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**IMPACT OF HOUSING FINANCE ON SELF BUILT DWELLINGS IN A FORMAL SETTLEMENT: A CASE STUDY OF KABAMA LAYOUT, ZARIA.**

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**Abstract**

*Housing finance is what allows for the production and consumption of housing. Therefore adequate finance is the first requirement for successful and effective housing delivery in any nation. This study therefore assessed the access to housing finance and how the availability or non-availability of this finance has impacted on the quality and character of self-built dwellings of formal settlements in Nigeria by using Kabama residential settlement in Zaria to get a better insight of the situation. The research adopted a descriptive survey approach, and the main instruments for data collection was the questionnaires but it also included secondary sources and interviews. Result from the study indicated that most respondent's income level had a direct implication on the type of dwelling and duration to build and the major source of finance for housing developments was from monthly personal savings and cooperative loans. The challenges of accessing housing finance was due to the lengthy and cumbersome process it involves and the inability to access finance impacted on the quality of building appearance and finishing, comfort level and building strength and stability. In conclusion, the inadequacy of government's previous policies to address affordability issues is the bane of the housing finance sector. It is recommended Policies and programmes of government should be aimed at the low income segment focusing on assisting them to acquire, build or improve their homes through easy accessibility to land and securing of title documents. Also, government should provide mechanism for regulation of lending rates in the private sector and also*

*intervene and complete the mortgage sector reforms and provide incentives that will expand the scope of delivery of the cooperatives.*

**Keywords:** *Housing Finance; Self-built Dwellings; Kabama Residential Settlement; Zaria*

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## INTRODUCTION

Housing or shelter is considered one of the basic necessity of humans in addition to food and clothing. It is considered that housing provisions should create environments that have profound impact on health, psychological well being, social attitudes and economic productivity of the individuals (Jiboye, 2010). According to Adekunle (2012) provision of houses for urban dwellers is a major challenge in developing countries, especially in sub-saharan African. Among the many factors influencing housing provision in developing countries, finance is the most important. Housing finance is a broad topic, the concept of which can vary across continents, regions and countries, particularly in terms of the areas it covers (Adekunle, 2012). However, the purpose of a housing finance system is to provide the funds which home-buyers need to purchase their homes. King (2009) "Put simply, housing finance is what allows for the production and consumption of housing". It refers to the money we use to build and maintain the nation's housing stock. But it also refers to the money we need to pay for it, in the form of rents, mortgage loans and repayments." Adequate finance is therefore the first requirement for successful and effective housing delivery in any nation. The importance of housing finance in housing delivery is stressed by Agbola (1998), who asserted that "without well organized and efficient housing finance mechanism, the goal of housing development policy will be largely unattainable". Housing finance by its very nature is a capital intensive venture which if it is to be financed through personal source will require slow and tedious accumulation of savings. In order to deal with these problems, government has pursued a range of successive programmes and policies. One of such programmes as contained in the National Housing Policy (2006) is providing fund for housing development through housing and mortgage finance institutions. Long term credit facility for home acquisition is supposed

to come from two sources; one being the National Housing Trust Fund (NHTF) and the second being the private financial institutions but the performances of these sources are arguably not satisfactory. This therefore stems the study in which Kabama settlement is a case. Kabama residential layout, even after over ten (10) years of its establishment by the Kaduna State Government, only about 40% of the plots have been developed. Those developed showed differentiation in the ideal formal settlement setting as prescribed in its conception. In line with the aforementioned, this study therefore sets out with the following objectives:

1. Examine the types/characteristics of houses in Kabama residential settlement.
2. Establish the various sources and challenges associated with housing finance for residents of Kabama formal settlement, Zaria.
3. Establish how the availability or non-availability of housing finance has influenced the quality and character of dwellings in the Kabama formal settlement, Zaria.
4. To make workable recommendations for sustainable housing finance for prospective self-built housing developers in formal settlements of Nigeria.

