

Affordable Housing in Rwanda

4. Housing Finance Access Frontiers

November 2021



Introduction

Rwanda has a developing housing and housing finance sector – but there are constraints. While Rwanda’s mortgage to GDP ratio (3,35 percent) is relatively high for the region, mortgage lending is concentrated at the upper end of the income pyramid; and while Rwanda’s microfinance sector is an important source of finance for lower income segments of the market, the products and services of microfinance providers are not typically addressed towards housing. In addition, Rwanda has a critical, but poorly documented residential rental sector. As is the case in most countries, the affordable rental sector operates off the radar, unattended by both policy and finance.

In 2020, the Government of Rwanda partnered with the World Bank to access two grants, one of which is for housing finance. US\$150 million has been approved to fund the Rwanda Housing Financing Project, the main objective of which is to expand access to long term housing finance for the benefit of middle-income segments that have limited or no access to mortgages, while also supporting capital market development. While this is important, it is unlikely to cover the breadth of the need for housing finance, specifically for lower income earners who are outside the scope of mortgage lending. How the end user finance intentions align with the availability of construction finance, and whether this addresses the needs of the so-called informal, or small-scale supply sector (and critically, rental accommodation) is also not clear. To this end, a broader and more detailed understanding of the demand and supply sides, how they intersect, and the specific housing value chains engaged with and served by each, is required.

Rwanda’s Vision 2050 “sets a new pathway that will lead the country to the livings standards of upper middle income by 2035 and high-income countries by 2050”. In line with this vision, the National Land Use Development Management Plan predicts a 2% annual growth rate, such that by 2050, Rwanda’s population will be 22.1 million people. To meet the housing needs of these people, the NLUDMP projects that 5,5 million dwelling units will be required by 2050, or an annual delivery of 150 000 dwelling units between 2020 and 2050. The research finds the urban figure to be an estimated 3,2 million units by 2050. Even just this urban projection demands a higher rate of annual delivery than current formal capacity has been able to achieve. The report finds that most housing in Rwanda is being delivered by smaller scale players and by households themselves, often informally. Meeting the Vision 2050 affordable housing targets both in terms of the anticipated scale and quality will require strong partnerships between market players and with government, while also explicitly leveraging and growing the capacity of smaller scale players.

As Rwanda develops in line with its vision, there is an opportunity for AFR to support the development of a housing finance sector in Rwanda that meets the needs of all residents and all housing supply approaches, with a variety of products and services designed explicitly to engage with the breadth and nuance of their capacity.

This review of Rwanda’s affordable housing sector and its financing explored the overall institutional, policy and legislative environment for affordable housing, scoped the demand side, interrogated the capacity and activities of the supply side, and considered where finance could make a difference.

This report sets out the analysis of the housing finance access frontier in Rwanda. The full study was presented to Rwandan stakeholders for a validation workshop on 24 August 2021. The team is grateful for the detailed engagement and inputs from all stakeholders and looks forward to further engagement on the recommendations.

Team



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Introduction

Rwanda has a developing housing and housing finance sector – but there are constraints. While Rwanda’s mortgage to GDP ratio (3,35 percent) is relatively high for the region, mortgage lending is concentrated at the upper end of the income pyramid; and while Rwanda’s microfinance sector is an important source of finance for lower income segments of the market, the products and services of microfinance providers are not typically addressed towards housing. In addition, Rwanda has a critical, but poorly documented residential rental sector. As is the case in most countries, the affordable rental sector operates off the radar, unattended by both policy and finance.

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The publication at the end of December 2020 of Rwanda’s Vision 2050 document by the Ministry of Finance and Economic Planning is a further input to this study. That vision “sets a new pathway that will lead the country to the living standards of upper middle income by 2035 and high income countries by 2050”. That document specifically references the development of a responsive affordable housing and housing finance sectors.

As Rwanda develops in line with its vision, there is an opportunity for AFR to support the development of a housing finance sector in Rwanda that is comprehensive, and that meets the needs of all residents and all housing supply approaches, with a variety of products and services designed explicitly to engage with the breadth and nuance of their capacity.

The review of Rwanda’s affordable housing sector and its financing explored the overall institutional, policy and legislative environment for affordable housing, scoped the demand side, interrogated the capacity and activities of the supply side, and considered where finance could make a difference. **This report sets out the analysis of the housing finance access frontier in Rwanda.**

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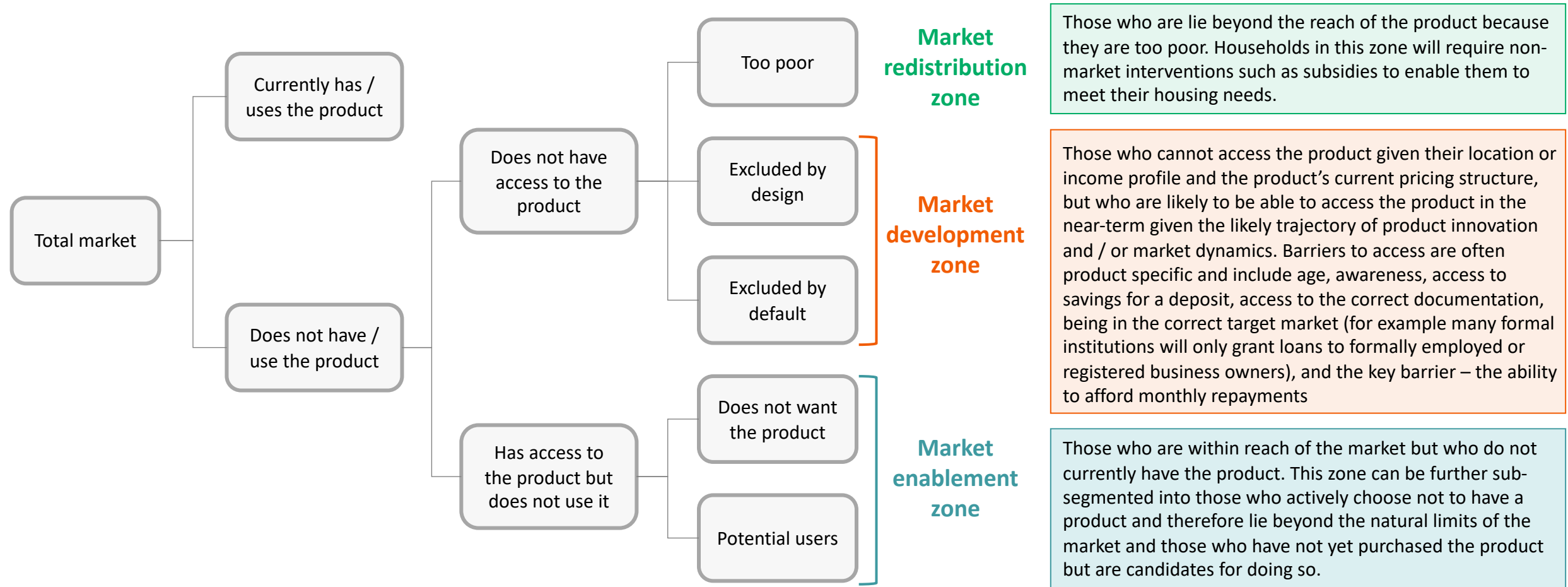
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The Housing Finance Access Frontier

The Housing Finance Access Frontier Methodology can be used to define and quantify barriers to access to housing finance. The approach uses survey data to understand levels of access to and usage of financial products and services for housing purposes. The methodology enables an identification and quantification of access barriers, segmenting those who do not yet use a product into various market zones – the market redistribution zone, the market development zone and the market enablement zone.



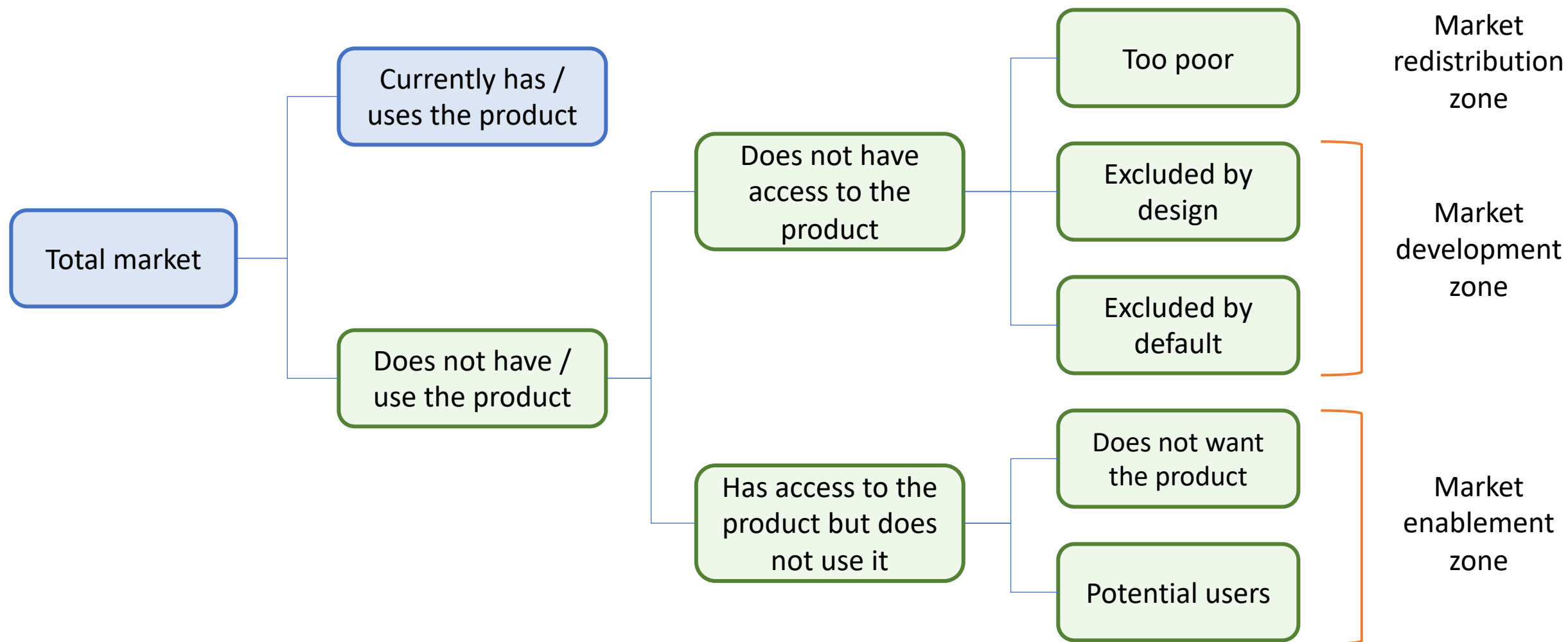
Source: Based on a paper entitled “The Access Frontier as an Approach and Tool in Making Markets Work for the Poor” by David Porteous. Adapted by Illana Melzer

1. Mortgage loans

2. Unsecured loans

Mortgage loan: currently has/ uses the product

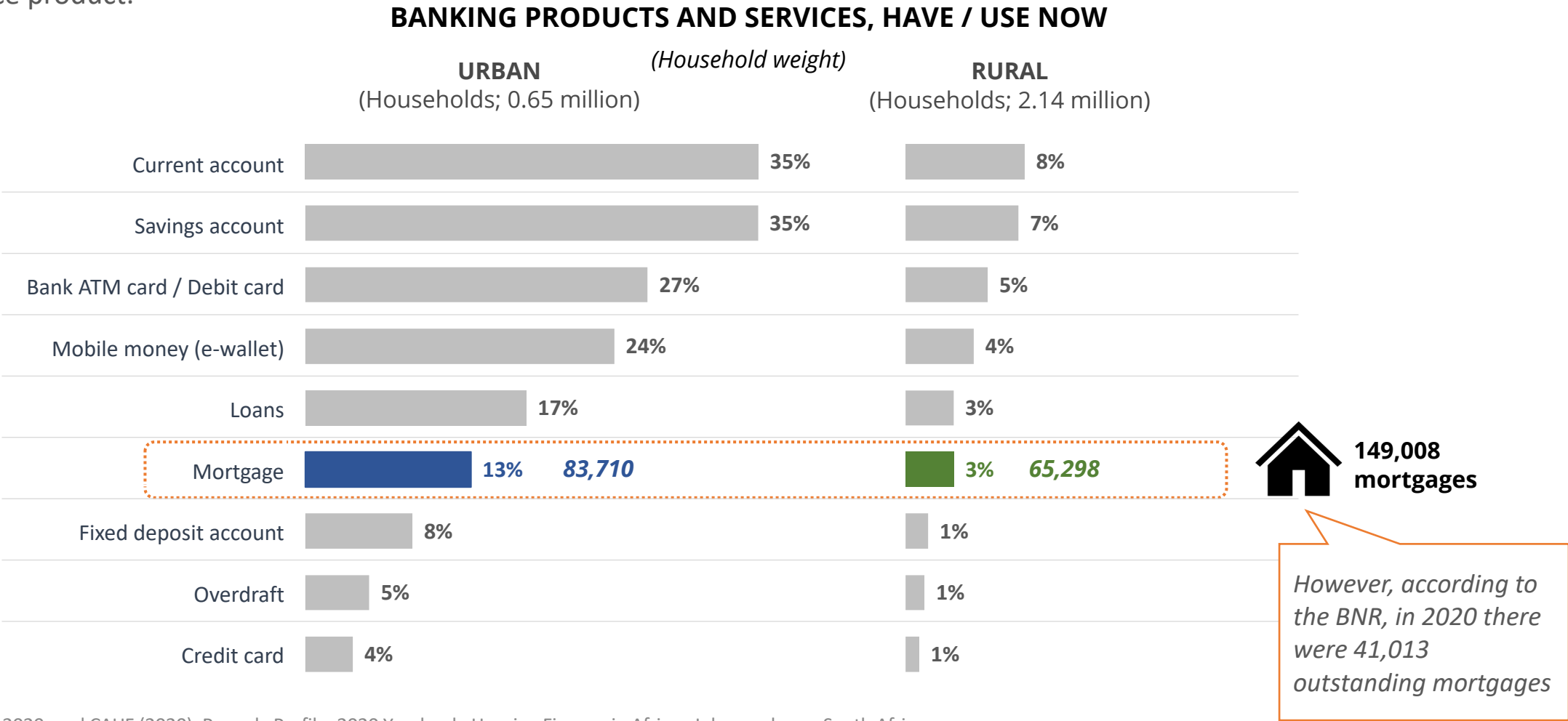
We start with a quantification of the total market, and who currently has or uses the product (mortgage finance)



Source: Based on a paper entitled "The Access Frontier as an Approach and Tool in Making Markets Work for the Poor" by David Porteous. Adapted by Illana Melzer

Mortgage loan: currently has/ uses the product

According to FinScope 2020, about 149,000 households currently have mortgages. This is significantly higher than the 41,000 mortgages outstanding reported by the National Bank of Rwanda in 2020. The FinScope number may include construction loans and other loans used for housing purposes, but not technically secured with a mortgage. Just over one in ten urban Rwandans appear to have some form of housing finance product.



Source: FinScope Rwanda 2020, and CAHF (2020). Rwanda Profile, 2020 Yearbook: Housing Finance in Africa. Johannesburg. South Africa.
<https://housingfinanceafrica.org/documents/2020-housing-finance-yearbook-rwanda-profile/>

Mortgage loan: currently has/ uses the product

Information was collected from financial institutions on what characteristics a house or property needs in order to be mortgageable

WHAT CHARACTERISTICS DOES A HOUSE / PROPERTY NEED TO HAVE TO BE MORTGAGEABLE?

