Xue, J. (2014). *Economic Growth and Sustainable Housig: An Uneasy Relationship.* USA: Routledge.

Zeng, R. (2013). *Atributes Influencing Home Buyers Purchase decisions : a quantitative study of the Wuhan.* Lismore, NSW.: Southern Cross University.

DISCUSSING HOUSING FINANCE AND INVESTMENT IN DEVELOPING COUNTRIES: THE ZIMBABWEAN CASE.

For Presentation t the AFRES Conference, 5th to 9th September 2016, Addis Ababa, Ethiopia.

ADDMORE ZHOU

(*MBA, MSc)* Ph.D. Real Estate student. Kingston University, Faculty of Art Design and Architecture. London. Contact email: addmorez@yahoo.co.uk

PROFESSOR SARAH SAYCE

(BSc PhD FRICS IRRV).

Abstract

The world is witnessing unprecedented levels of urbanisation. UN-HABITAT (2009) predicted that two thirds of the world's population will be living in cities and towns by 2030. Cities in developing countries are the fastest growing. However the most worrying phenomena have been the rapid growth of slums in and around some cities coupled with acute shortages of housing in many others. In 2004, the U.N reported that more than a billion people in developing countries live in slums, a figure expected to double over the next 30 years. Developing countries continue to grapple with challenges of providing housing to their communities. Investment and new development in housing remain low and slow. The major problem has been lack of finance and investment towards housing.

The banking industry is a major player in every country's economy and it influences the growth and prosperity of a nation. This paper will discuss Zimbabwe's finance industry particularly the banking sector and the extent to which it has committed resources towards housing. The paper will also discuss the level of foreign direct investment received by the country.

In discussing Zimbabwe's housing finance, the paper will look at both domestic and foreign sources of finance, their volumes and the factors which influence their deployment. The paper is an extract from a broader ongoing Ph.D. research study whose main aim is to investigate why Zimbabwe is failing to provide adequate housing in the context of both private investment and public housing. In the study, it is found that housing finance in Zimbabwe is not adequate and falls far short of the levels required to effectively address the shortage of housing.

Keywords: Housing Finance, Low Income Housing, Developing Countries, FDI.

INTRODUCTION

The subject of housing in developing countries, particularly housing finance in sub Saharan Africa is a developing one, however quite topical. The contexts are ever changing and always shifting. Whilst there has been broader focus and discussion on housing on many fora, there is limited scholarship on the subject of housing finance targeting low income segments. Considering the problems faced by developing countries, the subject merits close attention. In this paper we would like to explore the critical issues impacting housing finance in Zimbabwe.

Housing Shortage Overview

According to the government's national census conducted in 2012, Zimbabwe had a population of around 12.9 million. Urban housing shortage has continued to rise over the years with the national media reporting that Harare alone is topping one million, a figure expected to continue increasing by at least 5 per cent every year if no urgent measures are taken to build more houses (Zimpapers, 2011). The Zimbabwe National Housing Policy framework crafted by the government in 2011 acknowledged a cumulative backlog of housing units needed to solve the problem of accommodation. Although no comprehensive assessment has been done, at least 1 million new units were estimated as the backlog across all housing types in 2012 (GoZ, 2012). Some reports indicate that the official national housing backlog had since risen to more than 1.2 million in 2013.

Finance in the general context

The banking industry is a major player in every country's economy, and it influences the growth and prosperity of a nation. There is debate around the causative relationships between the country's finance system and economic development in general. Sibindi and Bimha (2014) argue that the evolving nature of financial markets and their impact on economic growth has raised much curiosity on whether they lead to economic growth or economic growth precipitates financial development. This paper will however not seek to unpack the arguments of causative relationships in detail.

The UNDP (2009) under their Comprehensive Economic Recovery (CER) initiative in Zimbabwe, affirmed that financial sector development matters for economic growth, and that through the mobilization of savings the financial sector plays a critical role of providing resources required for investment. In particular, the causal relationship between financial development and economic growth is seen to operate through three linkages, which is to say: (1) financial deepening promotes economic growth; (2) economic growth stimulates financial development; and (3) financial development and economic growth influence each other.

Makina (2009), Odhiambo (2009) and Fung (2009) seem to coalesce around the conclusion that low income countries with a relatively well-developed financial sector are more likely to catch up with their middle and high income counterparts while those with a relatively underdeveloped financial sector are more likely to be trapped in poverty.