## **STUDY AREA**

### **Location and Size**

The Kabama residential settlement is located in Zaria urban area under the Sabon-gari Local Government Area of Kaduna State. It is more precisely located at the northwestern part of Zaria urban area. It is bounded by a stream to the north, Kano to Kaduna dual carriage way to the south, layin Zomo to the west and dogarawa to the east. Kabama layout is located between latitude 11.138<sup>0</sup> North and longitude 7.704<sup>0</sup> East. It occupies a total land area of about 146.81 hectares on a regional plain of Zaria. It was originally a forestry under the Kaduna State Ministry of Agriculture before the administration of Governor Ahmed Makarfi converted it into a government residential layout of about 500 serviced plots. At present, four additional layouts have added to the initial 500 plots.

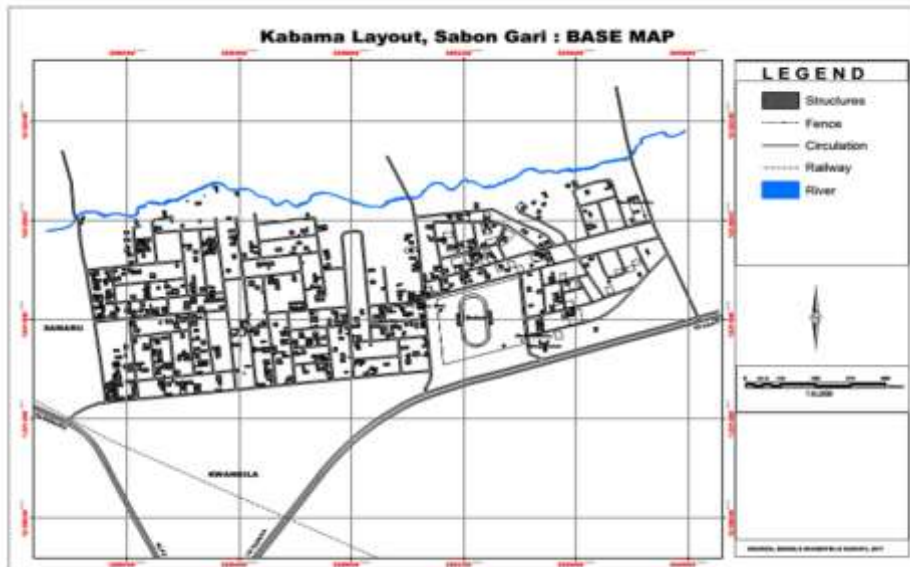


Fig. 1 Base Map of Kabama Layout

Source: Kaduna state Ministry of Lands and Survey

Kabama layout has been experiencing growth since when the government declare the settlement as a layout. The pattern of development is such that more residential buildings are present with little commercial and public uses. And the development is springing up towards the four direction of the layout. The area is experiencing rapid growth as a result of the good terrain nature and the good accessibility within the area. Also looking from all the directions, the level of development is similar, meaning that the development is coming up in all the angles and the same speed. The layout displays a good circulation pattern with access roads linking all the angles of the settlement. The settlement is following the same pattern with the road circulation exhibiting the characteristics of the layout.

#### Land Use Composition in Kabama Layout

Basically, Kabama layout consist of commercial, residential and public land uses. It has a total land area of 146.81 in hectares which are equivalent to 1468100 in meter square. From this figure, the individual land use percentage distributions are given as follows

**Table 1 Characteristics of land uses distribution in Kabama mixed layout**

<i>LAND USE</i>	HECTARE	PERCENTAGE (%)
<i>Residential</i>	88.09	60.01
<i>Commercial</i>	0.45	0.31
<i>Circulation</i>	22.45	15.01
<i>Public</i>	2.51	1.71
<i>Open space</i>	33.31	22.16
<b><i>TOTAL</i></b>	<b>146.8</b>	<b>100%</b>