DWELLING CHARACTERISTICS



- Type and quality of dwelling
- Location of dwelling

Umurenge SACCO will not grant mortgages for houses in unplanned clustered areas

Umwarimu SACCO requires the house to have a flush toilet, ventilated improved pit latrine or pit latrine with a slab. The toilet facility must not be shared with other households

PHYSICAL ACCESS



- While not noted by the institutions, we assume that physical access to the property is important
- Assume that the property should be located within 40m from a road

DOCUMENTATION



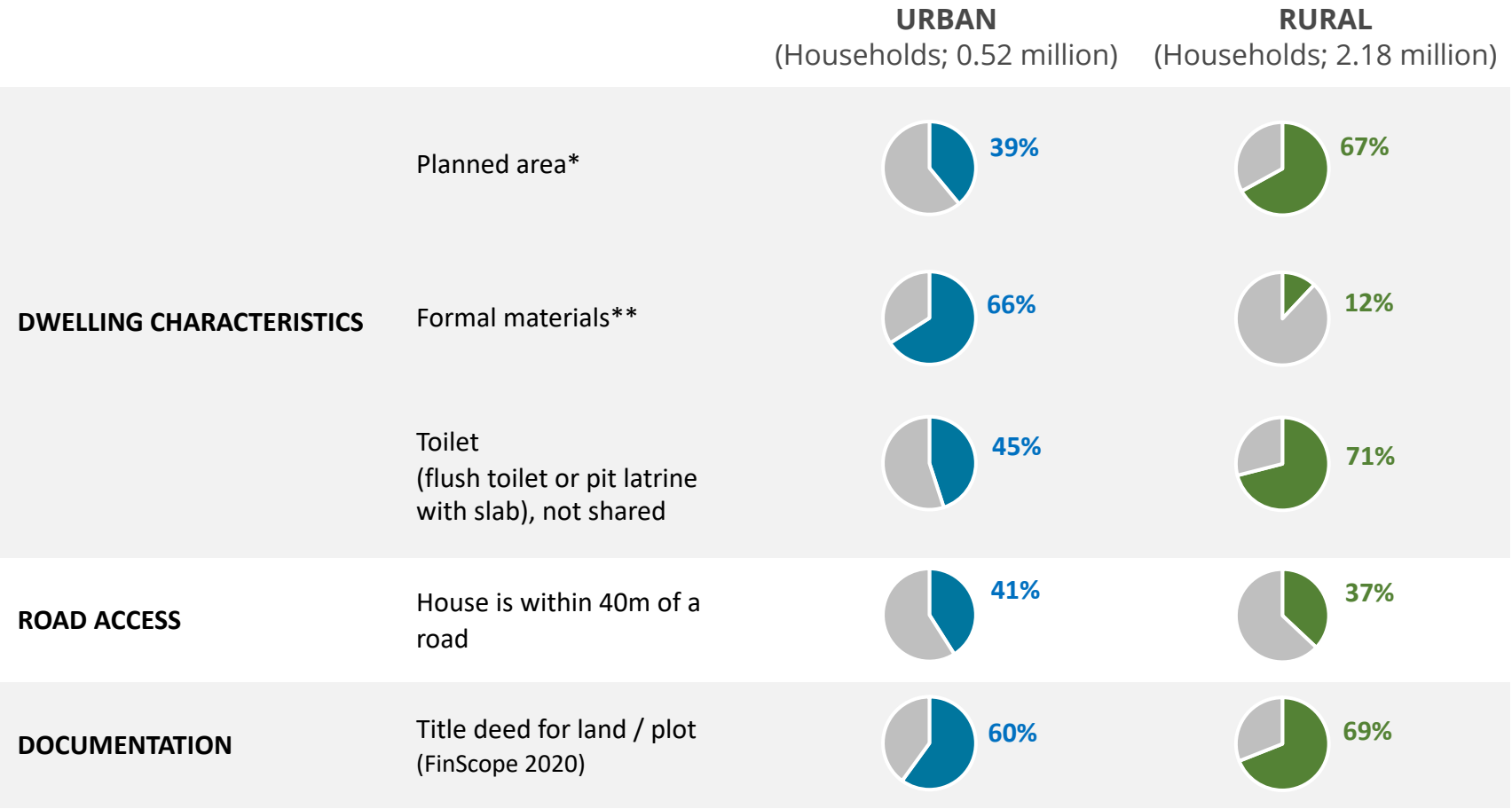
- Contract of purchase and sale, property documents

Most banks and SACCOs require a valuation report for the property, house valid documents and photos, and the property must have a **formal title**

Mortgage loan: currently has/ uses the product

Based on these characteristics, only about 8% of urban dwellings and 4% of rural dwellings meet the dwelling characteristic and physical access requirements for a mortgage.

CHARACTERISTICS OF A MORTGAGEABLE DWELLING



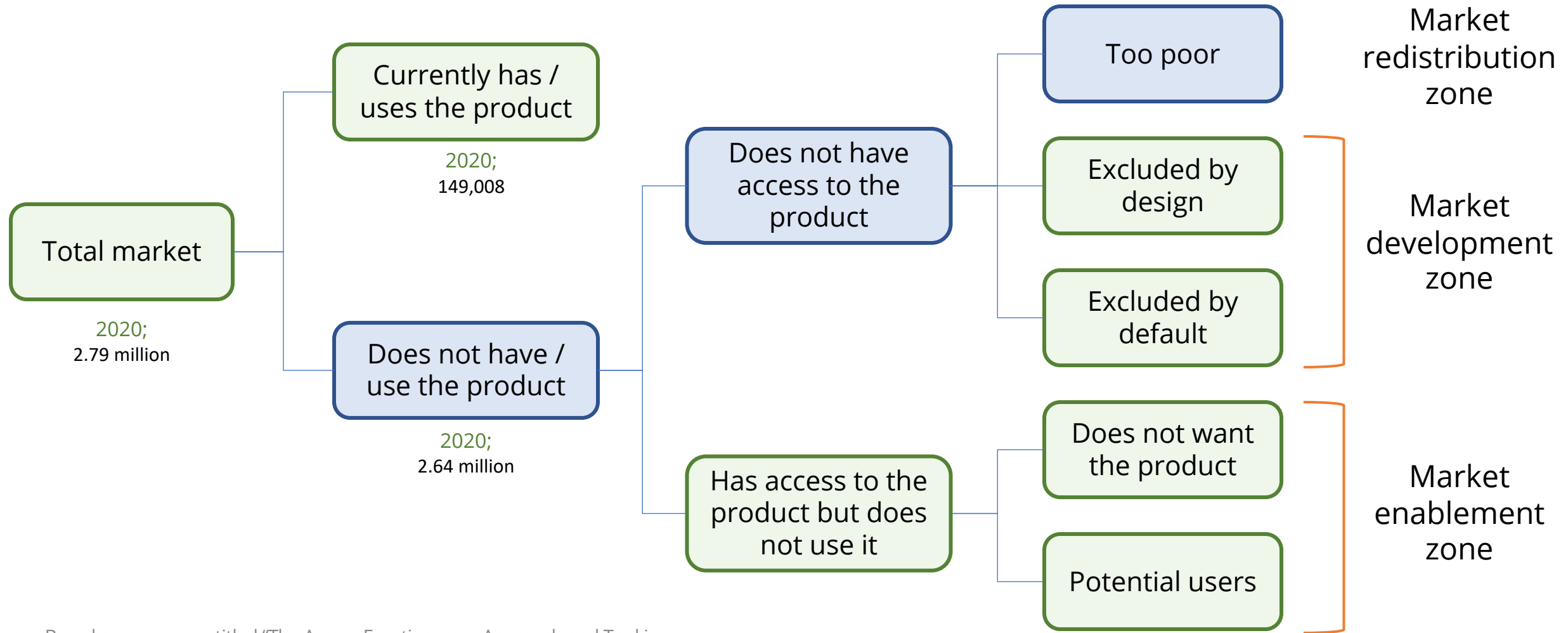
42,812 (8%) urban dwellings and 88,866 (4%) rural dwellings meet the dwelling characteristic and physical access requirements

Note: this is based on EICV 5 data. Access to a title deed has not been included in this calculation because the data comes from FinScope 2020 and so cannot be combined with EICV 5 data.

Source: EICV 5
*Planned area: Modern planned area or umudugudu **A formal dwelling has formal walls (cement bricks, mud bricks covered with cement, oven fired bricks, stones, tree trunks with mud and cement), a formal roof (metal sheets/ corrugated iron, industrial tiles, or concrete) and a formal floor (bricks, cement, clay tiles, wooden floor)

Mortgage loan: market redistribution zone

Out of 2,79 million households, FinScope 2020 suggests that 149 008 households have some form of housing finance product. A further 2,64 million households do not. Our next step is to understand why this population does not have or use the product.



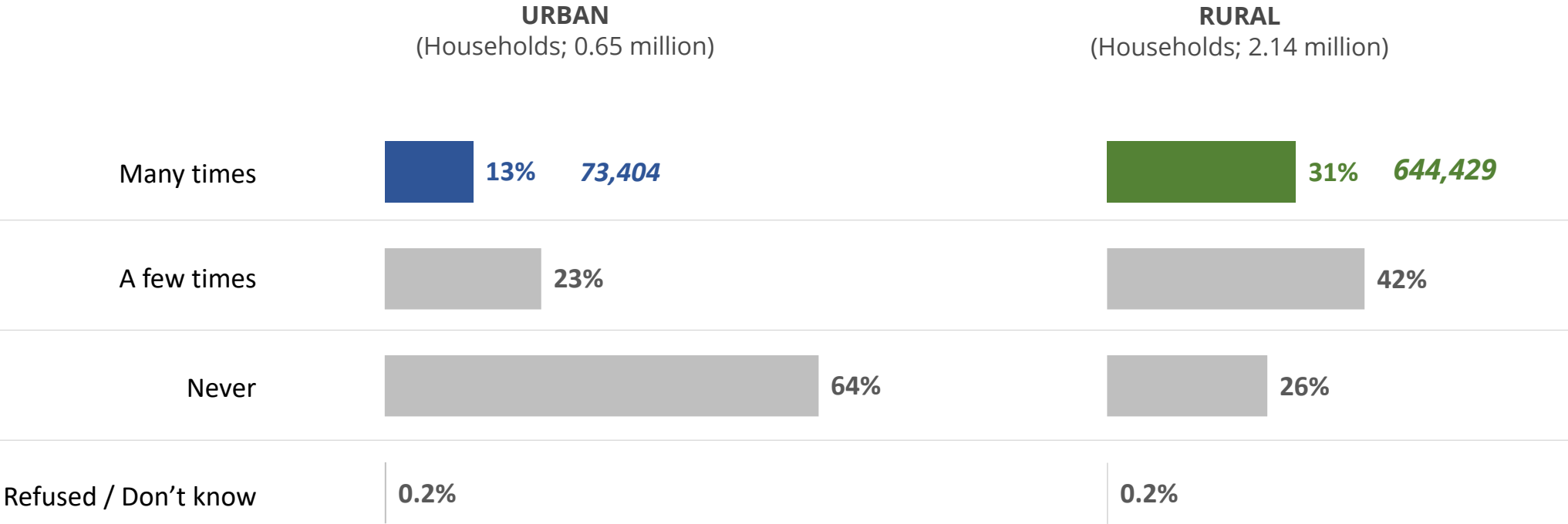
Source: Based on a paper entitled "The Access Frontier as an Approach and Tool in Making Markets Work for the Poor" by David Porteous. Adapted by Illana Melzer

Mortgage loan: market redistribution zone

Poverty indicators reveal that about 718,000 households not in the current housing loan market fall into the market redistribution zone. That is, they are too poor to access credit from a formal financial institution

HOW OFTEN HAVE YOU OR YOUR HOUSEHOLD HAD TO SKIP A MEAL BECAUSE YOU DIDN'T HAVE FOOD?

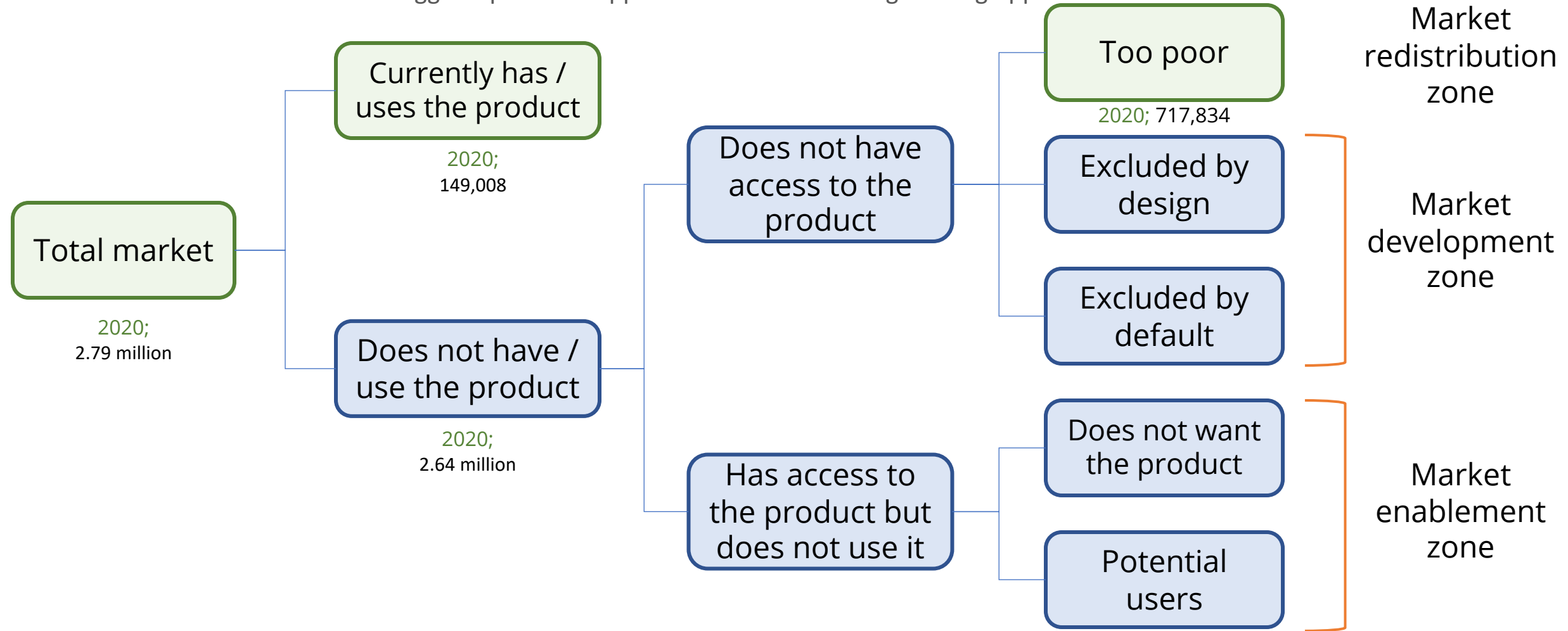
(Households, not in current housing loan market; 2.64 million)



Source: FinScope Rwanda 2020

Mortgage loan: market development and enablement zones

With 717 834 households too poor to access the product, we segment the remaining population into other reasons that may prevent a household from accessing the mortgage product. The market development zone will suggest the potential for new product development, while the market enablement zone suggests potential opportunities for marketing existing opportunities.

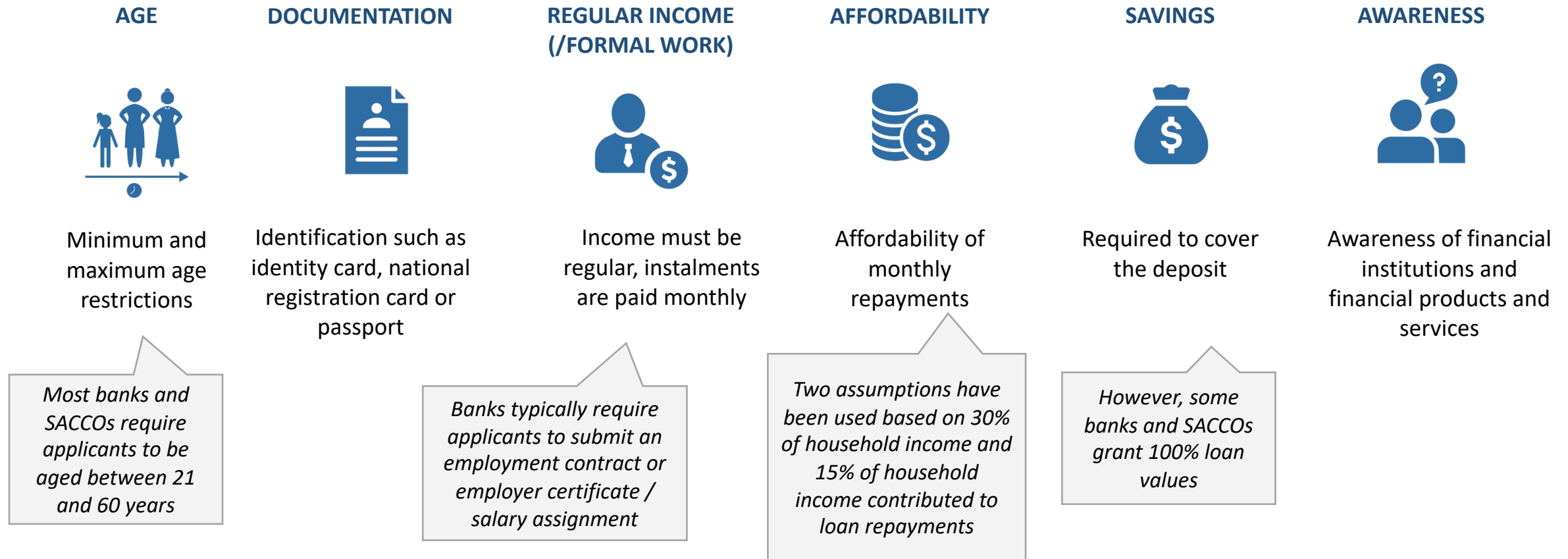


Source: Based on a paper entitled "The Access Frontier as an Approach and Tool in Making Markets Work for the Poor" by David Porteous. Adapted by Illana Melzer

Mortgage loan: market development and enablement zones

The banks and SACCOS included in the analysis have various requirements for accessing a mortgage

WHAT CHARACTERISTICS DOES A BORROWER TYPICALLY NEED TO ACCESS A MORTGAGE?



