

Financing Housing Services Delivery and Its Challenges in Nigeria

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Abstract

Financing of housing delivery by government is a pivot to sustaining development. Housing by nature has become an economic tool fostering Gross Domestic Product (GDP) of developed countries like Britain and United States of America. In Nigeria, housing finance suffered shortage of funds; corruption, low number of committed financial institutions, and the Federal Mortgage Bank of Nigeria (FMBN) has not made it easy for other institutions to access funds. This paper examined the role of government in financing housing and the challenges associated with it. It discovered that the finance system used by government has not been effective, and there is politicisation of governmental activities. The paper concluded by recommending ways of addressing the challenges encountered in the process such as creating enabling environment for investors, provision of necessary funds for housing and promoting housing business to mention a few.

Keywords: Housing Finance, Government, Finance, National Housing Policy, Housing Finance System

1.0 Introduction

Universally, governments are saddled with the responsibility of either providing the needed and necessary services or creating a conducive environment for the services to be provided. Among these services is housing which is a basic necessity of life. The status of housing as a necessity cannot be overemphasised. Akeju (2007) defined it as a basic human need. UNCED (1992) defined housing as a pre-requisite to human survival, while National Housing Policy of Nigeria (2012) described "housing as the process of providing safe, comfortable, attractive, functional, affordable and identifiable shelter in a proper setting within a neighbourhood, supported by continuous maintenance of the built environment for the daily living activities of individuals/families within the community, while reflecting their socio-economic, cultural aspirations and preferences. In addition, housing includes the sustainability attributes of energy efficiency and resource conservation for improved quality of life". This definition shows the need for funds in order to realize the goal of housing. However, the question is, what role is government playing in financing housing?

In Nigeria, financing of housing has continued to dwindle. The clamour for investment in housing has achieved little or no significant success, thereby, having more citizens in homeless situations. Unfortunately again, the advent of private investors in financing housing has made the situation more pathetic. It has resulted in unbearable prices of the houses in major cities like Abuja, Lagos and Port Harcourt. This paper seeks to review the concept of housing and housing finance, examine the role of government in financing housing and the challenges faced in its financing.

2.0 Concept of Housing

The definition or understanding of what housing is differs from country to country likewise with scholars. The National Housing Policy (2002) called it a process. This means that housing cannot stand on its own. It interacts with other sectors such as the financial sector, environment and business (private) sectors. This indicates that housing is a combination of services (Agbola, 1998). Bourne (2007) stated the following as definitions for housing:

- (i) It is a physical facility, unit of structure, which provides shelter to occupants.
- (ii) It is an economic good or commodity which is traded, engaged in a market as an investment.
- (iii) It is a package or bundle of services. This recognises that the occupancy of housing involves the consolation of services such as parks, schools, health institutions and location and proximity of certain types of labour.
- (iv) It is a social or collective good.
- (v) It is a means of producing wealth and tool of government to regulate economic growth.

The second definition by Bourne is key to this paper because it views housing as an economic good that is to be invested in. It avers that financing such commodity will yield interest that is capable of boosting a nation's economy. Countries with great economies were able to achieve this feat through housing services delivery. For instance, in United States of America, Canada and Great Britain, the housing sector contributes between 30% to 70% of their Gross Domestic Product (GDP), while housing in Nigeria contributes only 0.38% to the nation's GDP (NHP,2012).

3.0 Housing Finance

Finance is an important aspect of any form of progressive development. Unfortunately, if this is not well taken

care of, it can also be a clog in the wheel of development. Agbola (2005) cited by Ifesanya (2012) described housing finance as the corner stone of housing construction. This implies that the implementation of housing finance is not made available to execute the goals. Hence, housing policy is hinged on sustainable finance (NHP, 2012).