Source: KASUPDA

### **Housing Finance Systems in Nigeria**

The housing finance for the low income group is difficult in a developed country but it is even more difficult in developing countries (Soedamah, 2011). The Nigerian housing finance market is structured along informal and formal sectors. The informal sector includes the *esusu* (rotating savings and loan associations), the traditional co-operative system, credit co-operatives, and individual and family savings (FinMark Trust, 2010). The operation of this sector is difficult to quantify as they operate on transfer of cash and kind. These includes donations of land, building materials, cash assistance or sometimes any of these could be in form of loan. The operation of the formal sector can be classified into Non-specialized Housing Funding Institutions and the Specialized Housing Funding Institutions. **The Non-Specialized Housing Funding Institutions** includes the Employees Housing Schemes & National Housing Fund, Commercial, Merchant Banks and Insurance Companies. The Employees Housing Schemes & National Housing Fund were requires among others, large employers of labour specifically those who either have not less than 500 persons in their employment in any state to establish a housing scheme for their employee. The commercial and merchant banks always held a very significant proportion of the mortgage assets within the formal lending sector prior to the National Housing Fund Decree. Though with the high interest rate in the financial market, commercial and merchant banks are now reluctant to finance housing projects except where the houses are to be placed in the market for outright purchase. While insurance companies were obliged to invest not less than 25% of their life funds in real estate. This was not satisfactorily complied with by these companies because there are many

other alternative investments into which they can inject policy holders fund and achieve better investment returns.

**Specialized Housing Funding Institution** in Nigeria include the following: The Federal Mortgage Bank of Nigeria (FMBN) , Primary Mortgage Institutions (PMI), Housing Corporations and Urban Development Bank. Among the major responsibilities of the FMBN are: the provision of long-term credit facilities to mortgage institutions in the country; encouragement and promotion of development of mortgage institutions at state and national levels, supervision and control of the activities of mortgage institutions, mobilization of savings particularly through the National Housing Fund. The National Housing Policy also led to establishment of Primary Mortgage Institutions (PMI) in Nigeria. PMI most of their operations were confronted with problems which resulted into the situation whereby most of the PMI's have their offices closed. Housing corporations were established to make available to Nigerians long term credits for housing development. Having realized this shortcoming in their operations many state governments have established property finance agencies, such as the Kaduna State Development and property Company (KSDPC) to improve their services. The Urban Development Bank of Nigerian (UDBN) Plc, was established to foster the rapid development of urban infrastructure throughout the federation through the provision of finance and banking services (Zubairu, 1997). It is in the context of infrastructure that the issue of housing finance became part of the bank responsibilities. Other institutions such as community association, non-governmental organizations are also involved directly and indirectly in housing delivery process in Nigeria.

### **Challenges of Housing Finance in Nigeria**

According to FinMark Trust, (2010) report, the Nigerian housing sector has an affordability challenge. Housing delivery is targeted mainly at the middle-high income segment of the population that can either pay cash or access mortgage finance from the banks. The affordability parameters inherent in the mortgage instrument limit access by the low-income population. Opportunities to address this market are limited by expensive building materials and the lack of local capacity to produce the supply chain components. FinMark Trust (2010) also identified other challenges to the development of the Nigerian housing market which includes:

#### **i. Macroeconomic challenges**

**Inflation:** Inflation in Nigeria is still in double digits. Investors, lenders and borrowers prefer a stable economy where decisions can be taken without trepidation.

#### **ii. Policy and regulatory challenges**

**Land Use Act:** The Land Use Act of 1978 has become an obstacle to making land available for housing. The Act has been blamed for the prolonged bureaucratic process of obtaining the Certificate of Occupancy.

**Taxes, stamp duties and fees:** The tax burden on housing development in Nigeria is enormous. Value Added Tax(VAT), which is collectible at various levels of the building process, adds as much as 30% to the total cost of a house.

**Property registration:** Registering property is generally slow and expensive. However, there has been some improvement since 2008 when the World Bank's *Doing Business 2008* report recorded that reforms had led to a reduction in the time required to complete the process from 274 to 80 days.

#### **iii. Financial sector challenges**

**Insufficient capital base:** The inadequate capital base of most primary lenders limits their ability to provide needed finance to meet market demand.

**Funding challenges:** The market is characterized by high interest rates, which are a reflection of the source of funds which is predominantly short tenured (30days, 60 days and 90 days).

**Unavailability of secondary market:** There is no efficient secondary mortgage market linked to capital markets and institutional investors. This puts enormous burden on PMIs or housing finance institutions to carry the mortgage loans to maturity.