Mortgage loan: market development and enablement zones

Five mortgage products have been included in the analysis

The World Bank has partnered with numerous banks including Bank of Kigali, Kenya Commercial Bank, Bank of Africa, Commercial Bank of Africa, and ZIGAMA CSS to offer affordable mortgages to purchase units in the Rugarama Park Estate. They offer a up to 100 % mortgages with interest rates as low as 11 percent and a 20 year maximum tenor.

SUMMARY OF REQUIREMENTS

	Banque Populaire du Rwanda	Zigama CSS	Umurenge SACCO	Umwarimu SACCO	Affordable mortgage product
Age	Minimum age of 18 years, maximum of 60 years	Set by security services laws and regulations	Minimum age of 21 years, maximum of 60 years	Minimum age of 21 years, maximum of 60 years	
Documentation	Completed application form, valid identification documents, spouse ID copy (if married), marriage/celebrity/divorce certificates, valuation report for the property, house valid documents and photos, provisional of sale contract for outright house purchase, loan certificate (if purchasing liability from another financial institution), bank statements for the last 6 months (if account held with another financial institution), employment contract (except for Banque Populaire and Umurenge SACCO), employer certificate/salary assignment (except for Umurenge SACCO)				
Target market	Permanently employed salary workers or formal self-employed workers - According to EICV 5, the size of this market is about 753,711 adults	Clients are predominantly members of the Rwanda Defence Force, Rwanda National Police (RNP), Rwanda Correctional Services (RCS), Rwanda Investigation Bureau (RIB) - According to EICV 5, there are about 55,033 adults working in the public administration and defence or compulsory social security industry	Permanently employed salary workers or formal self-employed workers - According to EICV 5, the size of this market is about 753,711 adults	School teachers - According to EICV 5, there are about 98,908 adults working in the education industry	Applicants can work in either the private or public sector Applicants must have a monthly household income between RWF 200,000 and RWF 700,000
Conditions	The applicant must have had a bank account for at least 3 months with the bank		The applicant must have an account with the SACCO	Only available to teachers. The applicant must have had an account with the SACCO for at least 3 years	

Mortgage loan: market development and enablement zones

Five mortgage products have been included in the analysis

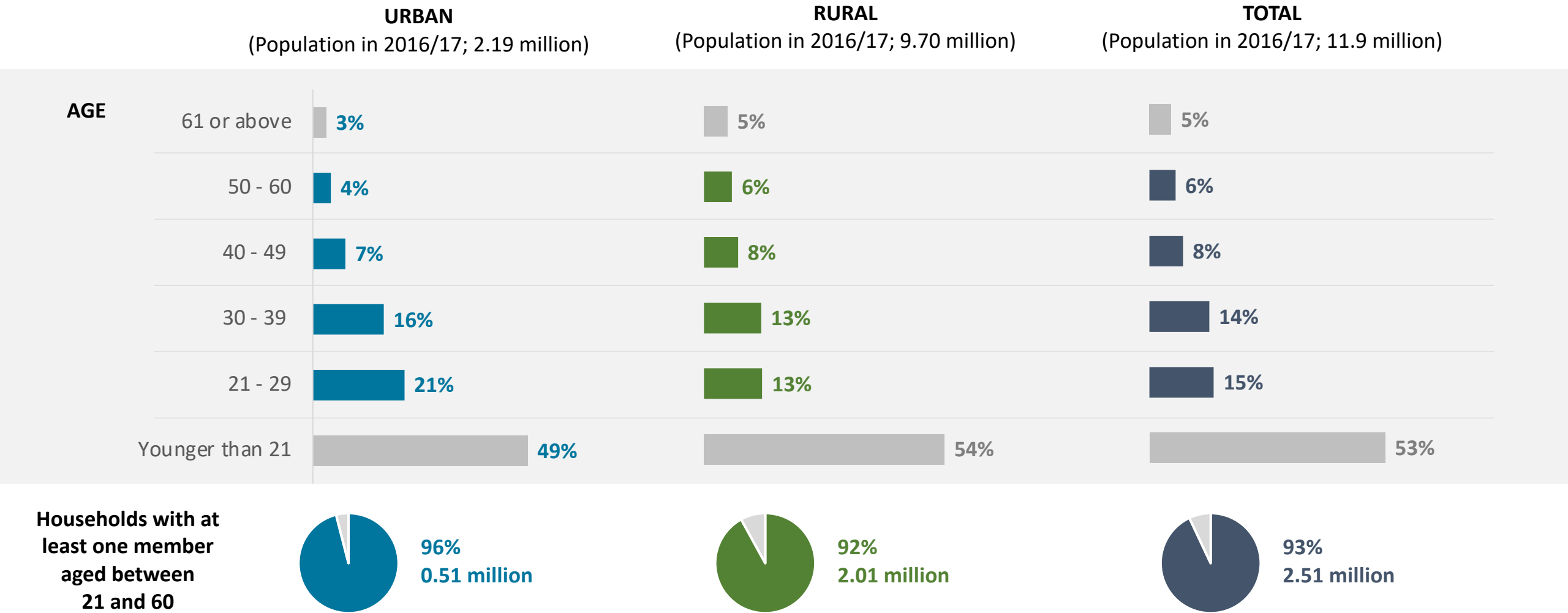
SUMMARY OF PRODUCT SPECIFICATIONS

	Banque Populaire du Rwanda	Zigama CSS	Umurenge SACCO	Umwarimu SACCO	Affordable mortgage product
Average value	Unclear	Unclear	Unclear	RWF 10 million	Unclear
Maximum value	Unclear	RWF 100 million	RWF 9 million	RWF 25 million	Unclear
Interest rate	16% to 20%	15%	21% (average)	12% (public school), 14% (private school)	11%
Loan term (max)	20 years	25 years	5 years	3 years	20 years
Deposit (min)	Unclear	0%	15%	None	0% to 10%

Source: interviews with banks, bank websites, The Rugarama Park Estate Project, Kigali, Rwanda: Case study on housing affordability, CAHF

Mortgage loan: market development and enablement zones

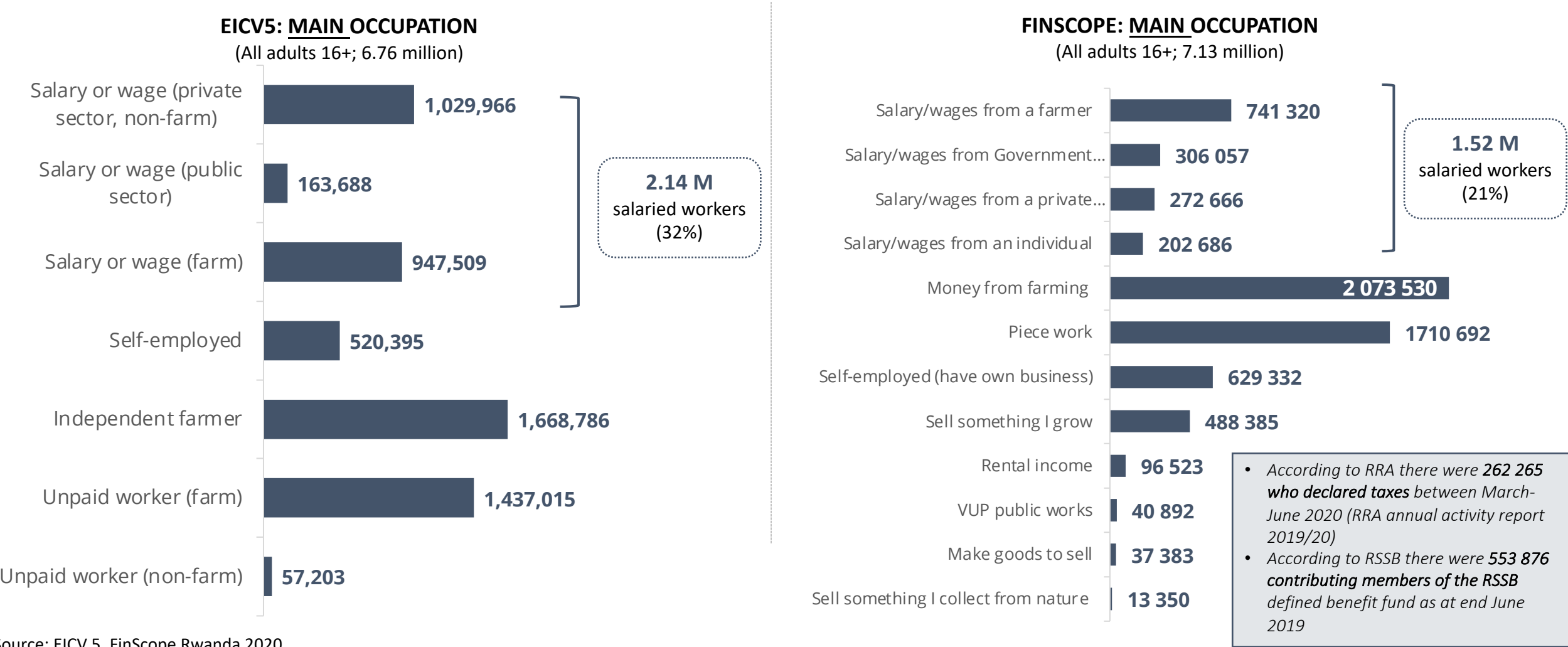
In 2017, approximately 93% of households had at least one member that meets the age requirements for a mortgage



Source: EICV 5

Mortgage loan: market development and enablement zones

Institutions target permanently employed and registered self-employed sectors for mortgages. According to EICV 5, around 2.1 million adults (32% of all adults) say their main income source is a wage or salary. FinScope 2020 estimates the total to be around 1.52 million (21%). The discrepancy may be due to some ‘piece workers’ being included as salary or wage earners in the EICV data, or some farm workers classifying themselves under ‘money from farming’ in FinScope.



Source: EICV 5, FinScope Rwanda 2020

Mortgage loan: market development and enablement zones

EICV 5 provides data on the nature of employment for salary and wage earners. Just 52% of salary and wage earners in urban areas and 20% in rural areas are permanently employed

		URBAN (Adults 16+; 1.39 million)	RURAL (Adults 16+; 5.36 million)	TOTAL (Adults 16+; 6.76 million)
Total salary/ wage earners		645 688	1 495 476	2 141 164
Nature of contract	Permanent worker	<div><div></div>52%</div>	<div><div></div>20%</div>	<div><div></div>30%</div>
	Daily worker	<div><div></div>37%</div>	<div><div></div>76%</div>	<div><div></div>64%</div>
	Temporary worker	<div><div></div>9%</div>	<div><div></div>2%</div>	<div><div></div>4%</div>
	Casual worker	<div><div></div>1%</div>	<div><div></div>0%</div>	<div><div></div>1%</div>
	Other	<div><div></div>1%</div>	<div><div></div>1%</div>	<div><div></div>1%</div>
	Seasonal worker	<div><div></div>0%</div>	<div><div></div>0%</div>	<div><div></div>0%</div>
Total who are 'permanently employed'		334 512	303 153	637 664

Source: EICV 5

Mortgage loan: market development and enablement zones

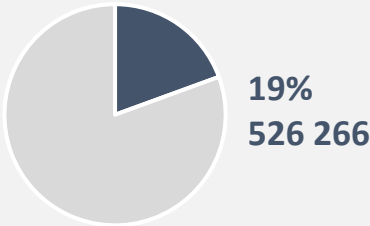
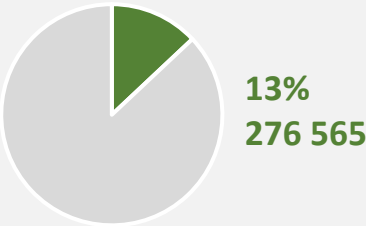
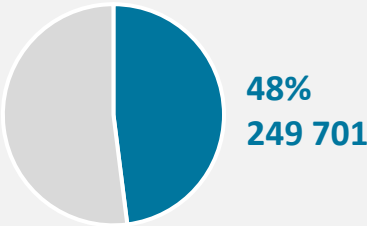
The vast majority of permanently employed people and registered business owners live in urban areas, just 13% of rural households have at least one formally employed person or registered business owner compared to 48% of households in urban areas

URBAN
(Households; 0.52 million)

RURAL
(Households; 2.18 million)

TOTAL
(Households; 2.71 million)

Have at least one permanently employed salary or wage earner OR registered business owner in the household

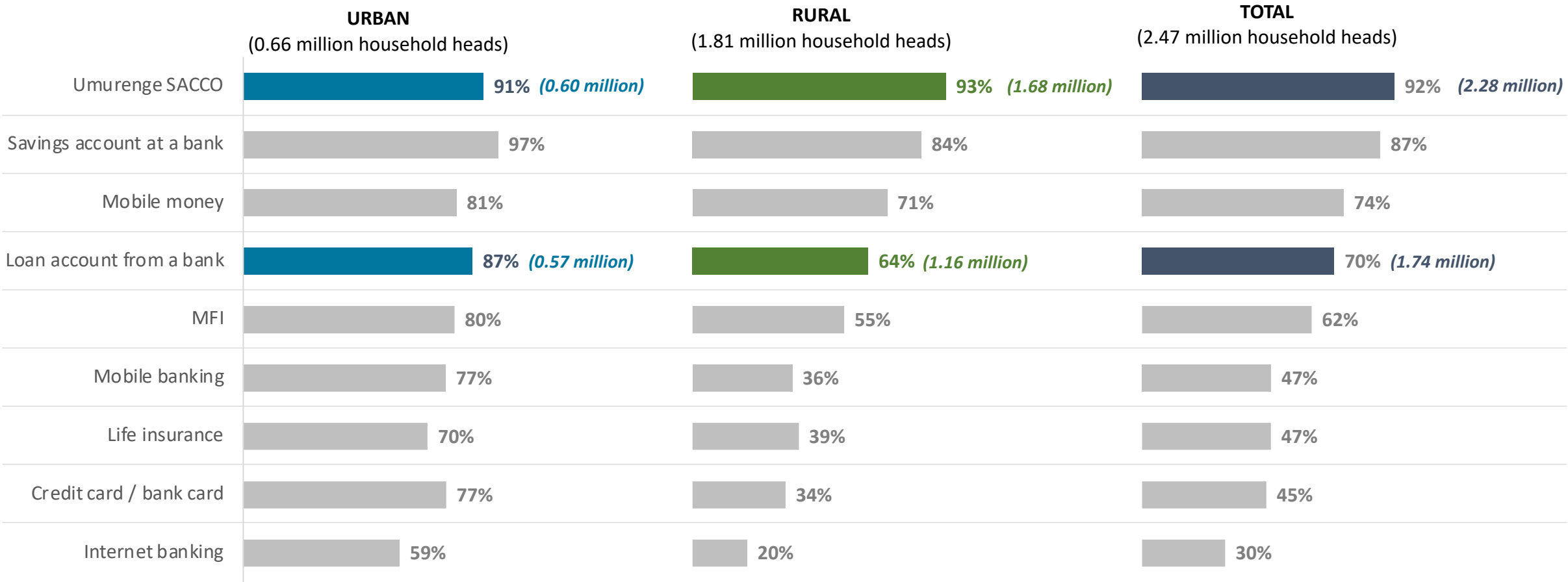


Mortgage loan: market development and enablement zones

According to FinScope 2020, about 2.28 million household heads in the potential market are aware of Umurenge SACCOs and 1.74 million are aware of loan accounts from a bank

WHICH OF THE FOLLOWING FINANCIAL PRODUCTS HAVE YOU HEARD OF? (multiple responses)