There is however a big problem faced by developing economies such as Zimbabwe with regards to the extent to which banks drive economic growth. In most developing economies especially Southern Africa, about 60 percent of the population have no access to financial services. In Zimbabwe, a survey conducted by the National Task Force on Microfinance in 2006 showed that the formal financial system provided services to only about 30 percent of the population, lower than the regional average of 40%. A key weakness of the country's finance system has been that it lacked inclusiveness as it did not adequately cater for the needs of the poor and the marginalized small-scale business sector. A significant 70 percent of the population remained unbanked at the end of 2006.

In the words of the United Nations Secretary General Ban Ki Moon:

Building inclusive financial sectors improves people's lives, in particular those of the poor. A small loan, a savings account or an insurance policy can make a great difference to a low-income family. They enable people to invest in better nutrition, housing, health and education for their children. They ease the strain of coping with difficult times caused by crop failures, illness or death. They help people plan for the future'. (UNDESA and UNCDF, 2006: iii Foreword).

Housing Finance in the Zimbabwean Context

Historically, Zimbabwe had a more sophisticated financial sector than any other African country other than South Africa (UNDP, 2009). The financial sector was relatively closed between 1980 and the early 1990s with no new entrants into the market (Nyamutowa and Masunda, 2013). However, the country's finance system went through several transitions from the period when the country attained independence in 1980 to present. A raft of financial reforms were implemented in the 1990s, with a view to liberalizing the financial sector when the government embraced the World Bank and IMF sponsored Economic Structural Adjustment Program (ESAP) in the early 1990s (UNDP, 2009).

Indigenous ownership and new entrants into the industry was not until mid to late 90's when a number of new banks were registered (Makoni, 2010). As at 30 June 2015, there were 18 operating banking institutions, comprising thirteen (13) commercial banks, three (3) building societies, one (1) merchant bank, one (1) savings bank and 147 microfinance institutions (Mangudya, 2015).

Over the years, the Zimbabwean economy has been characterised by negative economic growth, high unemployment, high interest rates and absence of foreign investment. Although the economy sank deeper into depression partly due to sanctions, the situation had started to deteriorate in the early 90's when Zimbabwe embarked on an Economic Structural Adjustment Program, ESAP, supported by IMF and the World Bank. Whilst the intended benefits were to grow the economy and create jobs, the opposite actually happened (The World Bank, 2010).

As the economic situation worsened, the country witnessed a sharp rise in inflation, coupled with the devaluation of the country's currency. In the ensuing hyperinfla-

tionary environment, banks could not cope with depositors' needs for daily cash withdrawals. Beginning around year 2003, some banks collapsed while others were put under curatorship (Africa Monitor, 2008). Those which survived had to limit their exposure to risks (Marawanyika, 2004).

BANKING SECTOR CAPITALISATION

One of the most important measures of the banking sector's ability to support economic development is the level of bank capitalization. By June 2015, the banking sector's aggregate core capital base totalled $899.10 million, a 19% increase from $753.3 million reported by June 2014 (Mangudya, 2015). The Central Bank attributed the increase to retained earnings which were realised during the year. The table below shows the extent of individual bank capitalizations.

INSTITUTION	Core Capital as at 31 December 2014 (USD million)	Core Capital as at 30 June 2015 (USD million)	Prescribed Minimum Requirements (USD million
Commercial Banks			
CBZ Bank	175.34	188.72	25
Stanbic Bank	79.73	82.79	25
Standard Chartered Bank	61.90	58.11	25
BANC ABC	63.33	64.43	25
Barclays Bank	41.67	43.15	25
NMB Bank	37.01	40.00	25
MBCA Bank	36.21	38.85	25
Steward Bank	43.92	41.26	25
ECO Bank	36.89	41.26	25
MET Bank	24.62	33.74	25
ZB Bank	9.56	31.14	25
FBC Bank	31.84	33.26	25
Agri Bank	12.30	36.47	25
Total Commercial Banks	654.32	733.18	
Merchant Banks			
Tetrad Investment (Under Provisional Judicial Mgt)	(31.73)	(32.70)	25
Building Societies			
CABS Building Society	92.82	99.72	20
FBC Building Society	29.54	32.74	20
ZB Building Society	15.58	15.20	20
Total Building Society Banks	137.94	147.66	

Table of Bank capitalization as at 30 June 2015. Source RBZ

The small size of capital dedicated towards housing is a reflection of the extent to which banks are prepared to carry credit risk associated with housing investment.

