

# Access To Housing Finance In Ethiopia: A Case Study Of Addis Ababa

Tigist Belachew Senbeta, Dr. G. S. Batra (Professor)

**Abstract :** In developing countries, especially in most African countries, majority of households lacks access to housing loan provided by formal financial institutions. Poverty, low level of income, underdeveloped financial system and inflation are the main factors stated in literatures for inaccessibility of housing finance for households. Thus, this study was conducted to examine the accessibility of housing finance and identify major constraints facing households in getting housing loan for residential house construction in Ethiopia. Survey data through questionnaires and interview was collected to achieve the research objectives. Descriptive method using SPSS software was employed to analyse the collected data. The result of the finding showed in general, housing finance in Ethiopia is inaccessible for majority of households. Only higher income group of the society and those working in financial sector have the opportunity to use loan for housing granted by few commercial banks operating in the country. The result also showed among the major constraints hindering households to access housing finance are; low income level of the households, high interest rate, high house price, inflation, down payment required by lenders, lack of collateral, high amount of monthly instalment payment, and lack of access to land for house construction.

**Key words:** housing finance, financial institution, poverty, inflation, Ethiopia

## 1. INTRODUCTION

Housing, apart from its purpose as a shelter and security for human being, it plays a major role in a country's economy since it is a basic asset. Housing contributes a great role in development of a national economy by enhancing the individual's health, self-confidence, capacity and willingness to work, efficiency, social behaviour and accordingly increasing income generation. Hence for a people to have secure and safe environment housing is important. Many literatures asserted the major contributions of housing throughout the world in addition to its shelter purpose. Doling et al (2013) explained the relation of housing with economic development and poverty reduction. Because of the sector's connection with financial sector it has a major impact on economy. For a household to construct or purchase a house they need to invest huge amount of money. For the majority of the world's population it is difficult to finance the required fund through equity. Hence, they need to search for external financing in the form of mortgage. In the market where housing financial institutions provide the financing service, the mortgage market accounts for large portion of funds, which in turn helps the financial sector to earn a stable income. The authors also acknowledged the importance of housing as part of real economy because of its direct and multiplier effects. The effects that housing construction creates on demand for labours, building materials, and on various professional services accounts for the importance of housing on a country's economy. Hence, to have equitable economic growth and reduce poverty housing finance plays a significant role by helping households to have asset which improves their living conditions.

As an asset, house is a major property that an individual or any household holds in his portfolio. It requires long term investment or long term finance. The provision of housing finance (long term finance) mainly depends on well-functioning of housing finance system. Countries with good credit information system that are well informed, strong legal rights for borrowers and lenders through collateral and bankruptcy laws and stable macroeconomic environment have more developed housing financial systems (Warnock and Warnock, 2008). In spite of its major contribution in countries' economy, housing finance system is not well developed in developing countries. The major factors contributed for underdevelopment of housing finance system are; macro-economic instability with high and volatile inflation and interest, weak legal systems that do not adequately protect the interest of lenders, underdeveloped infrastructure for housing markets, as well as some underdeveloped and poorly regulated banking and capital markets (Chiquier & Lea, 2009).

## 2. LITERATURE REVIEW

### 2.1. Concepts of Housing Finance

The term housing finance or housing loan is commonly known as loan provided by lenders for households to cover the purchase, construction or renovation of housing units. Usually it is used interchangeably with the residential mortgage loan. In different studies housing finance is described in terms of mortgage loans. For example, Mugambe (2009) defined housing finance as, a source of fund used by households or any other party in the process of acquiring and construction of housing units. According to Fulwari (2012), housing finance is defined as, a housing loan extended to households for the purchase or construction of house.