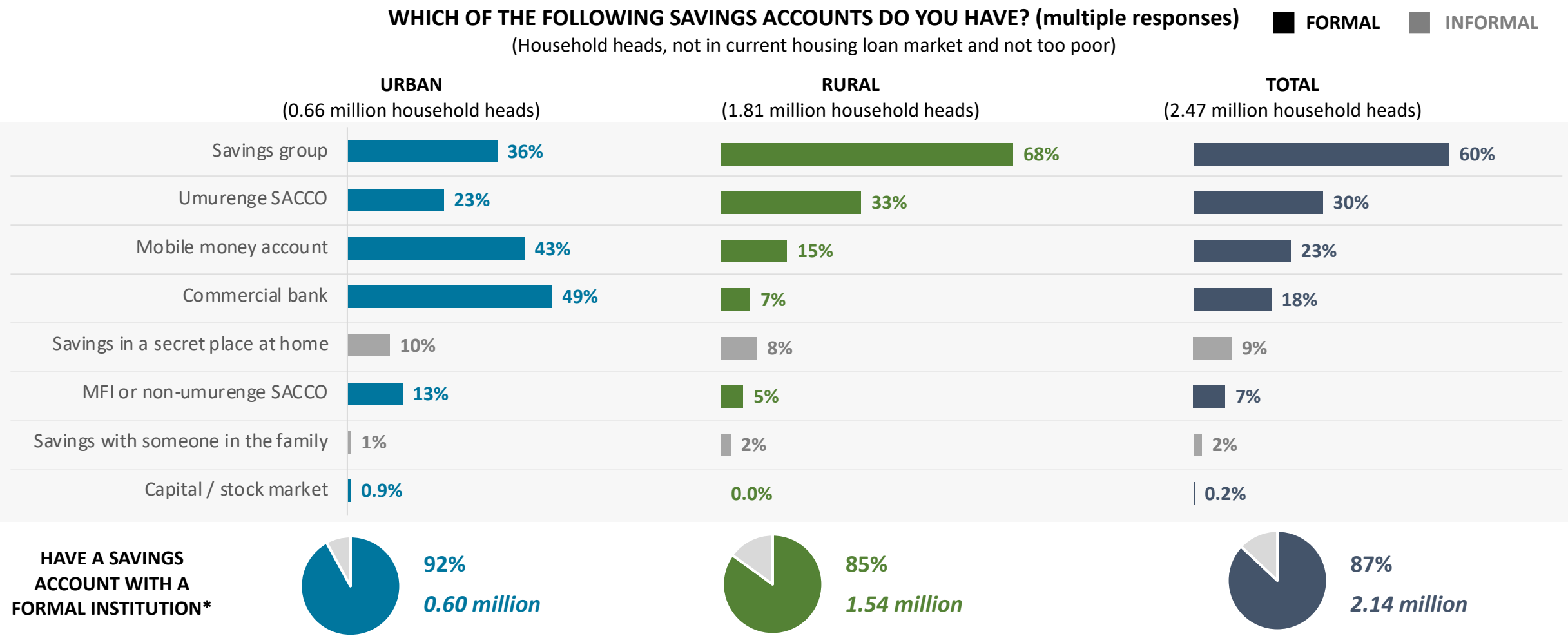
(Household heads, not in current housing loan market and not too poor)



Source: FinScope Rwanda 2020

Mortgage loan: market development and enablement zones

According to FinScope 2020, 87% of household heads in the potential market have a savings account with a formal institution. However, only 18% have a savings account with a commercial bank and 30% with a SACCO. Unfortunately there is no reliable data on the value of savings in these accounts



Source: FinScope Rwanda 2020. *Have a savings account with a savings group, Umurenge SACCO, mobile money account, commercial bank or MFI / non-umurenge SACCO (excludes savings with family / friends, pension savings, savings kept at home, other)

Mortgage loan: market development and enablement zones

Affordability depends on the value of available houses, loan terms and the percentage of a household's income that can be spent on housing costs

HOUSE VALUE

- Affordable housing in Rwanda has been suggested as housing between **10 to 35 million RWF**
- The Rugarama Park Estate, an affordable housing project, aims to deliver houses between **13 and 35 million RWF**

LOAN TERMS

- Loan specifications vary between banks
- A **typical mortgage loan** has an interest rate of **16%**, loan term of **15 years** and requires a **30% deposit**
- Remote Group has partnered with certain banks (such as Bank of Kigali, Bank of Africa, Commercial Bank of Africa, Zigama CSS) to provide an **affordable mortgage product** with a longer term (20 years), lower interest rate (11%) and no deposit required

HOUSING COSTS

- As a general rule, households should **not spend more than 30% of their income** on housing costs
- However, this percentage should be reviewed in terms of Rwanda's context to determine an appropriate and achievable proportion
- The proportion of income spent on housing costs was reviewed by analysing the expenditure data provided in the EICV 5 2016/17
 - » For urban households renting their dwellings, typically **14% to 17% of their total expenditure** consists of rent payments

Mortgage loan: market development and enablement zones

House value: The Rugarama Park Estate is an example of an affordable housing project currently in progress. Housing unit prices range from 13 million RWF for a studio apartment to 35 million RWF for a 3 bedroom apartment

RUGARAMA PARK ESTATE

Affordable housing project

The project aims to deliver a total of 2 000 housing units. 70% of these will be affordable housing units priced to a maximum of 35 million RWF. Construction activities began in 2018 and the expected timeline of the project is three to four years.



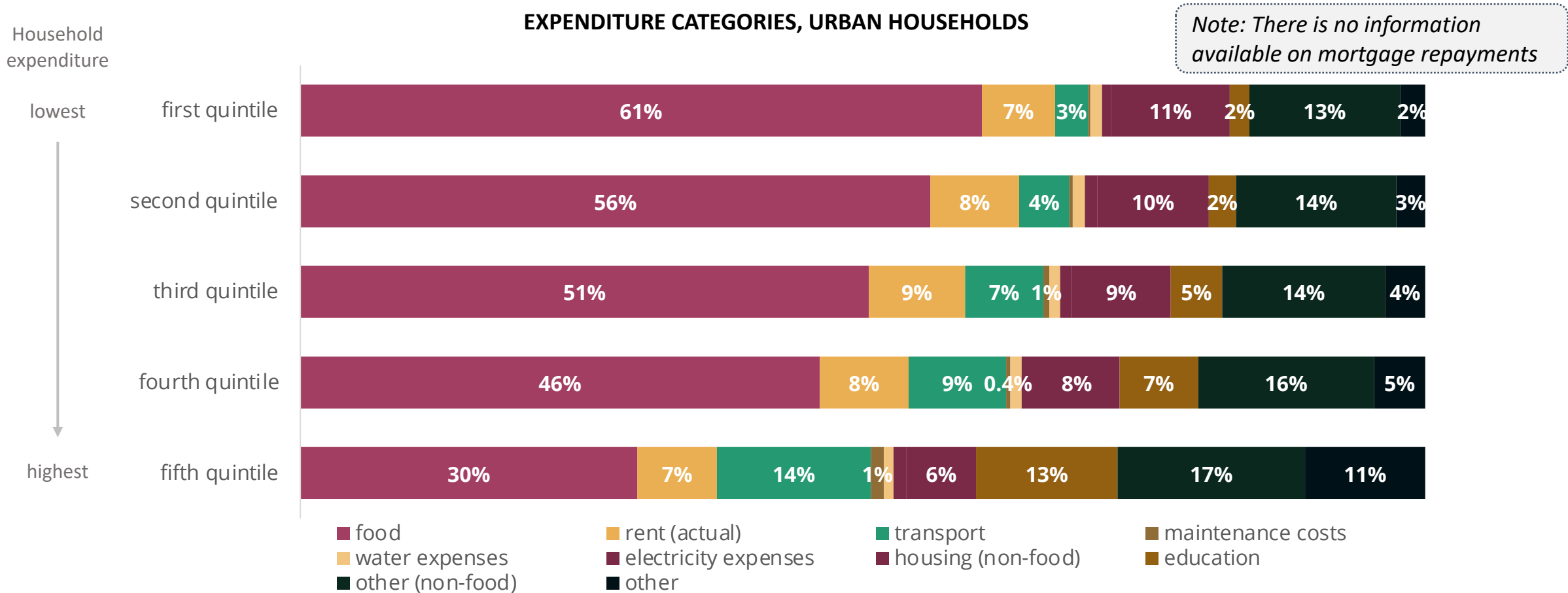
UNIT SIZES AND PRICES

Typology	No. bedrooms	Starting unit price
Row house	Studio	13 million RWF
Apartment	2 bedroom	20 million RWF
Apartment	3 bedroom	35 million RWF

Source: CAHF (work in progress) The Rugarama Park Estate Project, Kigali, Rwanda: Case study on housing affordability.
Image: 2,000 affordable housing units to be built in Rugarama estate, Michel Nkurunziza, *The New Times*, 2019. Link: <https://www.newtimes.co.rw/news/2000-affordable-housing-units-be-built-rugarama-estate>

Mortgage loan: market development and enablement zones

Housing costs: Expenditure data from the EICV 5 2016/17 was analysed to estimate how much urban households typically spent on housing costs. Households were categorised into quintiles based on their annual expenditure. For each quintile a breakdown of main expenditure categories has been included. While food expenditure differs considerably, rental expenditure is consistently between 7-9% of total household expenditure, and housing (non-food) expenditure ranges between 6-11% of total household expenditure.

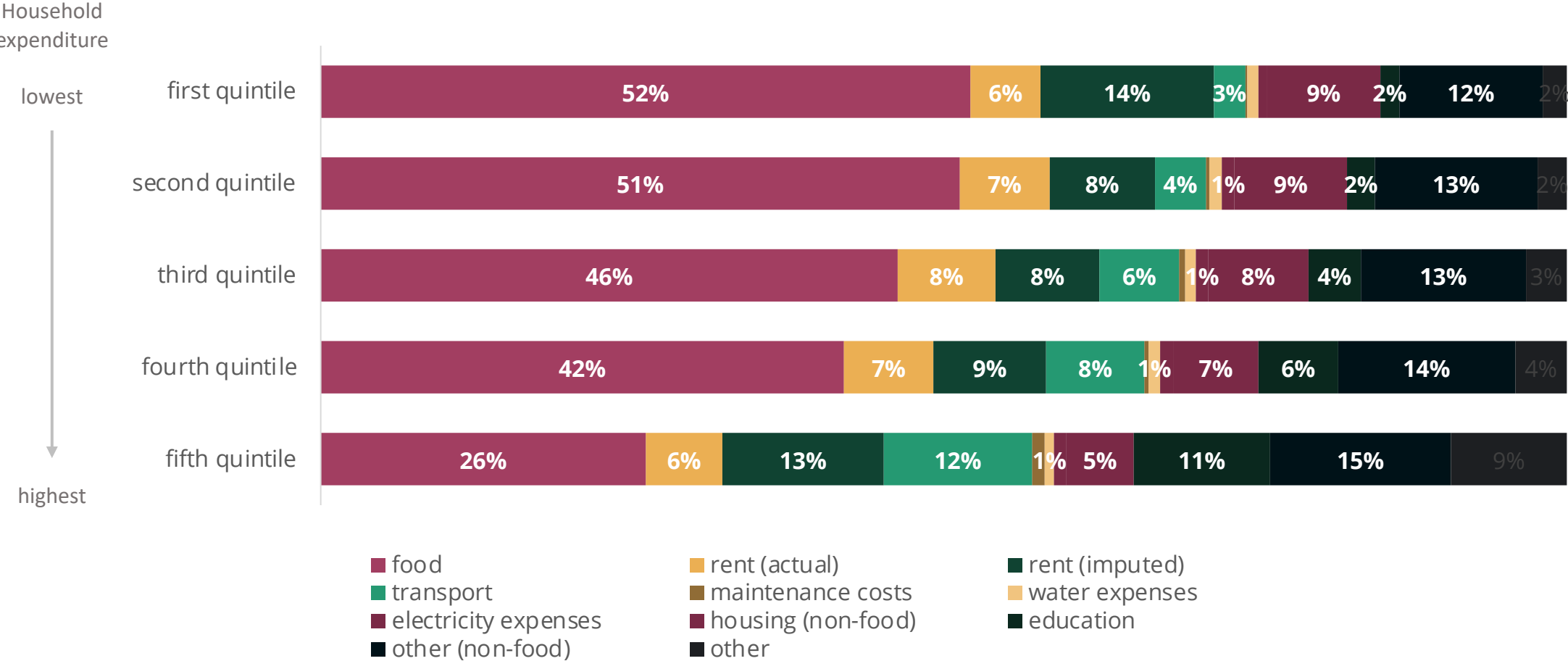


Source: EICV 5

Mortgage loan: market development and enablement zones

Imputed rent can give an indication of household costs for non-renting households. When imputed rent amounts are included, the percentage of household income 'spent' on rent varies between 16% and 20%

EXPENDITURE CATEGORIES INCLUDING IMPUTED RENT, URBAN HOUSEHOLDS

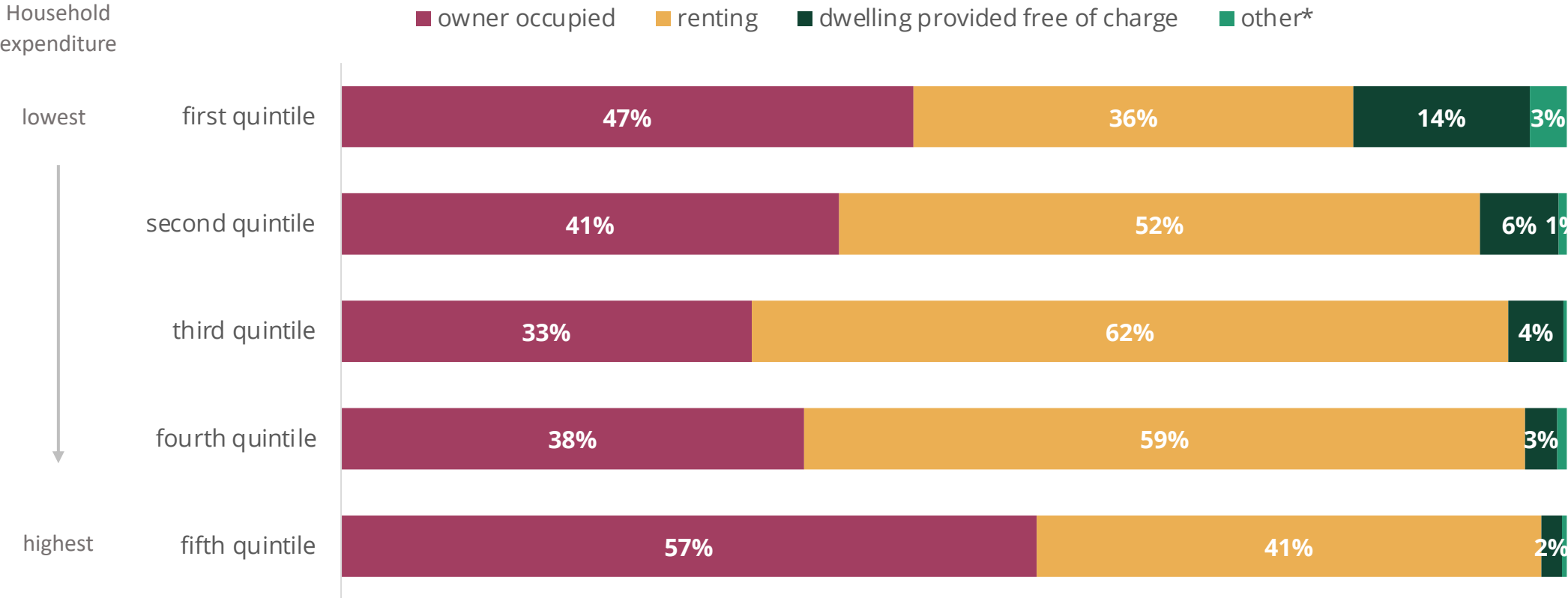


Source: EICV 5

Mortgage loan: market development and enablement zones

Alternatively, to get an indication of expenditure on housing, just renter households can be considered. Renting is the most common among households in the third and fourth quintiles