**Lack of credit enhancement vehicles:** To extend mortgages to low-income levels, there needs to be some credit enhancement like mortgage insurance to guarantee credit risks up to certain loss levels for loans with high loan to value ratios.

**Skilled manpower:** There is limited capacity for the requisite skills required in the mortgage market in Nigeria.

#### **iv. Housing sector challenges**

**High cost of building materials:** Nigeria imports about 60% of the building materials required for housing development. This is a key factor for the high cost of houses.

**Infrastructure:** Infrastructure accounts for about 25 to 30 percent of housing costs. It is a major determinant in the delivery of affordable housing. Government has neglected this area and developers now provide same, thus increasing the cost of houses.

### Design of the Study.

The study adopted a descriptive survey approach. This was aimed at assessing the access to finance for housing development in kabama residential settlement, Zaria and how it has affected the quality and architecture of the buildings. The main instruments for data collection was the questionnaires but it also included secondary sources and interviews. Information on respondents' attempt at accessing finance for housing development was obtained from residents of Kabama urban area in Zaria. The questionnaire was administered in a building with the household owner chosen as the respondent. A sample size of 60 out of the 120 households which forms 50% of the residents was therefore selected. The method used was a lottery method of simple random sampling to select various residents and head of households.

Secondary data were collected through review of literature comprising of textbooks, journals, technical reports, newspaper publication, internet and unpublished works. Most of these are government publications decrees, FMBN publication amongst others.

A combination of content analysis of the questionnaires and descriptive statistics are used in data analysis. Frequency tables and percentages will be used to explain the results of the study.

### Data Analysis and Findings

#### Demography

**Table 2: Gender of respondents**

<i>Gender</i>	Frequency	Percentages (%)
<i>Male</i>	58	96.7
<i>Female</i>	2	3.3
<i>Total</i>	60	100



**Table 3: Age bracket of respondents**

<i>Age</i>	Frequency	Percentages (%)
<i>18-24</i>	0	0
<i>25-34</i>	0	0
<i>35-44</i>	4	6.7
<i>45-54</i>	23	38.3
<i>55 and above</i>	33	55
<i>Total</i>	60	100

**Table 4: Educational level of respondents**

<i>Age</i>	Frequency	Percentages (%)
<i>Non formal</i>	0	0
<i>Primary</i>	0	0
<i>Secondary</i>	15	25
<i>Tertiary</i>	45	75
<i>Others</i>	0	0
<i>Total</i>	60	100

**Table 5: Occupation of respondents**

<i>Occupation</i>	Frequency	Percentages (%)
<i>Civil servant</i>	43	72
<i>Private business</i>	8	13
<i>Farming</i>	8	13
<i>Others</i>	1	2
<i>Total</i>	60	100

**Table 6: Monthly Income of Respondents**

<b>Income</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Below 10000	0	0
10000-20000	4	6.7
20000-30000	4	6.7
30000-50000	0	0
Above 50000	52	86.6
Total	60	100

Table 2 shows that we have more males with the owner occupier status at the study area and it stands at 96.7%. Table 3 shows the age bracket of the respondents with ages 55 and above carrying the highest at 55% and 35-44 age group is lowest at 6.7%. Table 4 shows the educational level of respondents in the study area and it shows that 75% attained tertiary education while 25% have only up to the secondary school certificate level. Table 5 shows that majority of them are employed in the civil service which stands at 72%. The implication of tables 2-5 indicates that we have more male developers who are civil servants and almost at their retirement ages. They are highly dependent on their monthly salaries. Table 6 shows that most respondents income were within 50000 and above with 86.6% while those within 10000-20000 and 20000-30000 had 6.7% each respectively.