### 2.2. Accessibility of Housing Finance and Challenges to Access Housing Finance

In developing countries, especially in most African countries, majority of households lacks access to housing loan provided by formal financial institutions. Poverty, low level of income, underdeveloped financial system, high interest rate and inflation are the main factors stated in different literatures for inaccessibility of housing finance for

- TIGIST BELACHEW SENBETA, currently pursuing a PhD program in Finance, at Punjabi University, Patiala, India. Email: [belachewtigist8@gmail.com](mailto:belachewtigist8@gmail.com)
- Dr. G. S. BATRA (prof.), Dean Academic Affairs, Punjabi University, Patiala, India. Email: [batra.gurdip@gmail.com](mailto:batra.gurdip@gmail.com)

households. Accordingly Low income coupled by unaffordable housing products on the market has limited the ability of middle and low income households to access of housing finance (Meheret 2009). High price of house which resulted from increase in construction materials and high interest rate on loan for housing affected the household in getting access to finance for housing Udoka and Kpataene (2017). While discussing the problems on financing Doling, et al (2013) stated that housing finance in developing countries is limited to those with high and steady income levels. Initial down payment of about 30% or higher of the value of the unit is required from borrowers to secure finance for housing and the amount of mortgage may be large relative to income. While those who cannot secure loan for housing are forced to save for many years to purchase or built their house. According to UNCHS 1994, Diamond & Lea 1992, as cited in Ojo (2006), besides the affordability issue of housing and interest rate on loan, qualification constraints/eligibility criterion for prospective borrowers such as down payment/equity contribution which range 10% to 20%, additional collateral requirement besides the mortgaged property, collateral in the form of titled land and insurance coverage are among the main factors restricting households to access housing finance in developing countries. Various studies have shown supporting result as to land title requirement as a collateral in most developing countries, for example Nilsson (2017), explained the need of real property as a collateral such as land by lenders. As the literature shows, lenders use the value of property to determine the amount of loan extended for potential borrower since loan to value ratio is taken as a measure of credit risk by lenders. Erbas & Nothaft (2002), in their study of "the role of affordable mortgages in improving living standards and stimulating growth in MENA countries" argued that, access to mortgage financing is limited for low to middle income households in developing countries. The result of their study showed, high house price, poor quality of housing, presence of public sector institutions and banks domination in housing and mortgage finance, inaccessibility of mortgage finance, large initial down payment, short term repayment period of loan extended for housing, and low involvement of commercial banks in mortgage finance in most developing countries particularly in MENA region. In investigating the main factors contributing for inaccessibility of housing finance, Nguena et al.,(2015) studied the structure of housing finance in Africa, its determinants and its impact on inclusive growth using a panel data of 48 sub-Saharan African countries for the period of 2000 to 2013. Their finding showed that market capitalization and urbanization are key positive determinants of housing finance. While a post-conflict environment is conducive for greater housing finance development. They also pointed out that, housing finance is driven by demand and supply. Furthermore their result indicated that, since the industry is at a very early stage, housing finance development in Africa is not yet an effective tool for inequality reduction. Mugambe (2009) studied access to housing finance by urban Middle-low income salary earners in Kampala city, Uganda. The researcher in his finding showed that, high interest rate, unfavourable housing finance product, high rate of monthly instalment payment required by financial institutions, limited information on the available housing products, complex

