9.2. MFIs model

Despite variations in interest rates and tenure among different Microfinance Institutions (MFIs), the average mortgage interest rate ranges from 16.5% to 21.5%. However, the desired interest rate among clients averages at least 15%, with a maximum tenure of 5 years, contrasting with the desired tenure of 10 years. The absence of concessional funds contributes to an average cost of funds around 9%, limiting the MFIs' ability to provide more impactful mortgage services.

Furthermore, MFIs prioritize women's access to financing, with an average of 20% of mortgages being allocated to women. Additionally, while financing this sector, microfinance institutions adhere to environmental requirements. Despite these challenges, the sector demonstrates a growing portfolio, with an average growth rate of 12% among the surveyed banks. Moreover, due to the substantial client base and effective follow-up mechanisms, the sector maintains a low Non-Performing Loan (NPL) rate, averaging around 3%.

Key informant recommendations:

i. A collaborative effort between the demand side, and MFIs/SACCOs aims to promote regular saving for Gira Iwawe. The government may offer interest subsidies to enhance affordability and extend long-term tenures. Lenders will assess clients' eligibility for homeownership based on various documents, including Mobile Money transaction statements, tax clearances, EBM history, income statements, community testimonies, and formal bill payments.

ii. BRD will continuously mobilize cheaper funds to enhance projects like Gira Iwawe to ensure low interest rates for end-borrowers.

4.9.3. Commercial bank model

While interest rates and tenures differ among the local commercial banks, the average mortgage interest rate observed across the visited banks ranges from 14% to 20%, with an overall average of 17%. There typical tenure for mortgage loans is around 10 years. Deposits serve as the primary source of funding, contributing to an average cost of funds of approximately 8.5%.

Key informant recommendations:

i. Clients typically need to contribute between 10% to 30% of the mortgage loan amount, which often poses a challenge due to their limited incomes. There is a pressing need for government initiatives to raise awareness and promote a culture of saving among the populace.

ii. Implementing vertical building structures, where property rights granted based on construction plans and confirmed upon completion, could present an opportunity for lower-income earners to secure collateral for mortgages.

iii. Encouraging the use of locally produced materials in construction can mitigate the impact of inflation caused by reliance on imported materials, thus reducing high import bills.

iv. Subsidizing the real estate sector can help ensure the affordability of housing prices for end beneficiaries, thereby enhancing access to homeownership opportunities.

4.10. Proposed Sources of Funding for Low-Income Earners

1. ***Rent-to-Own Product:*** Introducing a rent-to-own product where tenants gradually build equity in their homes through monthly rental payments. This allows low- and middle-income earners to transition from renting to homeownership without requiring a large upfront investment, and this can be implemented by a combined effort of the national development bank and other financial institutions in the country..

2. ***Microfinance Institutions (MFIs) and SACCOs:*** Facilitating access to housing loans for low-income earners as group mortgage financing by offering tailored loan products with flexible repayment terms to accommodate the financial constraints of low-income households.

5. Lending Opportunities

There is a lending opportunity for informal earners, especially by ensuring the **flexibility of loan terms,** such as extended repayment periods, or variable repayment schedules aligned with borrowers' income cycles, to mitigate the risk of default during lean periods.

Secondary Financial **Education and Capacity Building** for informal workers to enhance their understanding of mortgage obligations, budgeting, and financial management skills. Empowering borrowers with financial knowledge can improve their ability to manage debt responsibly and reduce default rates.

And lastly, **continuous monitoring** to establish mechanisms for ongoing monitoring of borrower performance and early intervention in cases of financial distress. such as temporary income shocks or unforeseen expenses, to prevent defaults and facilitate successful loan repayment.

5.1. Incentivizing Commercial lenders to provide mortgage loans to informal workers.

Lending to informal workers without a working contract and collateral presents unique challenges for commercial lenders, as traditional risk assessment methods may not be applicable. However, several best practices can help minimize default rates and ensure successful mortgage lending to this segment of borrowers.

This opportunity can be explored by evaluating the borrower’s financial behavior, whereby the commercial lender can implement innovative credit scoring models that take into consideration the borrower’s bill payments, rental history, mobile money transactions, and informal savings group participation. In addition, the model can consider self-declarations and interviews with community leaders. These alternative indicators can provide insights into borrowers' financial behavior and creditworthiness.

5.2. Group Lending and Social Guarantees Models.

Explore the feasibility of group lending models where informal workers form borrower groups or cooperatives to collectively guarantee each other's loans. Social pressure within the group can incentivize timely repayments and reduce default risk. Additionally, consider involving community leaders or influential members as guarantors to provide additional assurance.

6. Conclusion and Implications

The research paper explores the dynamic financing mechanisms available for of Rwanda's housing sector and emphasizing the sectors' critical role in socio-economic development. Key findings highlight the growing demand for housing due to population growth and urbanization, coupled with challenges such as affordability and access to finance. Commercial lenders are identified as pivotal in addressing both demand and supply driven challenges thus maximizing their sustainable impact in the sector.

The implications of the research suggest the need for strategic interventions to promote sustainable housing finance in the country:

1. Encouraging commercial lenders to invest in green residential projects, such as vertical affordable buildings, to optimize land use and support sustainable development.

2. Leveraging existing financing models like the Gira Iwawe project, green financing mechanisms (such as Sustainable Linked Bonds), availing credit enhancements for existing mortgage financing, and advancing policy-driven sustainable initiatives.

3. Implementing alternative housing finance models like housing provident funds, rental-to-own and community-based housing loans to cater to low-income earners.

REFERENCES

AFR. (2021). Affordable Housing in Rwanda-Demand-side analysis. Kigali: Access to Finance Rwanda.

BRD. (2023). Housing Market and Low-Cost and Efficient Building Materials and Technologies. Kigli: BRD.

Cronin, V. a. (2011). Alternative approaches to slum upgrading in Kibera. Nairobi: Urban Design and Planning.

ESCAP, U. N. (2008). Housing the poor in Asia cities-URBANIZATION: The role the poor play in urban development. Thailand: United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

MOH. (2017). Annual Report. Kigali: Ministry of Health.

NBR-MPFSS. (2022). Monetary Policy and Financial Statement . Kigali: National BAnk of Rwanda.

NISR. (2022). RPHC. Kigali: NISR.

NISR-EICV. (2016/2017). Integrated Household and Living Condition. Kigali: National Institute of Statistics of Rwanda.

NISR-RPHC. (2022). Rwanda Population and Housing Census. Kigali: National Institute of Statistics of Rwanda.

RDB. (2023, June 27). Health Services. From www.rdb.rw.

RHA. (2024). Rwanda Housing Authority. https://www.rha.gov.rw/2/affordable-housing-planning-development.

Tibaijuka, A. (2009). Building Prosperity-Housing and Economic Development. London: Earthscan.

UN-Habitat. (2005). Financing Urban Shelter. London: Earthscan.

UN-Habitat. (2012). SUSTAINABLE HOUSING FOR SUSTAINABLE CITIES-A POLICY FRAMEWORK FOR DEVELOPING COUNTRIES. Nairobi : United Nations Human Settlements Programme .

Research Paper No. RP04/05/24

RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Rwanda Bankers' Association
PO Box 2101 - Makuza Peace Plaza 5th
Floor Bloc C
• Tel. +250 252 577 426
• info@rba.rw
• http://www.rba.rw

May, 2024