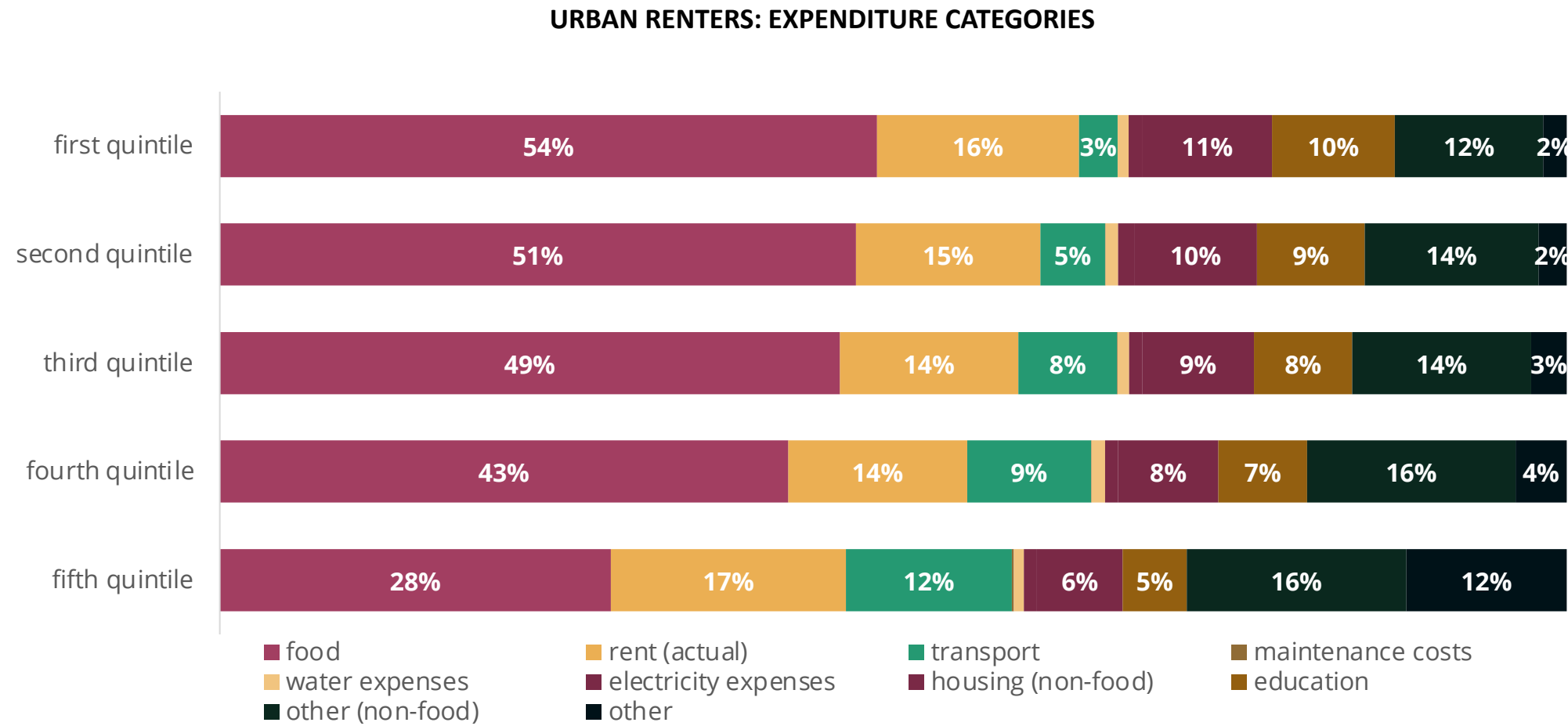
OCCUPANCY STATUS, URBAN HOUSEHOLDS



Source: EICV 5

Mortgage loan: market development and enablement zones

For urban households renting their dwellings, typically 14% to 17% of their total expenditure consists of rent costs

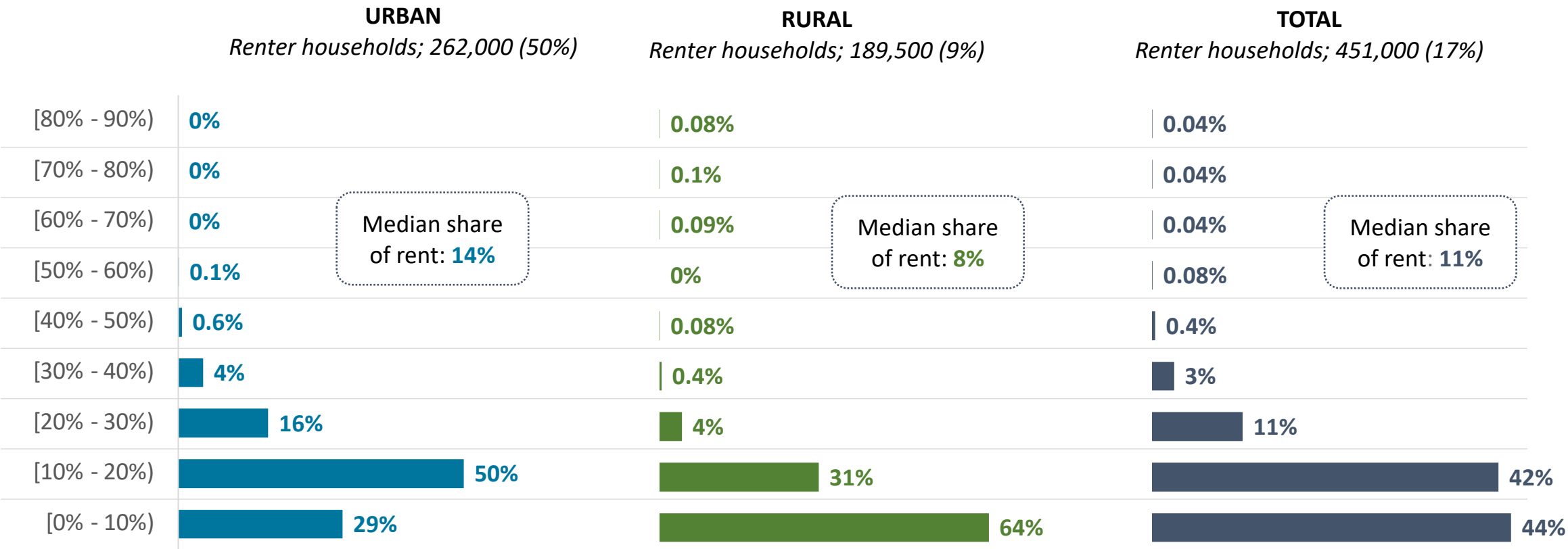


Source: EICV 5

Mortgage loan: market development and enablement zones

The median percentage of household income spent on rent for urban households is 14% and 8% for rural households

PERCENTAGE OF HOUSEHOLD INCOME SPENT ON RENT (ACTUAL)



Percentage of households who spend 30% or more of their income on rent

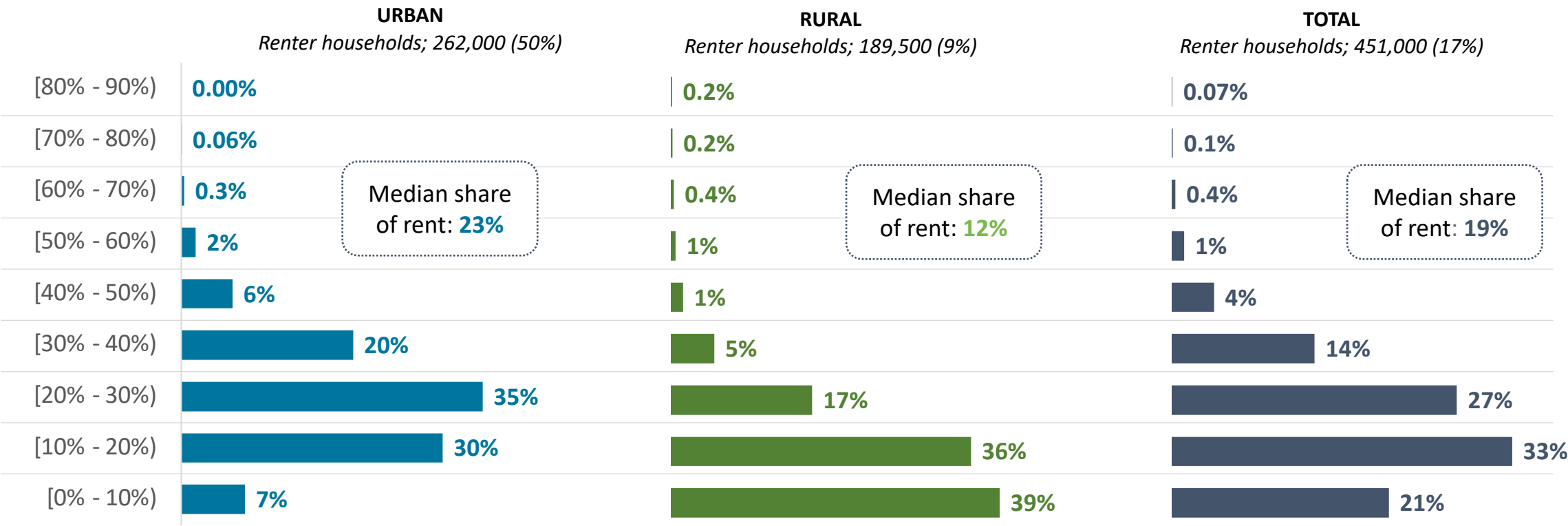


Source: EICV 5

Mortgage loan: market development and enablement zones

The median percentage of household income spent on housing and transport costs for urban households is 23% and 12% for rural households

PERCENTAGE OF HOUSEHOLD INCOME SPENT ON HOUSING* AND TRANSPORT COSTS



Percentage of households who spend 45% or more of their income on housing and transport



4%



1%



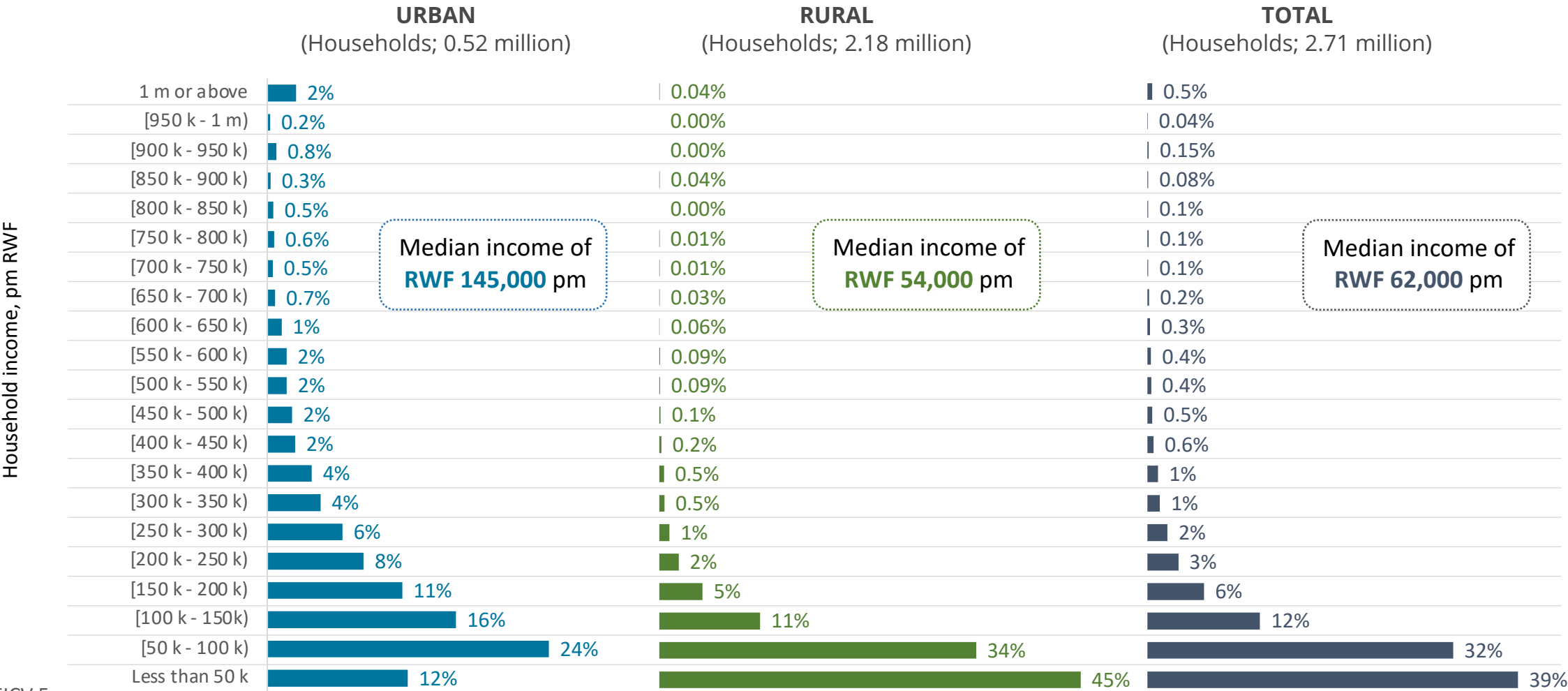
3%

Source: EICV 5
*Housing includes rent (actual), maintenance, electricity and water

Mortgage loan: market development and enablement zones

Most households have a monthly income below RWF 100,000 (approx. 100 USD). Household incomes in urban areas are noticeably higher than incomes in rural areas

MONTHLY HOUSEHOLD INCOME* DISTRIBUTION



Source: EICV 5

Note*: Household expenditure has been used to estimate incomes. Amounts have been inflated from 2017 to 2021

Mortgage loan: market development and enablement zones

Assumptions for calculating affordability

HOUSE VALUE

- In the Rugarama Park Estate, an affordable studio **apartment costs RWF 13 million, two bedroom apartment costs RWF 20 million, and three bedroom apartment costs RWF 35 million**
- The price of the cheapest newly built house by a developer is **RWF 12.5 million***
- For the calculation a mortgage of RWF 12.5 million is used, unless the maximum loan value is below this, in which case the average loan value has been used

LOAN TERMS

- The number of households able to access and afford a house will be calculated for each bank / SACCO product based on the average loan value, term and interest rate. Where an average has not been specified the team has made an assumption and noted this clearly
- DATA GAP: No accurate data on savings to determine if a household is able to afford the required deposit for a loan product. When considering affordability, products that require a larger deposit may appear more affordable because the loan value is lower. For this reason affordability has been calculated based on a 100% mortgage for a RWF 12.5 million home

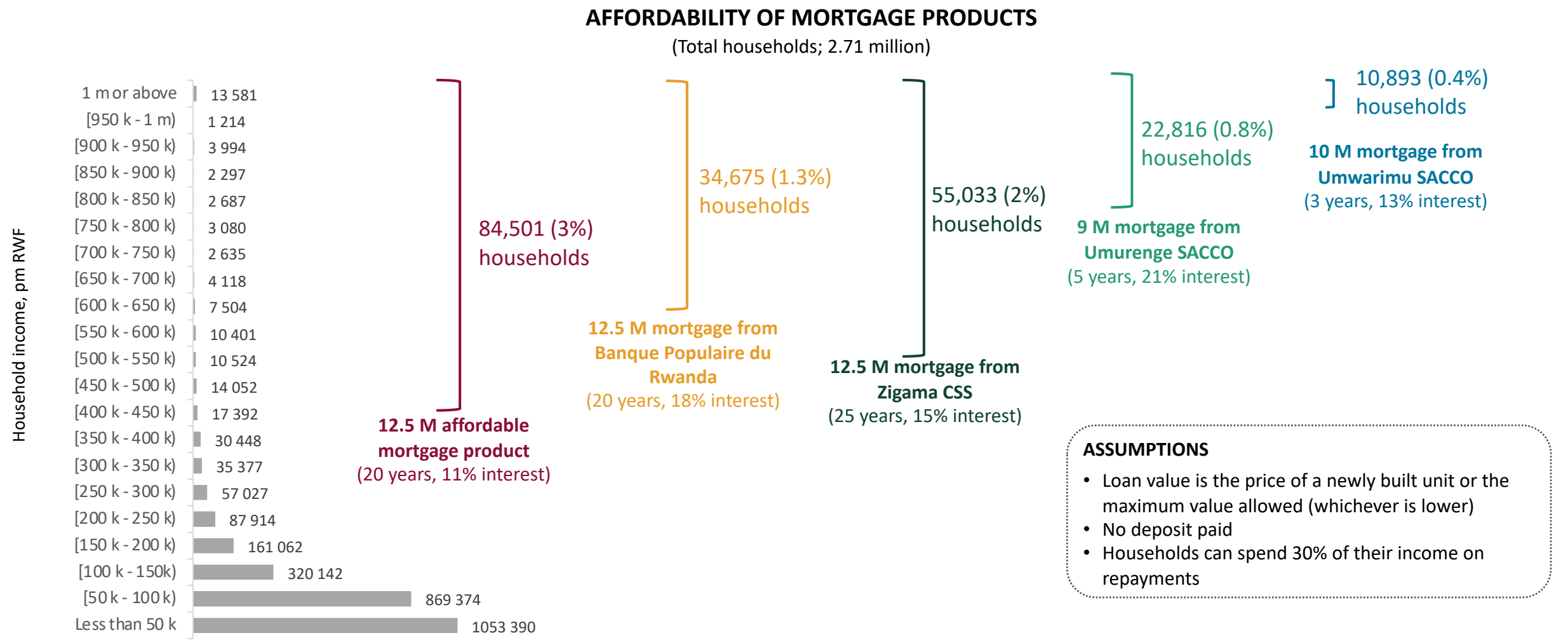
HOUSING COSTS

- We have used the general assumption that households can spend up to 30% of their monthly income on housing
- We have included an additional assumption that households can only spend 15% of household income on housing for comparison purposes. This is based on the median rental contribution of urban renter households