International Union for Housing Finance (IUHF, 2013) averred that housing finance is broad and can vary across continents, regions and countries. The meaning may be different in developed countries when compared with developing countries. King (2009) opined that 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, However, It also refers to the money we need to pay for it, in the form of rents, mortgage loans and repayments. The perspective of Ifesanya (2012) declared that housing finance goes beyond just construction of housing units. It extends to using such funds to engage both artisans and professionals in the building industry thereby creating a window of investment for the citizens. Shuiabu (2007) described this when he analysed that in the process of building 2 or 3 bedroom house not less than a dozen persons, skilled and unskilled ranging from labourers, masons, carpenters, structural and electrical engineers and surveyors would have been provided employments. This shows the beauty of housing finance because of its capacity as an employment factor and a tool for economic growth.

3.1 Housing Finance System in Nigeria

Adebawomo, Oduwaye and Oduwaye (2012) classified housing finance into two namely Informal and Formal sectors. This paper will consider that formal sector mentioned in the National Housing Policy. The Policy mentioned the Federal Mortgage Bank of Nigeria, Primary Mortgage Bank Institution, and National Housing Fund.

Federal Mortgage Bank of Nigeria (FMBN)

This is the Federal institution that is saddled with the responsibility of giving out loans to intending landlords, Federal Housing Authority (FHA) and Real Estate Developers. The Federal Mortgage Bank of Nigeria operated as a secondary mortgage market (Bala and Bustani, 2012) which made it difficult to access funds. The Federal Housing Authority (FHA) has had to complain about shortage of funds for construction of houses while the private developers claim that funds released by FMBN are not made available to the real developers rather such funds get into the hands of politicians who are not involved in the housing business.

The Primary Mortgage Institution (PMI)

This is an avenue created by government in the National Housing Policy of 1991. This was done through Mortgage Institutions Acts (No. 53 of 1989) which established and outlined the goal of the institutions. A sizeable number of these institutions were unable to commence or be established because of their inability to set up a capital base running to millions of Nigerian Naira. FMBN (2016) website shows that there are only 35 PMIs registered in the whole Federation. Figure 3.1 shows the distribution of PMIs across the Federation.

Table 1 Distribution of Registered Primary Mortgage Institutions Across Nigeria

Location of Primary Mortgage Institutions	Number
Lagos	18
Abuja	8
Abia	1
Ogun	1
Akwa-Ibom	2
Oyo	1
Osun	1
Jigawa	1
Delta	1
Kebbi	1

Source: FMBN Website January, 2016

The distribution shows that the registered PMI are found in 9 states and Abuja out of the 36 states in the Federation. This confirms the inability of investors to raise funds for housing despite the legal backing given to its establishment.

National Housing Fund

The National Housing Fund Act of 1992 was promulgated with the aim of -

- (a) facilitating the mobilisation of the fund for the provision of houses for Nigerians at affordable prices;
- (b) ensuring the constant supply of loans to Nigerians for the purpose of building purchasing and improving of residential houses; and
- (c) providing incentives for capital market to invest in property market.

However, these goals are still yet to be achieved in several states of Nigeria. A study on housing recently carried

out among civil servants in Oyo State revealed that 100% of the respondents were yet to benefit from National Housing Fund even after contributing into the trust funds over a few years (Alamu, 2012).

4.0 Role of Government in Housing Finance

The importance of housing to man is evident in the cry of man for a decent shelter. However, housing has gone beyond a covering to protect people from rain, excessive heat or cold as opined by Agbola (2005) but it has now become a socio-economic status and means of investment (Aribigbola, 2000). The desire to build a stable economy for nations has moved governments of different nations to finance the housing sector. For instance, housing contributes between 30-70% to the Gross Domestic Product (GDP) of Britain and Canada (NHP, 2012) and this has strengthened the economies of these nations. A fast growing economy like South Africa turned into investing in housing after suffering from effects of global economic crisis. This reflects the eminent role that housing plays in the economic development of nations. Nigeria as a nation is not left out of investing in housing, though the contribution of housing to Nigeria's economy is at a low rate of 0.38% (NHP, 2012). It is therefore expedient to analyse the role of the government in financing housing.