Cost of Borrowing and Loan Distribution

One of the most daunting challenges to borrowers in Zimbabwe has been the cost of borrowing. In 2010, borrowing costs in the country were at least twice more than the average experienced in the region. On average, Zimbabwe's borrowing costs were estimated at an average of 30%. Although the rates have been steadily decreasing over the years, they remain high enough to place a burden on borrowers. On their part, banks have cited a number of challenges necessitating the application of high interest and lending rates. The challenges include high operating costs, high risk premium in accessing external lines of credit due to high country risk profile and high cost of borrowing from corporates by banks for on-lending to bank customers. Banks needed to charge high interest rates in a bid to mobilize the much needed savings into the formal banking sector (Africa Development Fund, 2012).

On the other hand, banks are confronted with the problem of non-performing loans. Whilst bank lending is critical for the development of the productive sectors of the economy such as housing construction, the high rate of non-performing loans makes it difficult for banks as there is need for cautious lending. In 2012, the rate stood at 12.3 percent of the loan book, a percentage higher than the 5 percent Basel II prudential guideline for non-performing loans. In addition, mortgage lending remained largely subdued because of low average incomes which could not support the facility at such high interest rates (African Development Fund, 2012).

Another problem lied in the criteria used by banks in their lending decision making. Over the years, the proportion of bank credit channelled to individuals who largely engage in consumption borrowing at the expense of productive sectors has remained high. A snapshot of total banking sector loans and advances as at 30 June 2015 showed an annual total of $4.0 billion.

Source: Reserve Bank of Zimbabwe

The construction industry managed to receive only 2.59 percent of the amount loaned out by banks. That translated to slightly over $103 million. It is however not clear how much of that amount was loaned towards housing development.

Banking Sector Investment towards housing

Although there were 18 financial institutions in the country in 2015, some of the major commercial banks such as Stanbic, Barclays and Standard Chartered are yet to venture into housing. The three banks are foreign owned and strategically positioned to access cheap offshore finance. However, they are not active within the housing

investment market. The other participants within the mortgage industry are locally owned, with the exception of CABS Building Society which is a subsidiary of Old Mutual, a multinational company with business interests in other foreign countries.
More importantly, there is no comprehensive data which indicates the extent to which mortgage banks are dedicating their resources towards housing development for the low income segment of the population. However, CBZ Holdings, the country's biggest bank, was reported to have injected $10.4 million in low cost housing in 2015. The investment was for housing Projects in the two cities of Mutare and Gweru (The Independent, 2015).
When the CBZ scheme was underway, the uptake of housing in Gweru's Senga high-density suburb and Mutare's Chikanga high-density suburb was reportedly between 45 and 50%. The Scheme's pricing and qualifying requirements for Gweru's Nehosho housing scheme were as follows;

	5 Year Home Loan		
	2 roomed Unit	3 roomed Unit	4 roomed Unit
Selling Prices ($)	15,173.39	19,631.15	23,945.15
Minimum Deposit 25%	3,793.35	4,907.79	5,986.29
VAT (15%)	2,276.01	2,944.67	3,691.77
Loan Amount	11,380.04	14,723.36	17,958.86
Tenure	5 Years	5 Years	5 Years
Interest rate	14%	14%	14%
Monthly repayment ($)	309.37	399.40	486.53

Africa's FDI Outlook
Whilst the volume of capital seeking cross-border investments has been growing rapidly over the years, developing countries are not receiving due share of the cake. To understand why this is so, it is important to approach the subject with a set of questions whose answers will guide our understanding. Important questions to ask are: Why is real estate capital going cross border? What are the principal drivers? How do investors approach the world of cross-border real estate, among other questions?
The effect of foreign direct investment (FDI) on economic growth has been debated extensively in the economic literature. Saini et al (2010) affirm that the rising interest in this area of research coincides with the shift in emphasis among policymakers towards attracting more FDI inflows in recent years. Beginning in the early 1980s, many countries have lifted many of the restrictions imposed on foreign capital flows. As a result, global FDI inflows rose from $57 billion in 1982 to $207 billion in 1990, climbing sharply to $1.4 trillion in 2000 before declining to $1.1 trillion in 2009 due to the global financial crisis between 2008 and 2009 (UNCTAD report).