*Source: CAHF Yearbook 2020, Rwanda

Mortgage loan: market development and enablement zones

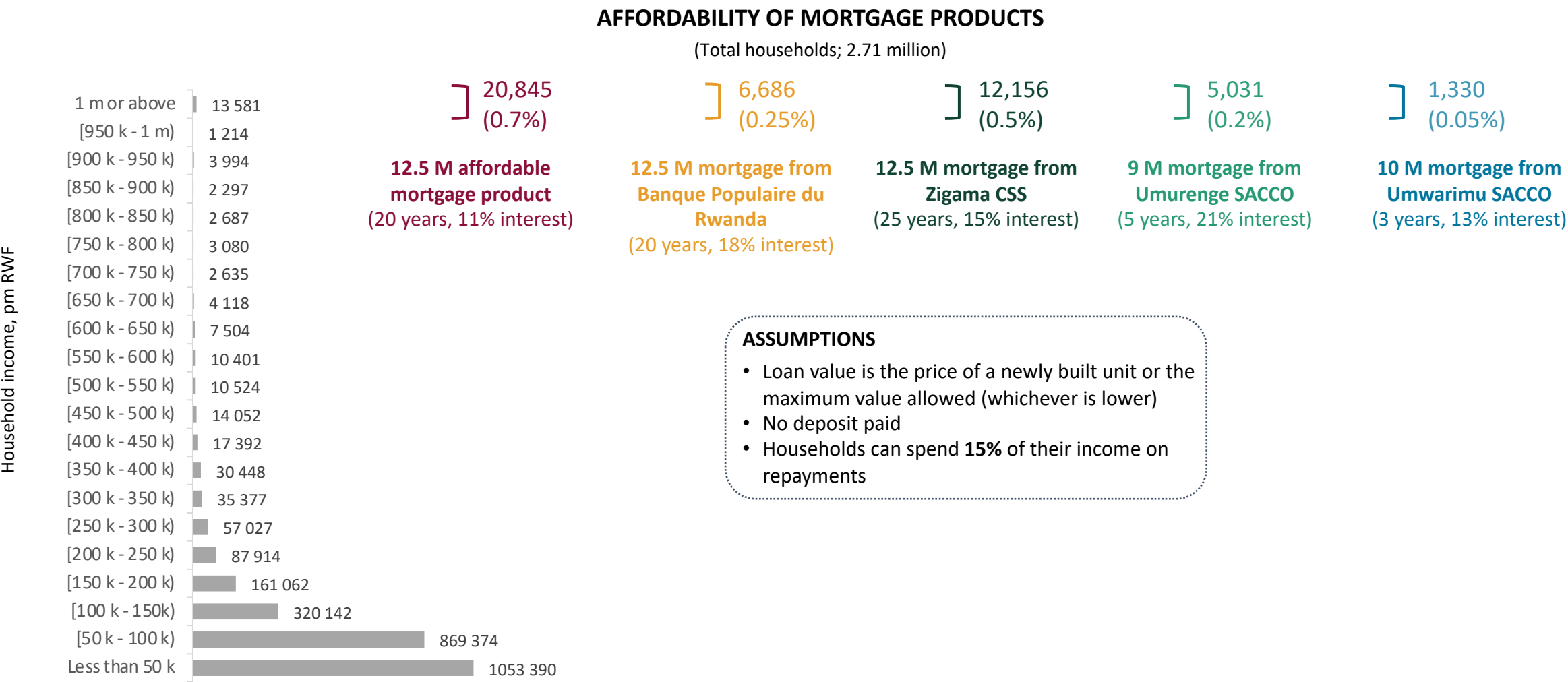
Assuming that households are able to spend 30% of their household income on mortgage repayments, about 84,500, or just 3% of households could afford an ‘affordable mortgage product’. This is double the number of the existing mortgage market.



Source: EICV 5. Note: For the bank products, the price of the cheapest newly built house by a developed (RWF 12.5 million) was used. For Umurenge SACCO, the maximum loan value was used (they did not provide an average loan size) and for Umwarimu SACCO the average loan value was used

Mortgage loan: market development and enablement zones

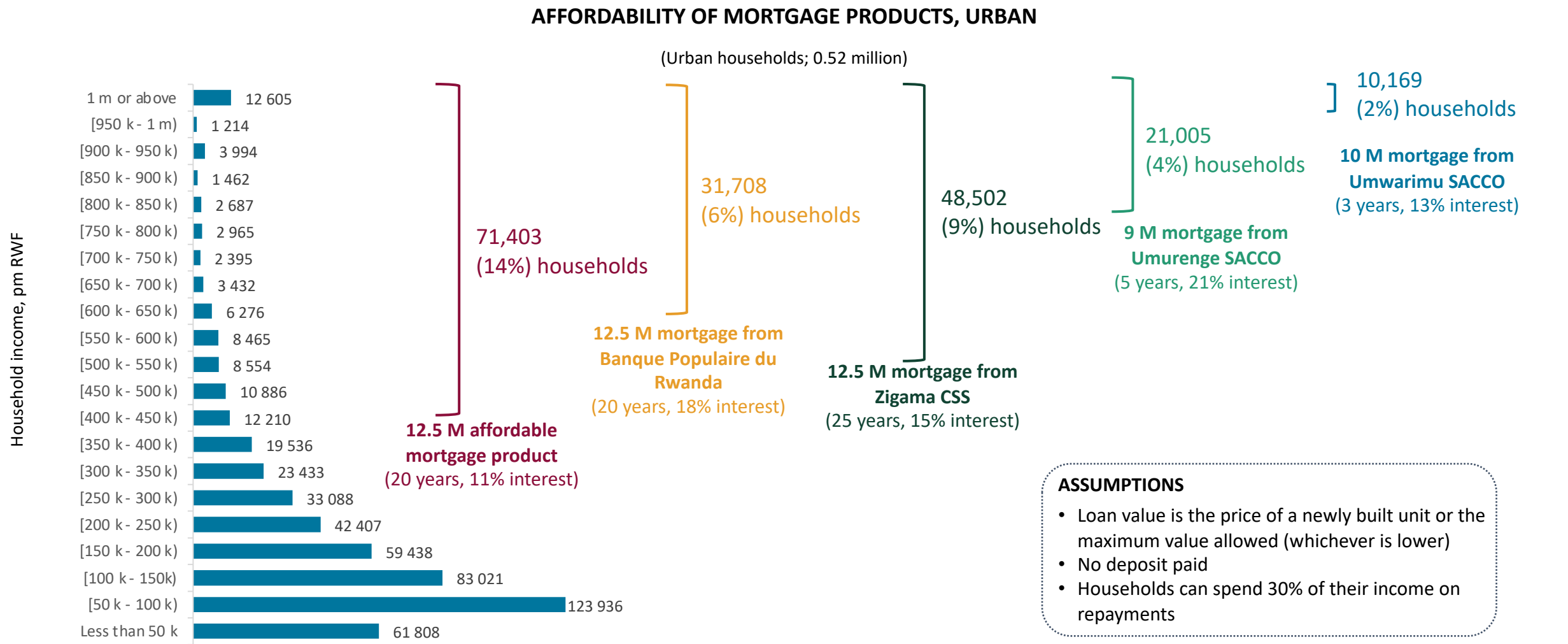
If households can only spend 15% of household income on mortgage repayments, then only about 20,800 households can afford an ‘affordable mortgage product’



Source: EICV 5. Note: For the bank products, the price of the cheapest newly built house by a developed (RWF 12.5 million) was used. For Umurenge SACCO, the maximum loan value was used (they did not provide an average loan size) and for Umwarimu SACCO the average loan value was used

Mortgage loan: market development and enablement zones

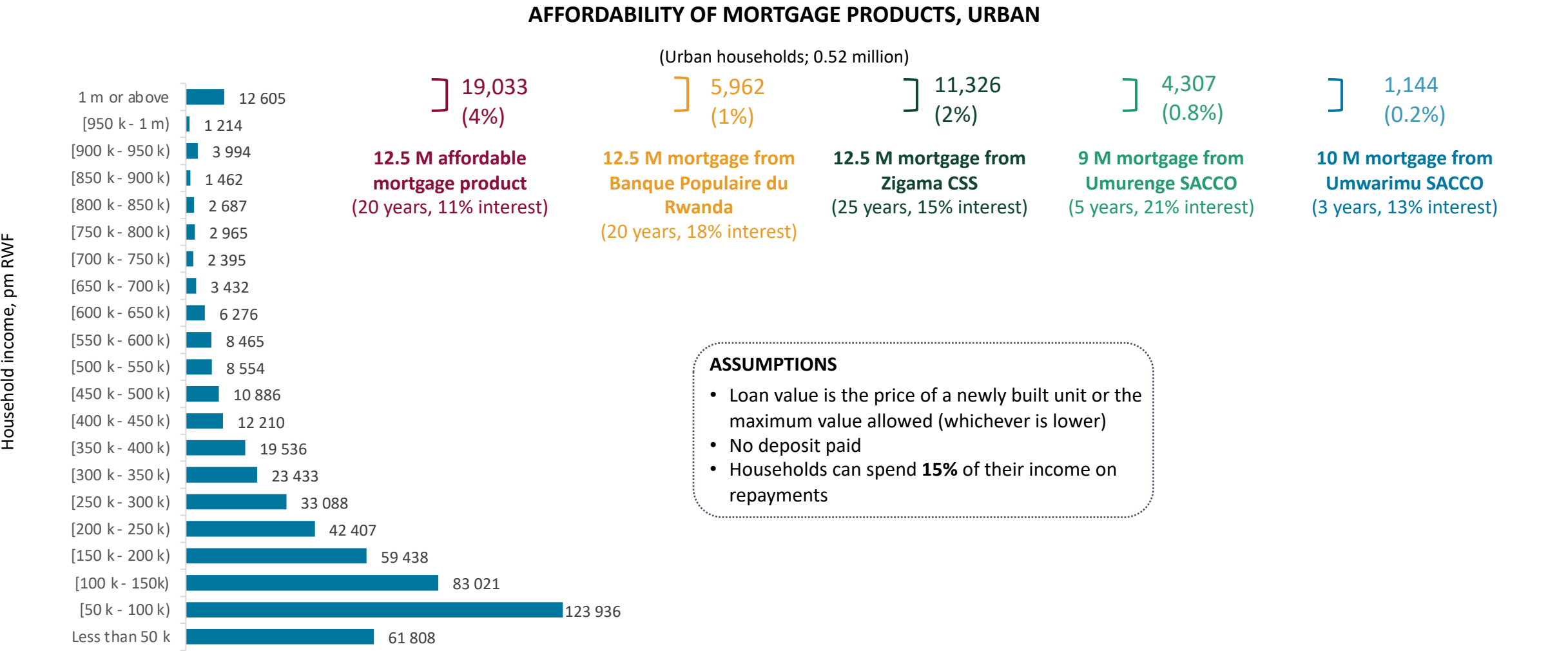
In urban areas, if households are able to spend 30% of their household income on mortgage repayments, about 71,400, or **14% of urban** households could afford an ‘affordable mortgage product’



Source: EICV 5. Note: For the bank products, the price of the cheapest newly built house by a developed (RWF 12.5 million) was used. For Umurenge SACCO, the maximum loan value was used (they did not provide an average loan size) and for Umwarimu SACCO the average loan value was used

Mortgage loan: market development and enablement zones

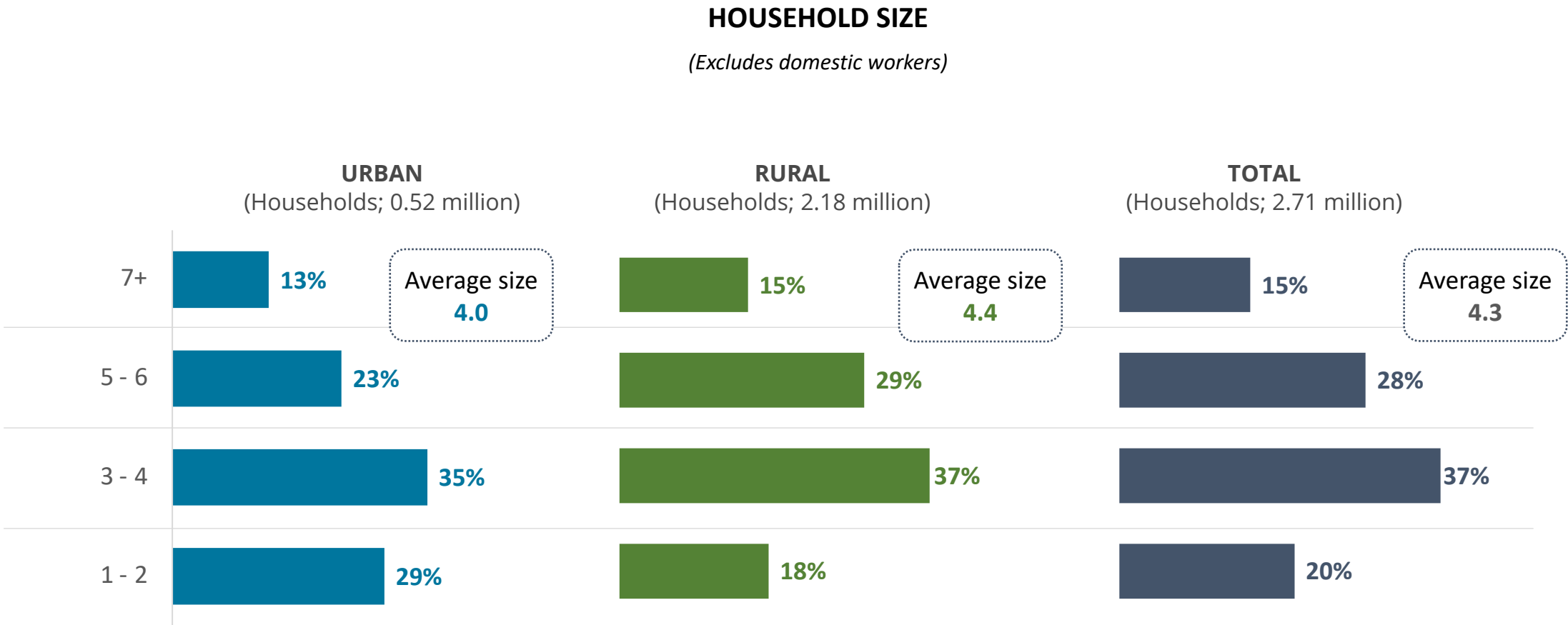
Again, in urban areas, if households can only spend 15% of household income on mortgage repayments, then only about 19,000 (4%) urban households can afford an ‘affordable mortgage product’



Source: EICV 5. Note: For the bank products, the price of the cheapest newly built house by a developed (RWF 12.5 million) was used. For Umurenge SACCO, the maximum loan value was used (they did not provide an average loan size) and for Umwarimu SACCO the average loan value was used




































Mortgage loan: market development and enablement zones

Affordability has been calculated based on the price of the cheapest newly built house priced at RWF 12.5 million, which will typically only be a one bedroom apartment. However, households usually have 4 to 5 members