loan approval process, complexity of obtaining both a land title and a building plan approval, insecurity to pay the loan, and type of collateral required by lending institutions are the major problems majority of the population faces in obtaining housing finance. Ojo (2006) in his study of "Problems Affecting Housing Financing in Southwestern Nigeria" examined the factors which makes housing finance inaccessible for low to middle-income households in developing countries. In his finding the researcher identified high interest rate, inflation, fund mobilization, affordability and qualification criterion are major factors for inaccessibility of housing finance by low and middle income households. Moreover, the researcher examined those factors from lenders perspective and asserted as to the factors such as high interest rate, high inflation, fund mobilization and affordability issue affects housing finance accessibility to low to middle income households in developing countries. Nakweenda (2014) conducted a study on "an investigation into housing finance schemes "in Namibia. The researcher found that, high interest rate, income and collateral requirements, high price of houses which resulted from high construction costs, and lack of land for housing are the major factors hindering low income households in financing their dwelling needs through formal sources of housing finance scheme. In Ethiopia, as the existing situation and some of the studies conducted in the area and reports of governmental and non-governmental organization indicates, a number of factors challenged and challenging the society's access to housing. Few studies made in housing and housing finance area in the country argued as to the lack of access to finance for housing. Meheret (2009) stated that to meet the housing needs of the middle and low income group the penetration of housing finance is insufficient. Majority of the people (middle and low income group) cannot afford the price of housing provided by developers-government as well as existing limited real estate developers (Tesfaye, 2011; Tihitina, 2014; Meheret, 2009). Moreover, Muleta (2014) in his study "Assessment of Housing Provision Challenges on Urban Residents: The Case of Bekoji Town, Arsi Zone, Oromia Regional State, Ethiopia", showed that financial constraints is the major factor challenging the house providers (focused on government). Melese (2014) also identified income and saving as a major factors determining access to housing for government employees and more generally lack of housing finance as a strong factor for housing. Furthermore, Yinebeb (2015) indicated the loan given to housing project-project undertaken by government, real estate developers, was not enough to meet the demand of housing in the city (Addis Ababa). This shows there is a shortage in supply of housing finance in the country. Access to housing finance is the major factor facing households, private house developers and even the government in provision of low cost housing for middle and low-income group of the people. Therefore, it is important to investigate the problem of housing finance in the country so as to identify the major constraints and forward possible policy recommendation which could help policy makers and other stakeholders in addressing the big problem in housing demand of the majority of the nation. Particularly, this study attempted to achieve the following research objectives:

1. To examine accessibility of housing finance for residential house construction in Ethiopia

2. To identify the major constraints facing household to access housing finance in Ethiopia.

### 3. METHODOLOGY

In achieving the research objectives of the study, the researcher used both primary and secondary sources of data. Data required for the study was obtained from households and financial institutions using questionnaire and interview survey methods. A sample of 384 households from four sub-cities of Addis Ababa city were taken as a study sample using multi stage cluster sampling technique. While administering the questionnaires, ultimate effort was made to minimize the non-response rate by reminding the respondents through phone and visiting continuously, even in their work place. Accordingly, out of total 384 questionnaires distributed to sample respondents, 317 were completed and returned, which resulted in a response rate of 83%. This response rate is large enough for generalisation. Additional data through questionnaires and

semi-structured interview was collected from a sample of financial institutions as a supplement to the data obtained from households. From the two public banks operating in the country only one bank-commercial bank of Ethiopia- was chosen purposively since only this bank is involved in mortgage lending. Six (6) private commercial banks were also selected from sixteen (16) private commercial banks operating in the nation by applying purposive sampling technique. With this, Semi-structured in-depth interview was conducted with officers/experts of credit department of the banks.

In analysing the data obtained from survey, descriptive method of analysis using Statistical package for social science (SPSS) software version 20 was used. In examining the main constraints challenging households in getting access to housing finance, proportion method of analysis was used to analyse the respective data and the major factors are ranked according to their effect on accessibility.

## 4. RESULTS AND DISCUSSION

### 4.1. Description of Demographic Characteristics of Sample Respondents

*Table 1: Demographic characteristics of respondents*

|                           |                      | Frequency | Percent |
|---------------------------|----------------------|-----------|---------|
| GENDER                    | Male                 | 210       | 66.2    |
|                           | Female               | 107       | 33.8    |
|                           | Total                | 317       | 100     |
| MARITAL STATUS            | Single               | 91        | 28.7    |
|                           | Married              | 209       | 65.9    |
|                           | Divorced             | 12        | 3.8     |
|                           | Widowed              | 5         | 1.6     |
|                           | Total                | 317       | 100     |
| AGE                       | 18-25                | 17        | 5.4     |
|                           | 26-33                | 121       | 38.2    |
|                           | 34-41                | 96        | 30.3    |
|                           | 42-49                | 46        | 14.5    |
|                           | 50-57                | 35        | 11.0    |
|                           | above 57             | 2         | .6      |
|                           | Total                | 317       | 100     |
| EDUCATIONAL QUALIFICATION | Non-Formal Education | 3         | .9      |
|                           | Primary School       | 4         | 1.3     |
|                           | Secondary School     | 7         | 2.2     |
|                           | Certificate          | 4         | 1.3     |
|                           | Diploma              | 31        | 9.8     |
|                           | Degree Graduate      | 171       | 53.9    |
|                           | Post Graduate        | 97        | 30.6    |
|                           | Total                | 317       | 100     |

