

Housing Finance in Nigeria

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Abstract

The purpose of this paper is to find out the reason why housing finance system remained inactive and irrelevant in the drive towards housing delivery. The paper examines evaluation of the existing structure and secondary data were obtained from existing literature on books, journals and housing finance market. The National Housing Policy provided a solid background needed for understanding the operation of the market. The historical survey approach revealed the reasons for failure of existing practice. The objective of this paper therefore is to give you an insight into the financing option for the construction of housing in Nigeria given the existing financial structures and the framework specified in the New National Housing Policy. Construction materials and housing design play a crucial role in this overall financial play. The conclusion is that we cannot copy models from other nations but rather evolve workable models based on our socio-cultural background. Recommendations are made in this regard.

Keywords: Housing; Housing Policy, Financial Institutions, Housing Finance

1. INTRODUCTION

Housing has been universally recognized as one of the most essential necessities of human life and is a major economic asset in every nation. Adequate housing provides the foundation for stable communities and social inclusion (Oladapo, 2006). Gilbertson et al. (2008) have observed that there is a significant association between housing conditions and physical and mental health of an individual. People's right to shelter is thus a basic one and the provision of decent housing to all requiring them should be the hallmark of every civilized society and one of the criteria for gauging development.

However, the provision of adequate housing in Nigeria and other developing nations alike still remains one of the most intractable challenges facing human and national development. Previous attempts by all stakeholders, including government agencies, planners and developers to provide necessary recipe for solving the housing problem have yielded little or no success.

2. LITRATURE REVIEW

2.1 *The Housing Situation in Nigeria*

The housing situation in Nigeria is characterized by some inadequacies, which are qualitative and quantitative in nature (Oladapo, 2006). While the quantitative housing problem could be solved by increasing the number of existing stock, the qualitative inadequacies are enormous and complex. Despite Federal Government access to factors of housing production, the country could at best expect 4.2% of the annual requirement from her. Substantial contribution is expected from other public and private sectors.

Various studies have, at different times, revealed the problems of housing production. Teufic and Ural (1978) Ogundele (1989) Agbola (1987) Okpala and Onibokun (1986) recognized finance as part of housing problems but ranked land and building materials higher. Their findings influenced government housing policies and subsequent establishment of some relevant programmes and institutions like the Site and Service Programme and the National Institute of Road and Building Research. The drought of information and working knowledge of housing finance operation is a major problem today.

In a tight money market, housing is the first area to suffer, since neither the builder nor the consumer can readily obtain finance for housing. Actually, many builders have difficulty obtaining capital for their projects even in normal times. Two of these problems – the high interest rates that contribute to the high cost of housing and the difficulty in obtaining capital for home construction. According to Onabule (1996) 245 Primary Mortgage Institutions were established under the NHP within 1991-1996. Unfortunately, only 54 are now operating, mainly in South West part of the country and Abuja. According to Abiodun (1999), National Housing Fund collected about 4 billion naira from the Mandatory Saving Scheme. Out of N300 million loan approved by FMBN, only N100million was advanced.

2.2 Historical Background of Housing Finance

This section summarizes the previous studies on historical background of housing finance in Nigeria. According to Arilesere (1997), Abiodun (2000) and Okupe et al (2000), the history of housing finance in Nigeria had been an appalling one. The sudden leap from Agro-based to Petro-Naira based economy did not help matters. The assertion that “money was not our problem but how to spend it” accredited to one of our Heads of state, is a summary of a Nation that lacked focus in the formative years. This situation together with unprecedented population growth has remained unchecked ever since.

Housing finance, during the colonial days was limited to the expatriate staff and few selected indigenous senior civil servants in the urban countries. The establishment of Lagos Executive Development Board (LEDB) in 1928; Nigeria Building Society (NBS) in 1956; formation of State Housing Corporations between 1956 and 1960; National Council of Housing 1971 and, Federal Mortgage Bank of Nigeria (FMBN) 1977 are very familiar developments in our history. The failure of these incremental housing production programs and the ever-increasing housing needs led to the promulgation of National Housing Policy of 1991.

2.3 Review of Existing Financing Framework

A financing framework which facilitates financial intermediation for housing finance consists of institutions as well as their relationship and the processes involved. However, the emphasis in this review will be on relevant institutions and their activities.

In Nigeria, housing is typically financed through a number of institutional sources: Budgetary appropriations, Commercial/Merchant Banks, Insurance Companies, State Housing Corporations and the Federal Mortgage Bank of Nigeria (FMBN): and newly established Mortgage Institutions, all these constitute the formal institutions. Informal institutions such as thrift and credit societies, and money lenders who have contributed and are still contributing substantially to the finance of housing construction also persists. The impact of these informal institutions however cannot be properly quantified because they are largely uncoordinated, scattered and varied in scope and operational depth.

For a more detailed literature review, the reader is directed to any of a number of surveys of various approaches, including (Ajanlekoko, 2001), (Nubi, 2000), Windapo (2000) and Okupe (2000), Zubairu (2000), Akele (2000), Okupe (2000) and Agboola T. (2000).