Mortgage loan: market development and enablement zones

Summary

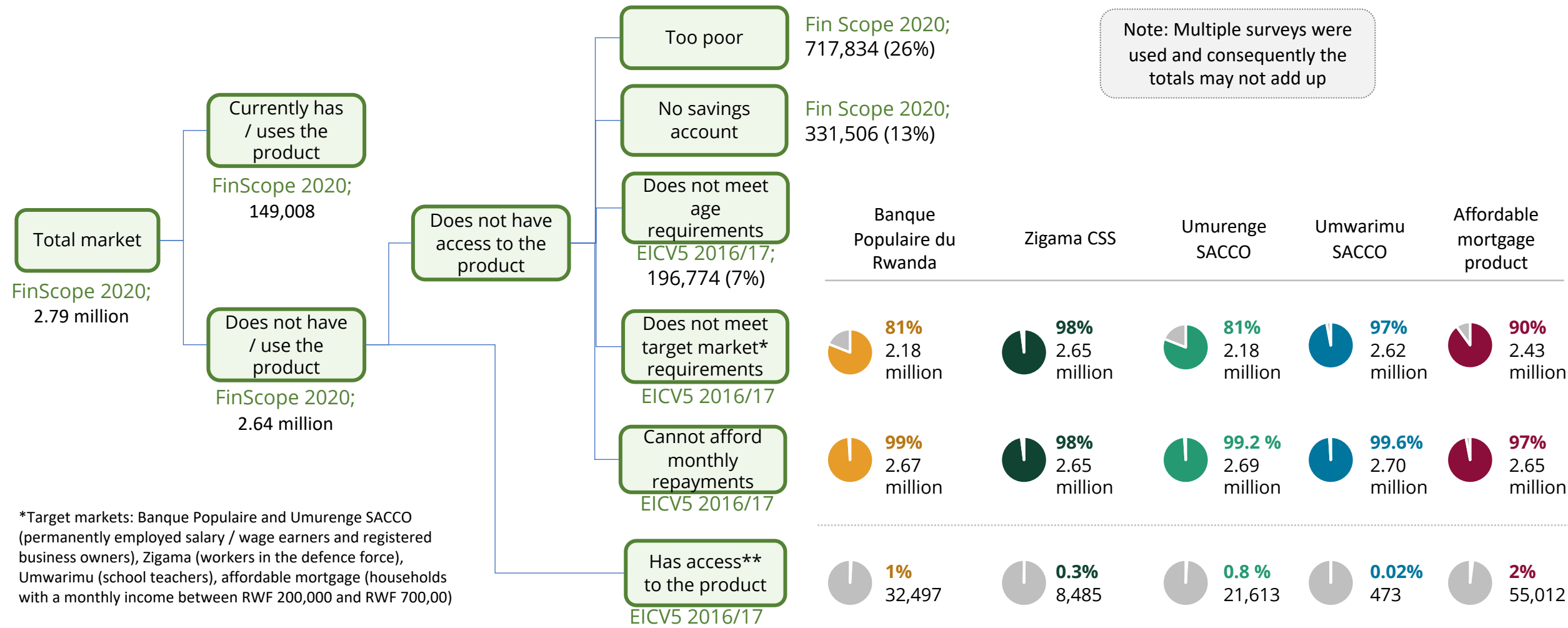
	Banque Populaire du Rwanda RWF 12.5 million loan at 18% interest over 20 years	Zigama CSS RWF 12.5 million loan at 15% interest over 7 years	Umurenge SACCO RWF 9 million loan at 21% interest over 5 years	Umwarimu SACCO RWF 10 million loan at 13% interest over 3 years	Affordable mortgage product RWF 12.5 million loan at 11% interest over 20 years
Potential market* (does not currently have a mortgage and not classified as too poor)	 69% 1.92 million	 69% 1.92 million	 69% 1.92 million	 69% 1.92 million	 69% 1.92 million
Age (households with at least one member aged between 21 and 60)	 93% 2.51 million	 93% 2.51 million	 93% 2.51 million	 93% 2.51 million	 93% 2.51 million
Savings* (household heads in potential market with a formal savings account)	 87% 2.14 million household heads	 87% 2.14 million household heads	 87% 2.14 million household heads	 87% 2.14 million household heads	 87% 2.14 million household heads
Awareness*	 67% 1.28 million	 67% 1.28 million	 91% 1.74 million	 91% 1.74 million	 67% 1.28 million
Target market	 19% 0.53 million	 2% 53,000	 19% 0.53 million	 3% 84,000	 10% 274,756
Affordability based on 30%, no deposit	 1% 34,675	 2% 55,033	 0.8% 22,816	 0.4% 10,893	 3% 84,501
% of TOTAL households who have access**	 1% 32,497	 0.3% 8,485	 0.8% 21,613	 0.02% 473	 2% 55,012

Source: EICV 5

Note: Figures indicate the number of households, unless otherwise specified. *FinScope Rwanda 2020. **Calculated using age, occupation and affordability requirements

Mortgage loan: market development and enablement zones

Summary of the market development and market enablement zones per product

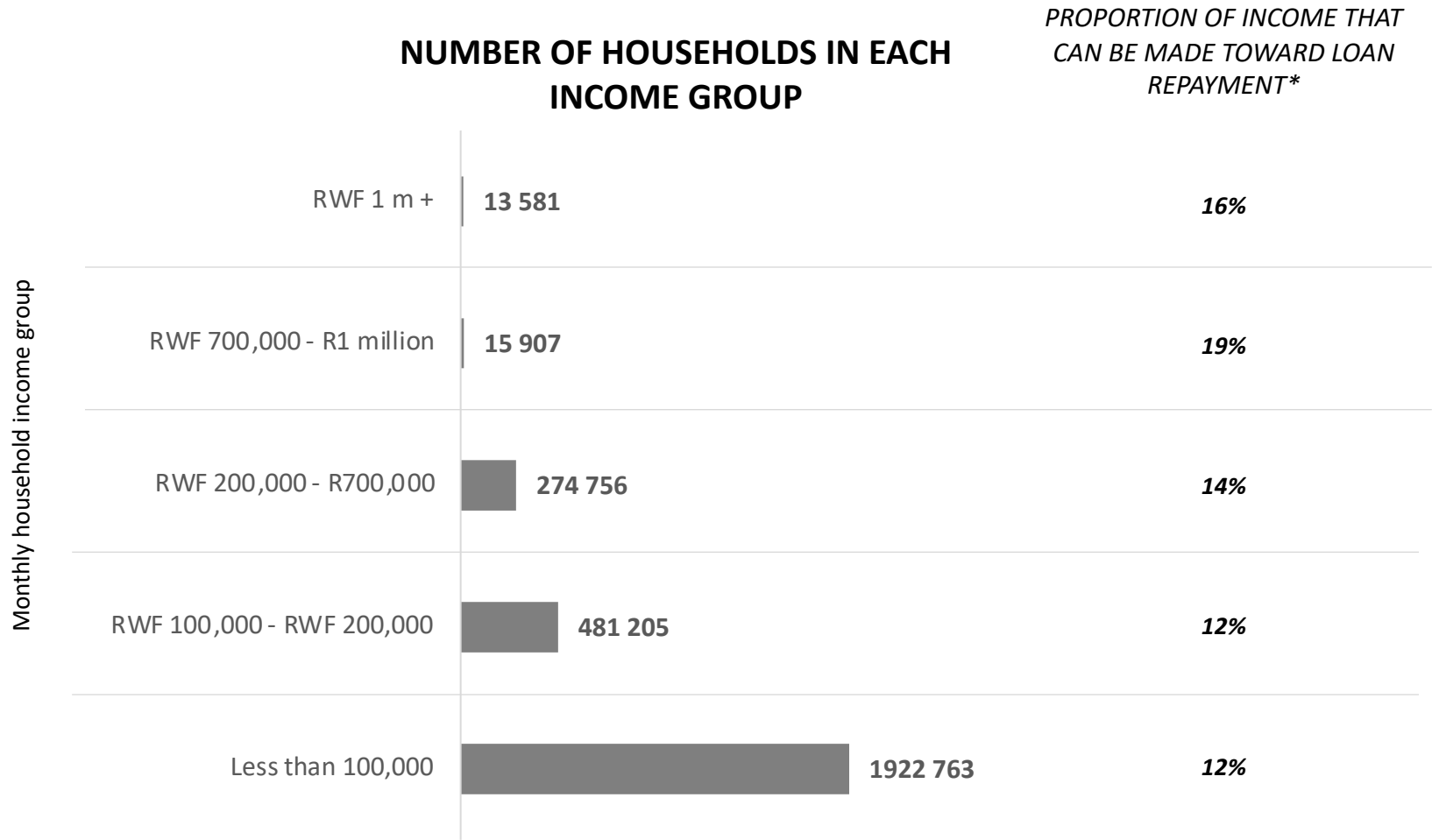


*Target markets: Banque Populaire and Umurenge SACCO (permanently employed salary / wage earners and registered business owners), Zigama (workers in the defence force), Umwarimu (school teachers), affordable mortgage (households with a monthly income between RWF 200,000 and RWF 700,00)

**Access is based on age, occupation and affordability requirements. Affordability assumes that 30% of household income is used for monthly loan repayments and no deposit is paid (100% loan value)

Mortgage loan: market development and enablement zones
















Another option for considering affordability is based on different household income groups. For each income group we can assess their capacity for repaying loans based on their average expenditure allocated to rent and use this as a proxy for housing finance affordability. Five income groups have been selected:



Source: EICV 5
Note* Based on renter households proportion of total expenditure on rent

Considering just the bank mortgage offerings (which have a longer term and are therefore more affordable), the proportion of households in each income group that could afford an RWF 8 million, RWF 12.5 million and RWF 20 million mortgage have been assessed in the table below

The affordable mortgage loan, which specifically targets households with a monthly income of between RWF 200,000 and RWF 700,000 is not affordable for that income group based on the assumptions used; just 5% of households in that income group could afford a RWF 8 million loan assuming they are able to contribute 14% of their income to loan repayments

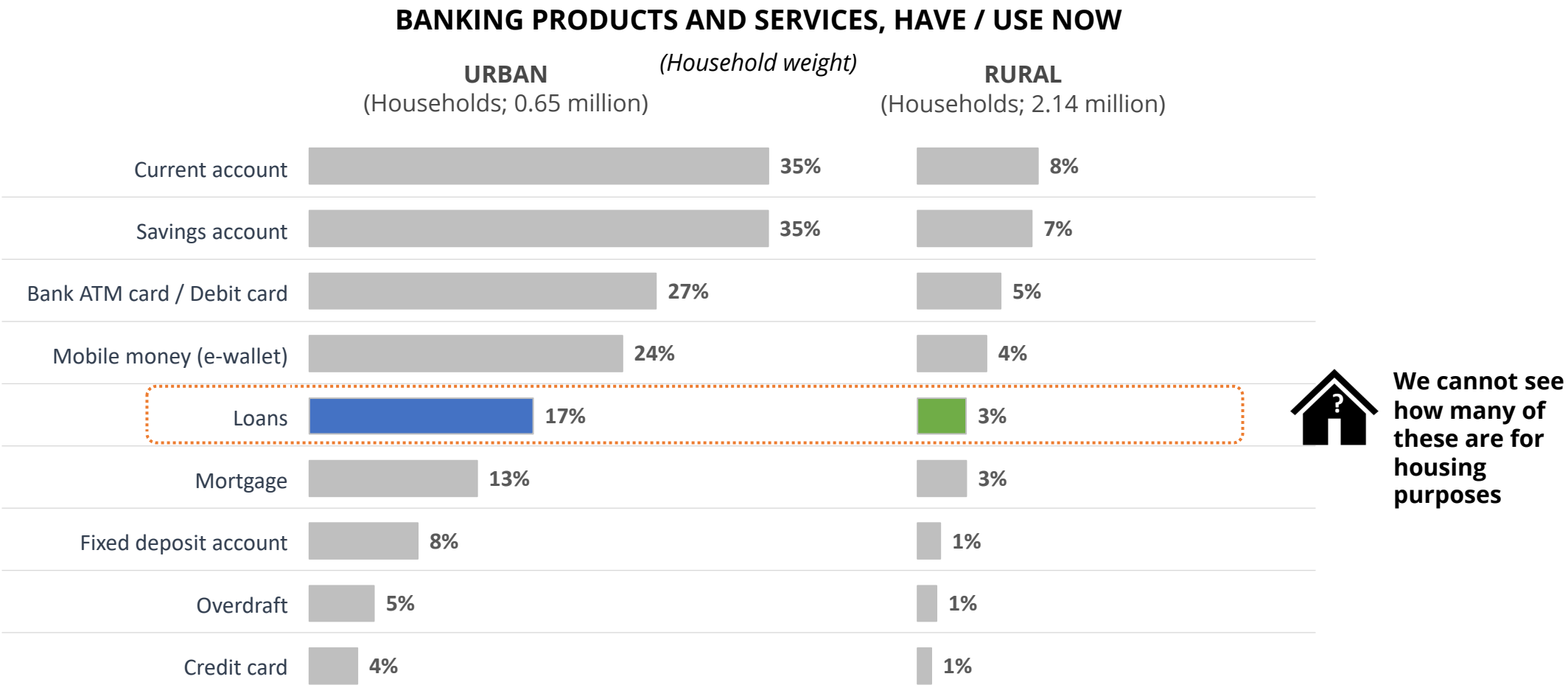
		Affordable mortgage product (20 years, 11%)			Banque Populaire du Rwanda mortgage (20 years, 18%)			Zigama mortgage (25 years, 15%)		
Monthly household income group	% of income that can be contributed to repayments*	8 million loan	12.5 million loan	20 million loan	8 million loan	12.5 million loan	20 million loan	8 million loan	12.5 million loan	20 million loan
RWF 1M or more	16%	 13 581 (100%)	 13 581 (100%)	 6 326 (47%)	 13 581 (100%)	 7 362 (54%)	 3 225 (24%)	 13 581 (100%)	 12 723 (94%)	 5 031 (37%)
RWF 700,000 – 1M	19%	 15 907 (100%)	 15 907 (100%)	0	 15 907 (100%)	0	0	 15 907 (100%)	 7 505 (47%)	0
RWF 200,000 – 700,000	14%	 13 591 (5%)	0	0	0	0	0	0	0	0
RWF 100,000 – 20,000	12%	0	0	0	0	0	0	0	0	0
Less than 100,000	12%	0	0	0	0	0	0	0	0	0

Source: EICV 5
 Note* Based on renter households proportion of total expenditure on rent

1. Mortgage loans
- 2. Unsecured loans**

Unsecured loan: currently has/ uses the product

According to FinScope 2020, about 17% of urban, and 3% of rural households currently have loans that they do not classify themselves as mortgages. We cannot see how many of these might be used for housing purposes.



Source: FinScope Rwanda 2020, and CAHF (2020). Rwanda Profile, 2020 Yearbook: Housing Finance in Africa. Johannesburg. South Africa.
<https://housingfinanceafrica.org/documents/2020-housing-finance-yearbook-rwanda-profile/>

Unsecured loans

Some information has been collected on unsecured loan offerings. However, the institutions did not provide average loan values and terms. For this reason a range of loan sizes have been selected to assess affordability. Clearly, these loans would be used for incremental housing and home improvements.