Source: Author's field survey, 2018

As it can be seen in the above table (table 1) majority of the respondents, i.e., about two hundred ten (66.2 percent) are male and the remaining one hundred seven (33.8 percent) of them are women. As the proportion of gender distribution shows, the men domination of respondents may be attributable to data collection techniques employed in the study. Since the sample respondents are households, usually it is the head of the household who were asked to fill the questionnaire and in case of the absence of the household head, the questionnaire was administered to the next responsible person of the household member. In terms of marital status, majority of the respondents are married, showing 65.9 percent, followed by 28.7 percent respondents who were single, and only 3.8 percent & 1.6

percent divorced and widowed respectively (see table 1 above). The presence of larger portion of married respondents may help to understand the problem of housing and housing finance in the country in a better way because these groups of the society are assumed to have better information about housing and related finance problem than unmarried individuals. Moreover, those individuals having their own family are believed to have more concern in shelter needs and related financing aspect since they have a family for whom they are more concerned than unmarried ones. Hence, the researcher believes the data obtained from the sample respondents represents the whole population under the study area. On the other hand, the analysis of respondent's age indicates that majority of

them, that is, one hundred twenty one (38.2 percent) were between the age of 26 to 33. The next larger numbers of respondents were those with age group of 34 to 41, representing 30.2 percent of total sample. 14.5 percent of the respondents belong to 42 to 49 age group, 11 percent were between 50-57 years old, 5.4 percent were between the ages of 18 to 25. The minimum number of sample respondents who were above 57 years old constitutes only 0.6 percent. In general majority of the sample respondents, i.e. about 73.8 percent who belong to 18 to 41 years old, were from the younger age group of the society and this supports previous researchers conclusion that, those who demands housing and housing finance are those in the younger age group ranging from 18 to 40 (Akinwunmi 2009, Elkhaitim, 2009, & Tihitina, 2014). Hence, the researcher believes that result obtained from the sample respondents represents the whole target populations since these younger, productive age group of the society are those who are in need of housing and financing aspects. Since age of the potential borrowers is an important variable considered by lending institutions in making decision, whether to extend loan or not and determining the maturity of the loan, knowing the age of respondents is helpful. Moreover, educational qualification status of respondents' shows almost majority of respondents are educated, i.e., 84.5 percent of them were first degree graduate and post graduate, with first degree holder households outnumber (53.9 percent) those having second degree and PhD (see As it can be seen from the above table (table 2), majority of households i.e., 56.5 percent reported they don't have access to loan for housing, while the remaining 43.5 percent responded they had the access. To examine the existing situation further and support the result respondents were asked different related questions and analysed. According to the data obtained from respondents' shows, public as well as few private commercial banks are the dominant providers of housing finance in Ethiopia. Additional data from interview from lenders, such as banks & Micro finance institutions also conformed as to the presence of the service with its limitations. For example, almost all banks operating in the country had the service for their employees as a staff benefit, but only a few of them provides for external borrowers. The only bank which provide housing loan for the majority of households is the publicly owned bank but decision as to extending loan depends on the government plan and request irrespective of the bank's own decision. Because with regard to loan provided by public bank, financing intermediation is done by the country's housing project run by the government in discharging its social responsibility for the society. The officials who interviewed at the bank additionally noted that, at the time of conducting the survey the bank is not providing housing loan for households who approach the bank individually. Hence, based on this data and respondent's response (see table 2) the researcher concludes that, housing finance is not accessible for majority of households in Ethiopia. To get insight into the problem of access to finance for housing, those respondents who had had their own house and secured homeownership were further asked the source of finance they had used. The result of the related question raised for respondents was presented in table 3 below. From the response frequency distribution (table 3), those

table 1). 9.8 percent of the total sample respondents had Diploma, with two to three years of training in college in different field of study. The analysis of respondent's education status also shows 1.3 percent of respondents had certificate, 3.5 percent had attended primary and secondary education and only 0.9 percent were with no formal education. Generally, sample respondents were mostly educated which is not common in Ethiopian context as a country level, but it might be because of the nature of the study area, i.e., urban area.