After Nigeria's independence in 1960, the government embarked on economic growth drive of which housing was a crucial part. However, this suffered a setback during the civil war. Initially, government earmarked a sum of N26 billion for this sector in order to construct a total of two hundred and two thousand housing units. Unfortunately this goal was not realised as planned. It led the government to re-strategise through the establishment of the Federal Mortgage Bank of Nigeria in 1977, having a substantial amount of N20 million. By 1979, it had an increase of 750% showing a sign of commitment on the part of government. During the Second republic, the regime at the helm of affairs budgeted N19 billion for housing. Eventually, a paltry sum of N600 million was spent on National Housing Programme. This seems appalling because the result of investment on the overall housing development is negligible (NHP, 2006). At this period, government had politicised its activities. Contracts and funds were released to party faithful and loyalists of their government. In the early 1990's, when government saw that it could not wholly finance the housing sector it extended funding of this sector to private developers. This was the views of scholars like Agbola (1998) and Freedon (1969). In line with the view, Obasanjo's civilian administration introduced new initiatives in housing delivery to cushion the effect of inadequate housing in the nation.

In spite of all these efforts, the housing delivery system is yet to attain an appreciable height. The problem of housing is connected to government's inability to utilise available financial resources for housing and the non-functioning housing finance system. This was corroborated by Demir, Kurt and Cagdas (2003) stating that there is no sufficient housing finance system in developing countries.

5.0 Challenges

The challenges encountered in financing housing in Nigeria and many developing countries are enormous. The global economic meltdown being experienced of recent has made the problem a difficult one to resolve. Coupled with this, is the lack of capital in the Nigerian economy. The country runs a mono-economy by over-relying on crude oil sales but the fall in oil prices from \$109.45 in 2012 to \$26.94 in 2016 (Organisation of the Petroleum Exporting Countries, 2016) has put the nation in a situation of dire need for funds. This problem has made the government of Nigeria to merge the Ministry of Housing with that of power and works.

The inflation rate in Nigeria as at March, 2015 is 8.5% (Central Bank of Nigeria, 2015) which is a challenge that affects the budget on housing. It makes the money released at the beginning of the year insufficient to meet up with housing target when inflation sets in.

The private sector is afraid to invest their money into housing especially in major cities due to instability of policies and the weak implementation of these policies. In a review of challenges encountered during the implementation of past policies it was observed that there is an absence of way to mobilise and channel housing finance effectively (NHP, 2012). This gave birth to the formulation of 2012 National Housing Policy and presently the policy is being looked into because of its failure in achieving certain goals.

Corruption on the part of public officials cannot be ignored. This issue of corruption in Nigeria is endemic and has eaten deep into the fabrics of our national life. Public officers, high and low are corrupt through and through. Between 1960 and 2006 the fund looted from the nation's treasury runs to \$380 billion (Ribadu, 2006). This is why President Buhari's government is fighting this menace on all fronts.

6.0 The Way Forward

The government and other major stakeholders in the housing industry such as Federal Mortgage Bank of Nigeria (FMBN), Federal Housing Authority (FHA) and Real Estate Developers Association of Nigeria (REDAN) should embark on massive enlightenment campaign on the need of housing provision as envisioned in the National Housing Policy. This will make the citizens to support the drive of government in their mission to provide a viable economy and sustainable development in the society. The support will be tantamount to

cooperation both on the part of citizens as well as the stakeholders.

The government should give needed financial support to the financial system most especially the Federal Mortgage Bank of Nigeria. It will help to strengthen the operational potential of the bank (EFInA, 2010). Proper funding of Federal Mortgage Bank will make it easy for funds to be disbursed to institutions such as the Federal Housing Authority (FHA) and Real Estate Developers Association of Nigeria (REDAN) at reasonable interest rates. This step will increase the supply/construction of housing units thereby reducing the struggle of citizens in securing befitting houses for themselves.

The government should create an enabling environment for investors to come into the country and be encouraged to go into housing business. Although Amao and Odunjo (2014) opined that the business of housing should be left for the people. This however, may not suffice except when the economy of the country ameliorates the difficulties of low income earners.

There should be an evaluation of the National Trust Fund with the aim of revitalising it as well as encouraging people to participate in the programme. Hence, there is need for urgent steps to be taken to bring about effective funding of housing goals in order to turn around the deplorable state of housing and its provision.

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