UNSECURED LOAN PRODUCT SPECIFICATIONS FROM INSTITUTIONS

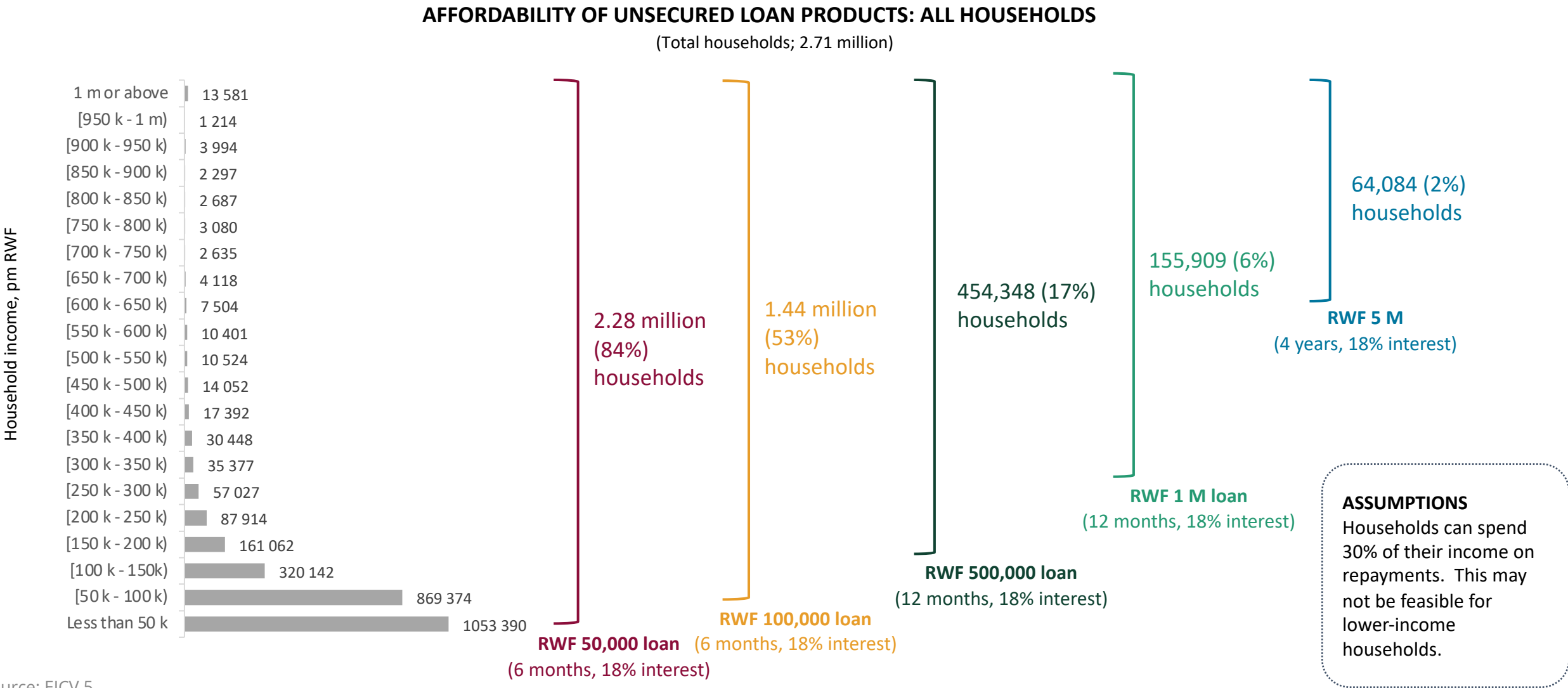
	Banque Populaire du Rwanda	Zigama CSS	Umurenge SACCO	Umwarimu SACCO
Maximum value	Unclear	RWF 5 million	<i>Does not offer unsecured loans</i>	RWF 10 million
Interest rate	16% to 20%	15%	-	12% for public school teachers and 14% for private school teachers
Loan term (max)	4 years	3 years	-	5 years

TOO ASSESS AFFORDABILITY FIVE PRODUCTS HAVE BEEN USED:

	Unsecured loan 1	Unsecured loan 2	Unsecured loan 3	Unsecured loan 4	Unsecured loan 5
Value	RWF 50,000	RWF 100,000	RWF 500,000	RWF 1 million	RWF 5 million
Interest rate	18%	18%	18%	18%	18%
Term	6 months	6 months	12 months	12 months	48 months

Unsecured loans

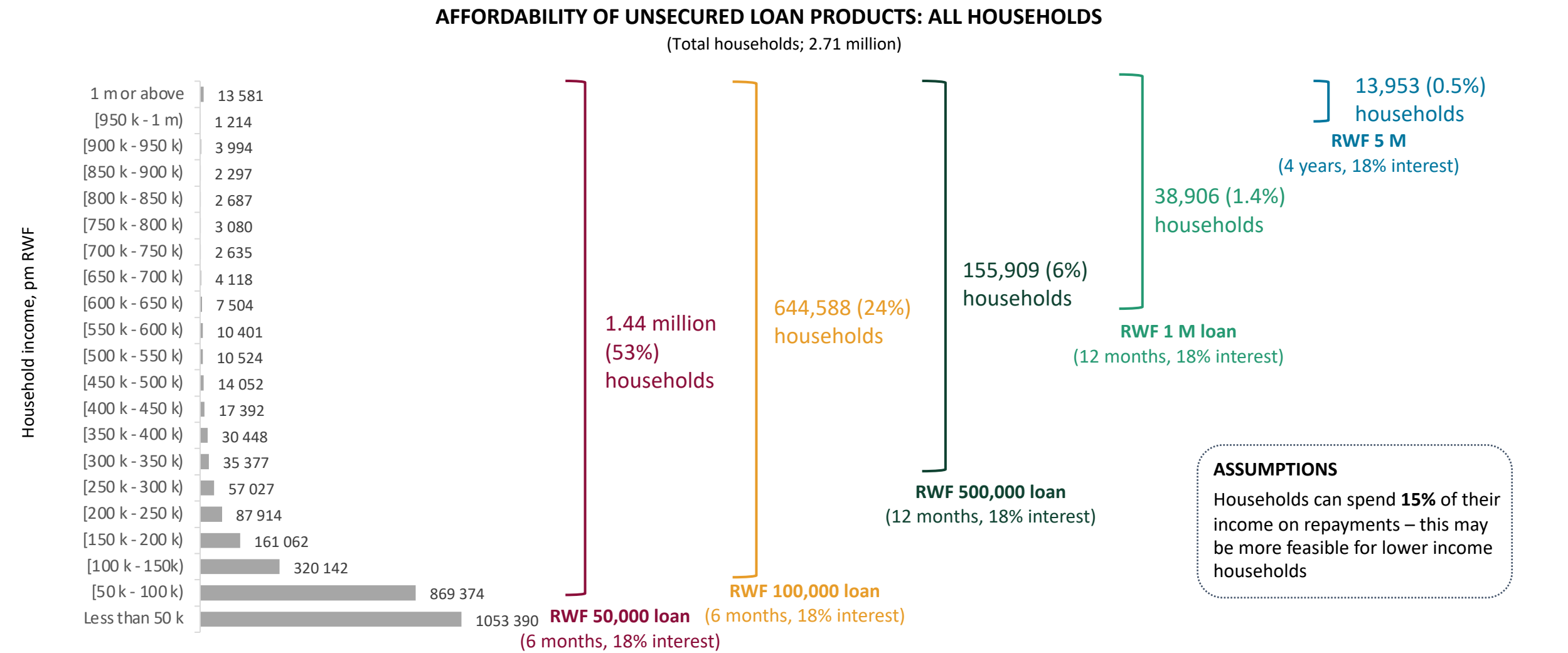
About 64,000 households would be able to afford a RWF 5 million unsecured personal loan if the households are able to spend 30% of their income on monthly loan repayments



Source: EICV 5

Unsecured loans

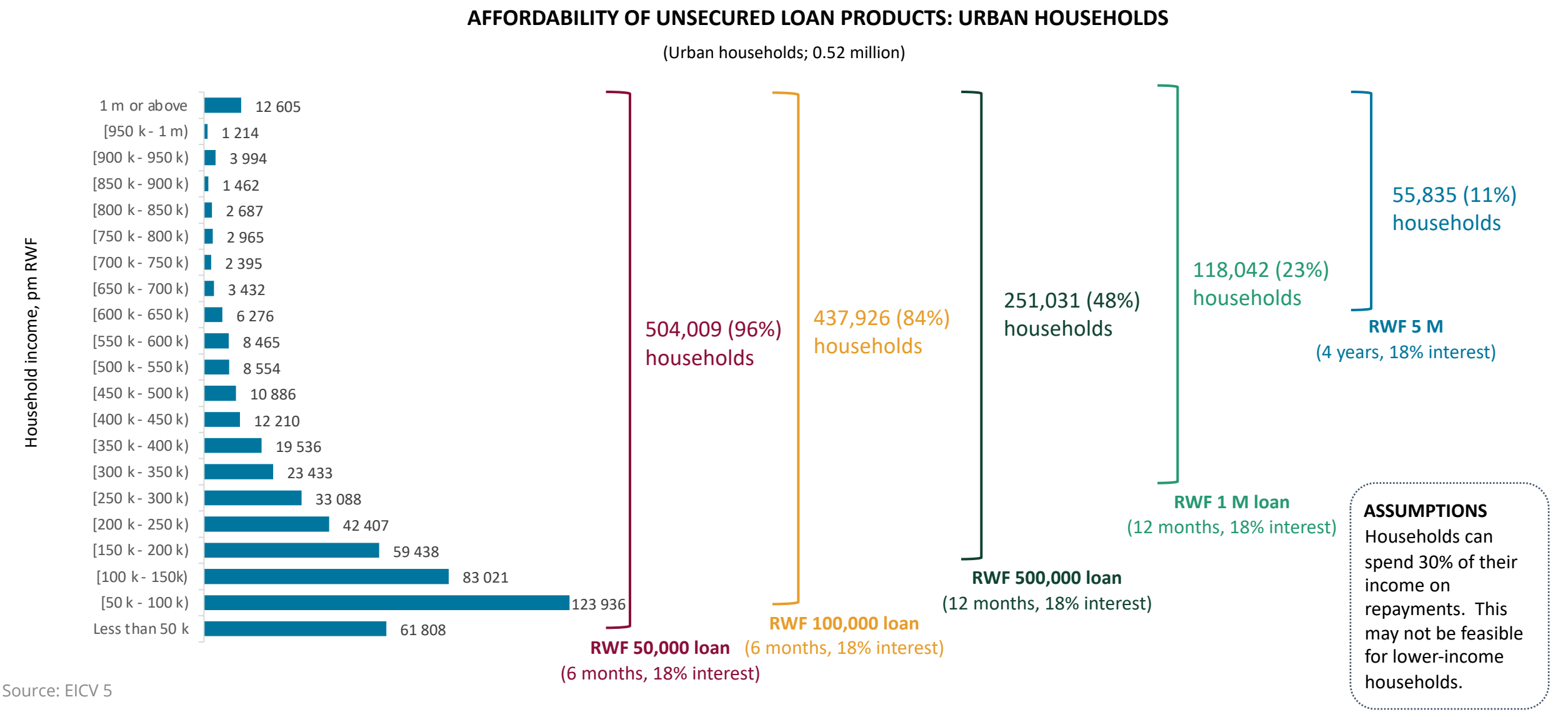
If households can only spend 15% of their income on monthly loan repayments, less than 14,000 households would be able to afford a RWF 5 million unsecured personal loan



Source: EICV 5

Unsecured loan

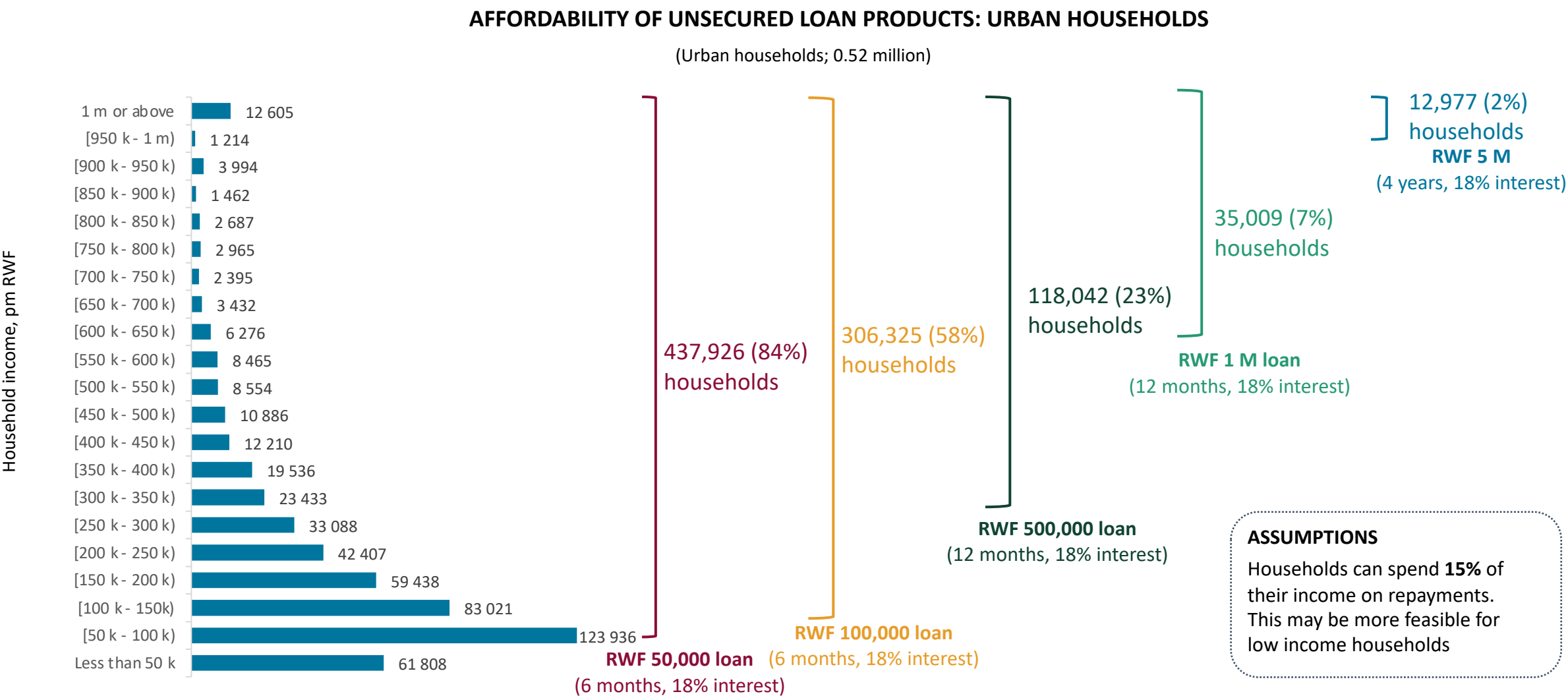
Just under 56,000 urban households could afford a RWF 5 million unsecured personal loan, if they are able to spend 30% of their income on monthly loan repayments



Source: EICV 5

Unsecured loan

If households are only able to spend 15% of their income on monthly loan repayments, then about 13,000 urban households would be able to afford a RWF 5 million unsecured personal loan



Source: EICV 5

Conclusion

- Few households currently have access to mortgage finance, with the major constraint being affordability
- The general assumption to determine affordability assumes that households can contribute 30% of their household income to loan repayments
- However, expenditure data from EICV 5, indicates that households currently contribute much less than this toward their housing costs. For example, urban renter households pay 15% of their total expenditure to rent and for rural households it is just 8%
- Using these as a proxy for affordability, just 4% of urban households or around 19,000 households, would be able to afford a 12.5 million loan based on the affordable mortgage product (11% interest and a 20 year term). A regular mortgage from Banque Populaire du Rwanda (18% interest rate and 20 year term) for the same value would be affordable to just the top 0.25% of urban households (~6,000 households)
- These calculations assume that the loans do not require a deposit, however most banks and SACCOs do require a deposit which creates an additional barrier for households that do not have access to adequate savings
- Smaller, unsecured loans are more affordable and could allow for incremental investment. However this is currently discouraged by policy

Data sources

Access Finance Rwanda (2020). Finscope Survey 2020. <https://www.statistics.gov.rw/file/9343/download?token=X40OYCel>

NISR. (2017). Integrated Household Living Conditions Survey 5 (EICV 5). <https://www.statistics.gov.rw/datasource/integrated-household-living-conditions-survey-5-eicv-5>

NISR. (2019). Labour Force Survey 2019

NBR

- Mortgage extracted from the NBR's Electronic Data Warehouse by the Financial Stability Directorate

World Bank

- World Development Indicators Database
- Ease of Doing Business Database
- Global Findex Report 2017

Other

- ILOSTAT Database
- UNDP Database
- Transparency International 2019 Report
- Rwanda Stock Exchange data on Government Bond Yields
- RLUMA Land Dashboard
- RRA Firm level tax data
- DHS Rwanda Survey 2014-15
- Marchal Real Estate Developers
- CAHF Housing Economic Value Chain Report on Rwanda
- Local Building Store in Kabeza Kigali
- Commercial banks: Banque Populaire du Rwanda and Zigama CSS

ADDITIONAL DOCUMENTS

The following documents are available as separate files:

1. Scoping Rwanda's Affordable Housing Demand & Supply: Full Report
2. Scoping Rwanda's Affordable Housing Demand & Supply: Executive Summary
3. Affordable Housing in Rwanda: Demand-side analysis
4. **Affordable Housing in Rwanda: Housing Finance Access Frontiers**
5. Affordable Housing in Rwanda: Housing Submarkets
6. Affordable Housing in Rwanda: Sale and rent prices in Rwanda's housing market
7. A Review of the Data Landscape in Rwanda's Housing Ecosystem
8. Rwanda's affordable housing sector: overview of the institutions, policies and legislation that shape the sector