## 4.2. Descriptive Analysis of Access to Housing Finance in Ethiopia

### 4.2.1. Accessibility of housing finance

To examine accessibility of housing finance in Ethiopia, sample respondents were asked whether they had the access or not and the result from survey analysis was presented in the following table (table 2).

**Table 2:** Access to housing finance

| Valid | Frequency | Percent |
|-------|-----------|---------|
| Yes   | 138       | 43.5    |
| No    | 179       | 56.5    |
| Total | 317       | 100.0   |

Source: Author's field survey, 2018

respondents who had their own house, 43.9 percent of them financed their house acquisition or construction through personal finance, while 34.2 percent of them used loan obtained from financial institutions. The remaining 19 percent of respondents relied on informal source of finance (finance obtained from family and friends in the form of loan), whereas 3 percent of respondents secured their homeownership through finance obtained from family and relatives residing in foreign country. The result also showed the mix of those sources of finance mentioned was used by households. Moreover, those respondents who stated personal saving alone or in combination of other form of finance in financing their house construction/purchase stated that, it took longer period for them to save the money required. From this result the researcher concludes that, in Ethiopia majority of household finance their shelter needs through saving accrued over long period. Furthermore, the households' dependence on personal saving to finance house acquisition may also indicate lack of access to loan for housing provided by formal financial institutions.

**Table3.** Distribution of respondents based on Source of finance used to acquire homeownership

| source of finance used to acquire a house <sup>a</sup> | Responses |         | Percent of cases |
|--|-----------|---------|------------------|
|  | N         | Percent |                  |
| Loan from Financial institutions                       | 81        | 34.2%   | 58.3%            |
| Personal saving  | 104       | 43.9%   | 74.8%            |
| Loan from informal                                     | 45        | 19.0%   | 32.4%            |
| Remittance from abroad                                 | 7         | 3.0%    | 5.0%             |
| Total  | 237       | 100.0%  |                  |

a. Dichotomy group tabulated at value 1.  
Source: Author's field survey, 2018

#### 4.2.2. Households' Occupation and Access to Housing Finance

To examine the effect of households' occupation status on accessibility of housing finance the following cross tabulation was done.

**Table 4:** Cross tabulation of access to housing finance by area of respondents' occupation

| area of respondents occupation               |                     | access to housing finance |       | Total  |
|--|---------------------|---------------------------|-------|--------|
|  |                     | No                        | Yes   |        |
| Education sector                             | Count               | 28                        | 12    | 40     |
|  | % within occupation | 70.0%                     | 30.0% | 100.0% |
| Financial sector                             | % within occupation | 29.2%                     | 70.8% | 100.0% |
|  | Count               | 54                        | 22    | 76     |
| others gov'tal & non-gov'tal service sectors | % within occupation | 71.1%                     | 28.9% | 100.0% |
|  | Count               | 20                        | 11    | 31     |
| Manu,const. & agri. sectors                  | % within occupation | 64.5%                     | 35.5% | 100.0% |
|  | Count               | 8                         | 5     | 13     |
| Military                                     | % within occupation | 61.5%                     | 38.5% | 100.0% |
|  | Count               | 38                        | 6     | 44     |
| Business                                     | % within occupation | 86.4%                     | 13.6% | 100.0% |
|  | Count               | 181                       | 136   | 317    |
| Total  | % within occupation | 57.1%                     | 42.9% | 100.0% |
|  | % of Total          | 57.1%                     | 42.9% | 100.0% |