3. METHODOLOGY

In order to reach the above mentioned objectives, the study included secondary data. The secondary data involved available census data, official documents, the national housing policy and other relevant secondary data were obtained from existing literature, on books, journals and housing finance market.

4. RESULT, ANALYSIS AND INTERPRETATION

4.1 Evaluation of Existing Methods of Finance

4.1.1 Traditional Methods

Prior to the colonial period, many methods of housing finance were adopted in different parts of the country. Amongst these are Esusu and Ajo, Age grade association, Village development scheme, and Town unions of people living outside their place of birth. Others are Men's revolving loan association, Loans from traditional moneylenders, Social club contributions, Aaro or Owe where members contribute in kind by providing labour on members' site until the circle is completed.

4.1.2 Modern Methods

The sources of housing finance in existence today can be grouped into two that is, Formal and Informal sectors. The formal sector comprises institutions operating within the statutory guideline stated by Federal Government. Among these are: FMBN Commercial Banks Merchant Banks Specialized Development Banks Insurance Companies and Pension Fund. Some informal sector finance sources for housing are as follows: Personal Savings, Individual moneylenders and, Voluntary Housing Movements.

4.2 Housing Finance Problems

4.2.1 Cost of Construction and Income

According to Windapo (2000) and Okupe (2000) the gap between income and shelter cost in Nigeria is very wide.. High cost had been attributed to the rising cost of building materials.

4.2.2 Land

Land question constitutes a major problem in home ownership or housing development. The degree of accessibility in terms of availability and cost remain a big challenge. The cost of urban land is a big discouragement to urban poor.

4.2.3 Construction Industry

According to Zubairu (2000), the absence of large real estate development companies with access to the relevant

technology and financial muscle to develop cheap houses on mass scale for the urban poor is a drawback to our housing delivery system. According to Zubairu (2000), Windapo (2000) and Odusami (1998) the reliance on quacks is one of major back in the industry.

4.2.4 Savings

This involves a proper understanding of the three basic motives for holding money - transaction balance, contingency balance and investment balance. There are two types of saving which are voluntary and compulsory Savings.

4.2.5 National Housing Fund (NHF)

For a housing finance system to be successful, a continuous flow of fund must be guaranteed. The data released by FMBN, the administrator of the fund, gives a picture of the status quo of the fund.

5. RECOMMENDATION FOR AFFORDABLE HOUSING DELIVERY SCHEME

There are several affordable housing schemes that are either fully funded by government or in partnership with the government under the Public Private Partnership (PPP) scheme. In some cases selected developers were given some kind of concession by government with the aim of providing affordable housing for instance, in the Federal Capital Territory. Such efforts were further complemented with the Private Finance Initiative (PFI). Jibrin, 2009 further argued that while the quality of the existing stock is also under a heavy scrutiny in term design and desired functions including acceptable livable neighborhood, 87% of the existing stocks are backlogs which are stocks that do not meet the minimum quality requirement.

5.1 Site and Services Scheme /Upgrading Schemes

The pressure for this came from the international lending community and in particular the World Bank. Given the rising figures of 'spontaneous or squatter settlements', in cities all over the third world, in the face of tight planning control, regular demolitions, and high-cost construction programmes, the World Bank argued for a new approach to urban development which incorporated various forms of aided self-help (World Bank, 2003). The two 'packages' which received the most support were sites and services scheme, and upgrading schemes.

Essentially, the first provided low-income beneficiaries with serviced plots including tenure security and help to build their own houses; the second approach helped House-owners in existing squatter areas obtains tenure to their land, and to improve their dwellings. Many of these sites exist all over the country essentially provided by the government. And, in spite of the fact that they may help to improve tenure security, the programme is capital-intensive in nature and the initial target population, low-income, usually do not benefit from them. Aluko (2002) opined that the cost attached to each plot is usually beyond the reach of the urban poor.

6. CONCLUSION

The need for housing in Nigeria is enormous. This section reviewed the theoretical issues underpinning the delivery of housing. The various public and private interventions in housing delivery strategies have been examined. This paper has identified and discussed the various problems that have bedeviled the provision of housing in Nigeria, the various policies the government has put in place to counter these problems, the short comings of these policies and suggested some possible practical solution to these problems.

Therefore, in order to increase housing stock in Nigeria there is the need to incorporate affordable housing delivery scheme into the formulation and implementation of housing policies and program which should not be at the exclusive preserve of federal government at the exclusion of governments at local government level.

There is a need now, to reach out and effectively involve the people and governments at grassroots levels in the formulation of housing policies. The Federal government has been directly involved in the construction of buildings for all categories in the past and even presently. It is now necessary that housing must be considered as a personal service and as such, the primary responsibility of housing should not be left with the people themselves who, however, should be assisted in some ways in order to realize their aspirations for self-actualization of owning individual houses.

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