Despite such significant amount of foreign investment circulating in the world, Africa as a continent has not benefited much. In fact, its share of the global investment funds has been declining over the last three decades. Specifically, Africa's share of global FDI inflows declined from 9.5 per cent in 1970 to 5.3 per cent in 2009.
African countries, just like the rest of the developing world must be worried about their inability to attract foreign capital to the region. As data from UNCTAD shows, the increase of FDI flows into Africa between 2010 and 2013 from $47 billion to $57.2 billion is commendable, however falling short of the levels required to boost African economies. Of particular concern is the Southern Africa region which attracted a paltry $13.1 billion shared between the region's 10 countries which make part of the Southern Africa Development Community, SADC. The region only managed to attract circa 4% of global FDI. There is however no data regarding the amount of investment attracted towards housing development. As a result, data available presents conceptual problems as no housing investment data is available.
An encouraging phenomena is however noticeable in Africa especially over the last decade. Most countries in the region have undertaken significant steps to attract FDI. Some countries have adopted FDI-specific regulatory frameworks to support their investment related objectives. In some countries, specific policy frameworks such as the establishment of Export Processing Zones (EPZ) were crafted. Under certain EPZ policies, investors were allowed to import plant, machinery, equipment and material for the manufacture of export goods under security, without payment of duty. In some countries, EPZs are referred to as economic development zones (Sichei and Kinyondo, 2012).

FDI in the Zimbabwean Context.
At independence in 1980, foreign capital constituted about 70% of the total capital stock and FDI dominated foreign capital inflows into Zimbabwe. By the mid-1990s, poor economic performance left foreign investors jittery about the direction of both the economy and the country. Political turbulence and the government's defiance of the IMF prescribed economic policies greatly increased investor risk, and brought foreign direct investment flows to a standstill (Bayai and Nyangara, 2013).
In the period between 2000 and 2011, Zimbabwe has not been able to attract significant FDI inflows despite the fact that the country is rich in minerals that include gold, platinum and diamonds that normally attract resource-seeking FDI inflows. The lack of adequate investment over the years has hindered employment, ultimately affecting the country's wider economic growth and development. By 2012, the country's unemployment rate was estimated to be over 80% (Sikwila 2015).

Of the more than $78.4 billion foreign direct investment which found its way into Southern Africa over a 10 year period between 2004 and 2013, Zimbabwe managed to attract a paltry $1.7 billion over the same period

Challenges in att acting eal estate capital towards Zimbabwe
Unfavourable investment climate
Zimbabwe 's current legislation requiring foreign investors to cede 51% control to locals as stipulated in the Indigenisation and Economic Empowerment Act [Chapter 14.33] of 2007 is argued to have caused capital flight as foreign investors are not

willing to cede part of their shareholding structure to locals.

Market illiquidity

Cross border investment in property is largely influenced by market liquidity. Illiquid assets such as real estate are not marketable in an environment characterised by illiquidity. The increase in international investment interest in markets such as the US and Europe is largely due to encouraging market liquidity coupled with the availability of high quality real estate stock. The use of bonds helps to prop up market liquidity. The competitive loan pricing environment in those markets is ideal for investors wanting to use debt financing for new projects. To the contrary, the Zimbabwean market context is characterised by a highly illiquid environment.

ABSENCE OF INVESTMENT INCENTIVES

If we are to learn from Europe, some markets such as France are reported to offer incentives for property investment. France's lower taxes and in particular capital gains tax on housing which has been reduced to 16% has made it attractive to investors who plan on disposing of their investment in the future (Property Showroom, 2016).

LACK OF MARKET TRANSPARENCY

Because of the risks associated with cross border real estate investment, there has been renewed impetus in transparency improvements across the world's real estate markets. Global investment data reaffirm the relationship between real estate investment volumes and transparency. Rising levels of transparency are associated with higher levels of foreign direct real estate investment, a powerful incentive for encouraging the free flow of information as well as the fair and consistent application of local property laws. According to a Jones Lang LaSalle (2012) global series transparency report, the world's fastest growing real estate investment destinations are all among the world's top 10 transparency improvers.