Source: Author's field survey, 2018

Table 4 above depicted the cross tab result of access to loan for housing by the households and their occupation. For the question asked whether housing loan is available or not in their area, only 136 respondents answered "yes", and 181 answered "no". That is, majority of the respondents (57.1 percent) were claimed that loan for housing construction or purchase or related finance is not available in the country and only 42.9 percent said they have the access. As the result shows out of 57 percent respondents who don't have housing finance access, majority of them were working in non-financial sector. For example, 86.4 percent of respondents who engaged in their own private business don't have the access, 70 percent who work in education sector, 71 percent working in other government and non-government service providing organization such as health, telecom, NGOs and other charitable organizations, and those 64.5 percent of respondents working in manufacturing, construction and agriculture sectors have no access to loan for housing. To the contrary less portion of the respondents who engaged in the aforementioned sectors have the access. Out of 42.9 percent of respondents who claimed as to the presence of loan for housing in the country were mainly those who work in

financial sector. That is, 70 percent of respondents working in financial sector stated they had the access. While collecting the data from sample households, additional data was also collected in the form of questionnaire as well as interview from sample financial institutions operating in the country, which could help in triangulation of the result obtained from households. According to the interview and questionnaire data obtained from the lenders showed, all lenders (banks) provide housing loan mainly for their employees as a staff benefit package with a minimum lending rate as long as the staff qualifies for the loan. The bank considers certain criterions like work experience, age, income of employee and market value of the house that the employee is intends to buy. Based on this existing experience in lending for housing, households who were working in financial sector had the access and the lenders source confirmed the result obtained in table above. Hence, in general from this analysis, the researcher concludes that majority of households in Ethiopia have no access to housing loan.

#### 4.2.3. Access to housing finance and Home Ownership

**Table 5:** cross tabulation home ownership and access to housing finance

| What is the ownership of the house you living in? |                         | Do you have access to housing finance in your area? |       | Total  |        |
|---|-------------------------|---|-------|--------|--------|
|   |                         | No  | Yes   |        |        |
| Own   | Count                   | 56  | 96    | 152    |        |
|   | % within home ownership | 36.8%   | 63.2% | 100.0% |        |
| Rent  | Count                   | 123   | 42    | 165    |        |
|   | % within home ownership | 74.5%   | 25.5% | 100.0% |        |
|   |                         | Count   | 179   | 317    |        |
|   |                         | % within home ownership                             | 56.5% | 43.5%  | 100.0% |
| Total   |                         | 56.5%   | 43.5% | 100.0% |        |

Source: Author's field survey,2018

As table 5 above shows out of 152 respondents who had their own house at the time of conducting the survey, 96 (63.2 percent) had the access to housing loan, whereas, 56(36.8 percent) of them have no access to loan for housing. Those who live in rented house only 42 out of 165 respondents had access to housing finance. This clearly, shows accessibility of housing finance has an effect on home ownership status of households.

#### 4.3. Constraints to Access Housing Finance in Ethiopia

The second objective of this study attempted to identify the main constraints to access housing finance by households in Ethiopia. From literatures various factors are identified as problems challenging households in getting access to loan for housing. Among these, employment status of applicant, income level, affordability, interest rate, price of house, amount of monthly payment to service debt, complex loan approval process, collateral and culture and belief of the

society are the major factors impeding households to access loan for housing. Hence some of the major constraints were identified and analysed to see if they had effect on accessibility of housing finance in Ethiopia. With this regard five point Likert-scale questionnaires were prepared to examine the respondent's opinion as to the main constraints identified in literatures. Accordingly, among the major factors hindering households to access loan for housing in Ethiopia as cited by respondents are; high interest rate, high house price, inflation, complexity of banks' or lenders' loan approval process, lack information, collateral, income level, initial down payment required, monthly debt repayment amount, and government regulation. These factors are listed in the following table (table 6) based on their influence on housing finance accessibility, computed in proportion method.