#### Objective one: Types/Characteristics of Housing Development in Kabama Estate

**Table 7: Type of Housing Developments by Respondents**

<i>Dwelling Type</i>	Frequency	Percentage (%)
<i>Bungalow</i>	32	53.3
<i>Semi-detached</i>	16	26.7
<i>Duplex</i>	8	13.3
<i>Row housing</i>	4	6.7
<i>Others</i>	0	0
<i>Total</i>	60	100

**Table 8: Characteristics of Houses in Kabama layout**

<i>Character of dwelling type</i>	Frequency	Percentage (%)
<i>Completed and Occupied</i>	43	71.7
<i>Uncompleted and Occupied</i>	17	28.3
<i>Total</i>	60	100

**Table 9: Duration taken to Build by respondents**

<i>Duration</i>	Frequency	Percentage (%)
<i>1-10</i>	36	60
<i>11-15</i>	12	20
<i>16-20</i>	12	20
<i>21-25</i>	0	0
<i>26 and aboves</i>	0	0
<i>Total</i>	60	100

Table 7 shows that bungalow were the most dwelling type built by the respondents and about 71.7% are completed and occupied while 28.7% represents the uncompleted and occupied as indicated in Table 8. Table 9 indicates that most respondents took between 1-10 years to build their house. The implication of tables 6-9 is that most respondents income level had a direct implication on the type/characteristic of dwelling and duration to build.

**Objective 2: Sources and Challenges of Finance for Housing Development by the Respondents**

**Table 10: Sources of Finance for Housing Development by the Respondents**

<i>Source</i>	Frequency	Percentage (%)
<i>Personal saving</i>	44	73.3
<i>Cooperative loan</i>	9	15
<i>Donation</i>	2	3.3
<i>Loan from NHTF</i>	0	0
<i>Inherited</i>	1	1.7
<i>Commercial Bank loan</i>	4	6.7
<i>Total</i>	60	100

**Table 11: Mode of Personal Saving by Respondents**

<i>Mode of Saving</i>	Frequency	Percentage (%)
<i>Daily Savings</i>	3	6.8
<i>Monthly Savings</i>	37	84.1
<i>Annual Savings</i>	4	9.1
<i>Others</i>	0	0
<i>Total</i>	44	100

Table 10 shows; personal savings is the single most important source of fund for housing development in the study area and it stands at 73.3% while loan from NHTF is lowest at 0%. Table 11 shows that the monthly mode of saving is most important.

**Table 12: Convenience of repayment for Cooperative Loans**

<i>Response</i>	<b>Frequency</b>	<b>Percentage</b>
<i>Yes</i>	9	100
<i>No</i>	0	0
<i>Total</i>	9	100

100% of the respondents who took cooperative societies loans were charged 10% interest rate yearly and monthly deductions were made for repayment. They all found the repayment mode convenient.

**Table 13: Convenience of repayment for Commercial Banks**

<i>Response</i>	<b>Frequency</b>	<b>Percentage</b>
<i>Yes</i>	2	50
<i>No</i>	2	50
<i>Total</i>	4	100

The respondents who took commercial bank loans from table 13 were charged between 10%-15% interest rate yearly and monthly deductions were made for repayment. There was a split in the convenience of the repayment mode, that is, 50% a piece.

### **Challenges of the various Sources of Finance by the Respondents (Themes derived from the open ended questions in the questionnaire)**

#### **1. Personal Income/Savings**

i. **Difficulty in saving a substantial amount of money to put into the project;** Observations from table 11 also corroborated with this. Most residents were only able to save a little amount from their monthly income.

ii. **Delays in project completion;** Observation from table 9 also indicates that 60% of the respondents spend between 1-10years in building their personal houses. This is as a result of the financial demand on building personal houses thereby resulting in delay of the completion time. It also means additional cost will be incurred as the cost of building materials continue to increase in the

market. The implication of this is that many of the respondents moved into their buildings uncompleted while others have to wait longer or don't get to have their ideal house.

## 2. Cooperative loans

**i. Inadequacy of the loans;** The loans obtained by many of the respondents through the cooperative societies are grossly inadequate to erect a decent accommodation. As most loans from the cooperatives are between five hundred thousand naira (N500000) to one million naira (N1000000). Therefore, they have to take loans multiple times to get sufficient funds.

## 3. Commercial Bank loans

**i. High interest rate charge on loans;** The high interest rate charge on bank loans as compared to the cooperatives societies may have informed the reason for the large number of respondents that patronized the cooperative societies and the of personal income.