Whilst the global buzz on market transparency has not eluded Africa either, what is worrying is that South Africa is the continent's only transparent market sitting well ahead of the rest, with Botswana, Mauritius and Kenya some way behind in the 'Semi-Transparent' category. Most sub-Saharan markets such as Zimbabwe occupy the 'Low Transparency' or 'Opaque' categories, propping up the bottom of the global pack.

CONCLUSION

Despite all the negative factors observed to be affecting real estate investment in Zimbabwe, the residential sector in the country is found to be performing well and better than other sectors. Zimbabwe, which is a developing country faces the same investor reluctance due to the risk factors associated with investing in frontier markets. To attract global capital, countries must offer investment incentives in the form of taxes as well as relaxing laws which hinder foreign direct investment.

REFERENCES

Africa Development Fund (2012). International Commodity Price Developments. *Zimbabwe Monthly Economic Review. Issue No. 7. September 2012.*

Africa Monitor (2008).Banks on the Brink. *Africa Monitor*; *Southern Africa. Vol. 13. P.5*.

Bayai, I and Nyangara, D (2013). An analysis of the determinants of private investment in Zimbabwe for the period 2009-2011. *International Journal of Economics and Management Sciences Vol. 2, No. 6, 2013, pp. 11-42*

Government of Zimbabwe, (2012). National Housing Policy. Harare.

Jones Lang LaSalle (2012). Real Estate Transparency Back on Track. Global Foresight Series.

Makina, D. (2009). Recovery of the Financial Sector and Building Financial Inclusiveness. Comprehensive Economic Recovery in Zimbabwe Working Paper Series No 5. United Nations Development Programme.

Makoni A. (2010). *Overview of Zimbabwean Banking sector*. Available online; http://ezinearticles.com/?Overview-of-Zimbabwean-Banking-Sector-(Part-One)&id=4185197 (Accessed February 4, 2016).

Mangundya, J.P (2015). *Mid Term Monetary Policy Statement. Reserve Bank of Zimbabwe. July 2015.*

Marawanyika, G. (2004). RBZ races against time over ZABG. Available online; http://www.theindependent.co.zw/business/14402.pdf. Accessed February 5, 2016.

Nyamutowa C, and Masunda, S. (2013). An analysis of Credit Risk Management Practices in Commercial Banking Institutions in Zimbabwe. *International Journal of Economic Research Vol 411, p 31-46*

Property Showroom (2016), Why Invest in France Property. Available online: https://www.propertyshowrooms.com/france/property/investment/why-invest-in-france-property.asp. Accessed 23 June 2016.

Saini, A. Baharumshah A.Z and Law, S.H (2010). Foreign direct investment, economic freedom and economic growth: International evidence. *Economic Modelling Journal Vol 27 (2010) p1079–1089*

Sichei, M and Kinyondo, G. (2012). Determinants of Foreign Direct Investment in Africa: A Panel Data Analysis. *Global Journal of Management and Business Research. Volume 12 Issue 18 Version 1.0 Year 2012.*

Sibindi, A.B and Bimha A. (2014). Banking sector development and economic growth: evidence from Zimbabwe. *Banks and Bank Systems, Volume 9, Issue 2, 2014.*

Sikwila M, N (2015). Foreign direct investment: does it matter? A case for Zimbabwe. *Research in Business and Economics Journal Volume 11, July, 2015.*

The Independent, (2015). CBZ injects US$10m into housing scheme. Available online; http://www.theindependent.co.zw/2015/08/14/cbz-injects-us10m-into-housing-scheme-2/. Accessed February 8, 2016.

The World Bank (2010). *Structural Adjustment and Zimbabwe's Poor*. Available online; http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/15A937F6B215A053852567F5005D8B06. Accessed February 5, 2016.

UNCTAD FDI report, 2016

UNDP (2009), Recovery of the Financial Sector and Building Financial Inclusiveness. Working Paper Series 5.

United Nations, (2004), Water, sanitation and housing among Africa's environment priorities, Africa Renewal, Vol.18 #2 (July 2004), page 19.
UN-HABITAT (2009), Report on Housing Finance Mechanisms in Zimbabwe, Nairobi. United Nations Human Settlements Programme.
Zimpapers, (2011), Low Cost Housing A Lasting Solution. Available online; http://www.zimpapers.co.zw/index.php?option=com_content&view=article&id=5121:low-cost-housing-a-lasting-solution&catid=42:features-news&Itemid=134. Accessed 04/07/2012.