**ii. Short repayment time;** Commercial banks gives short term loan to prospective borrowers. Housing development is capital intensive in nature and as such need long term loan with sufficient capital. With the high interest rate and short repayment time not many were able to bear such burden.

**iii. Lengthy procedure to access loan;** The conditions attached to accessing loan for housing project by commercial banks have made many of the respondents not to seek finance from the banks. The issue of 2.5% down payment is a great challenge to low income earners who often finds it difficult to raise such money.

## Awareness of the NHTF Scheme

**Table 14: Awareness of the NHTF Scheme**

<i>Response</i>	Frequency	Percentage
<i>Yes</i>	20	33.3
<i>No</i>	40	66.7
<i>Total</i>	60	100

From table 14, 66.7% of the respondents were not aware of the NHTF scheme while the remaining 33.3% that were aware didn't go through any form of Government intervention because of its cumbersome.

**Objective 3: Impact of the non-availability and availability of finance on the quality of housing developments**

### **i. Building appearance and finishes**

From the field survey and interviews, it showed that the inability to access finance gave birth to different categories of dwellings based on appearance and finishing in the settlement such as the uncompleted and occupied and the completed and occupied. From interviews and the administered questionnaires, it showed that a great number of the completed and occupied houses are not to the ideal taste as initially conceived by the respondents as certain changes had to be made on the approved building design due to inadequate finance.

### **ii. Comfort**

From field survey and administered questionnaires, it showed that comfort of the occupants were compromised such as insufficient number of openings to bring about cross ventilation within spaces and also low headroom of spaces. Furthermore, low quality materials which are detrimental to health of the household were used, all because of difficulty in accessing finance.

### **iii. Building Structure and Stability**

Field survey showed that a great number of buildings especially the duplexes, their structure and stability is of low quality due to the inability to get the services of a structural engineer which still bows down finance.

## **Inferences from Study**

- i. There are more male developers who are civil servants and almost at their retirement ages.
- ii. They are highly dependent on their monthly salaries.
- iii. Most respondents income level had a direct implication on the type of dwelling and duration to build.
- iv. Major source of finance for housing developments was from monthly personal savings and cooperative loans.
- v. The challenges of accessing housing finance was due to the lengthy and cumbersome process it involves and the non awareness of the NHTF scheme.
- vi. The inability to access finance impacted on the quality of building appearance and finishing, comfort level and building strength and stability.

## **Conclusion and Recommendations**

### **Conclusion**

The inadequacy of government's previous policies to address affordability issues is the bane of the housing finance sector. Despite government's inability to meet the housing finance need, the low and middle income population have

been able to access shelter in some form resulting in dwellings that do not meet up with the standards of the established settlements. As the study has showed, it is mostly through personal income and cooperative societies residents raise funds for housing. The NHTF scheme, in spite of the money it has collected from workers so far, has been unsuccessful in rising to the challenge of providing housing finance for Nigerian workers. The scheme is burdened with loopholes that have rendered it ineffective in assuaging the housing needs of workers.

### Recommendations

From the study, it is obvious that access to finance for housing development is still far from the reach of the residents in the study area and Nigerians at large. Therefore, the following recommendations have been drawn out to make workable provisions to improve the accessibility to housing finance:

- Policies and programmes of government should be aimed at the low income segment focusing on assisting them to acquire, build or improve their homes through easy accessibility to land and securing of title documents.
- Government should also provide mechanism for regulation of lending rates in the private sector so that low income earners will get access to cheap credit for home acquisition.
- Government should intervene and complete the mortgage sector reforms and provide incentives that will expand the scope of delivery of the cooperatives.
- Some form of arrangements should be made to link informal housing finance arrangement with formal finance mechanism since most of low income earners built their houses mostly through informal arrangements.
- Government should embark on aggressive publicity of the NHTF so as to make it known to all Nigerians thereby correcting some of the misconception on the programme.
- Public and private sectors should look critically at deploying housing microfinance in Nigeria. It functions by providing small, short-term loans to match step-by-step housing construction that the lower-income segment can afford.

- Basic building materials should be given tax and duty relief and government should develop incentives to encourage both the public and private sectors to use indigenous building materials

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