**Table 6:** Major Constraints to access housing finance, by rank

|                                   | %age score | Rank |
|-----------------------------------|------------|------|
| Income level                      | 11.3%      | 1    |
| House price                       | 10.6%      | 2    |
| Collateral                        | 10.0%      | 3    |
| Down payment on loan              | 9.1%       | 4    |
| High interest rate                | 8.5%       | 5    |
| Monthly debt repayment amt.       | 8.1%       | 6    |
| Inflation                         | 8.0%       | 7    |
| Complex lender's approval process | 8.0%       | 8    |
| Lack of information               | 7.8%       | 9    |
| Government regulation             | 7.1%       | 10   |
| Access to land                    | 6.6%       | 11   |
| High risk with borrowing          | 4.9%       | 12   |

Source: Author's field survey, 2018

4.3.1. Income level: as table 6 above indicates, income level of household takes the first rank in its effect on access to housing finance as cited by respondents. This result is not uncommon in countries like Ethiopia, since majority of households in developing countries are low income

earners. Besides as the respondents' income data (obtained in survey questionnaire) indicates, majority of them are low income earners, i.e,33.5 percent of respondents had monthly income of birr 8000 and less (see table 7 below). With current inflated market situation

monthly income of 8000 and less than this amount is not enough to cover the day to day expense and save and finance house acquisition. Additional data obtained in the form of interview from lenders in Ethiopia indicates monthly income of majority of households is not enough to qualify for mortgage loan. According to lenders, to qualify for

mortgage loan in Ethiopia one third (1/3) monthly income of applicant must cover monthly instalment payment of debt. Since monthly instalment amount depends on house price or amount required to finance house construction, for larger portion of the society it is a big challenge.

**Table 7: Respondent's distribution based on income level**

|                         | Valid        | Frequency | Percent |
|-------------------------|--------------|-----------|---------|
| Personal monthly income | <4000        | 30        | 9.5     |
|                         | 4001-8000    | 76        | 24.0    |
|                         | 8001-12000   | 56        | 17.7    |
|                         | 12001-16000  | 62        | 19.6    |
|                         | 16001-20,000 | 41        | 12.9    |
|                         | above 20,000 | 52        | 16.4    |
|                         | Total        | 317       | 100.0   |
|                         | <4000        | 15        | 4.7     |
|                         | 4001-8000    | 49        | 15.5    |
|                         | 8001-12000   | 83        | 26.2    |
|                         | 12001-16000  | 61        | 19.2    |
|                         | 16001-20,000 | 43        | 13.6    |
|                         | above 20,000 | 66        | 20.8    |
|                         | Total        | 317       | 100.0   |

Source: Author's field survey, 2018

**Table 8: Frequency distribution of respondent's opinion on current house price**

|                       | Valid                 | Frequency | Valid Percent |
|-----------------------|-----------------------|-----------|---------------|
| Cost of construction  | <1,000,000            | 43        | 13.6          |
|                       | 1,000,000 - 2,000,000 | 52        | 16.4          |
|                       | 2,000,000 - 3,000,000 | 149       | 47.0          |
|                       | >3,000,000            | 73        | 23.0          |
|                       | Total                 | 317       | 100.0         |
| Market price of house | <1,000,000            | 2         | .6            |
|                       | 1,000,000 - 2,000,000 | 45        | 14.2          |
|                       | 2,000,000 - 3,000,000 | 185       | 58.4          |
|                       | >3,000,000            | 85        | 26.8          |
|                       | Total                 | 317       | 100.0         |

Source: Author's field survey, 2018

4.3.2. High house price: this is the second most ranked factor influencing access to housing finance as claimed by sample respondents. The current existing construction cost as well as purchase price of housing is high, given households' low income. To assess the existing value of house construction or acquisition in the country, households were asked certain question regarding same. These related questionnaires were analysed and presented in the table 8 above. As the analysis result of existing construction cost as well as acquisition price of house indicates, majority of respondents reported that both construction cost and purchase price of house is high, indicating above 2,000,000 Ethiopian birr (see table 8 above). This shows the price of house in the country is costly, which has a major impact on access to housing finance given the level of income of

households. To support the respondents' data on the particular questionnaire, additional data taken from the lenders also confirmed that the existing house price in the market is the main constraint which limits households to access housing finance in Ethiopia. 4.3.3. Lack of collateral: Since mortgage loan has the nature of long term investment, it involves high risk and to manage this risk lenders usually require property pledged as collateral for the mortgage amount they provide for borrowers. On the other hand, for households in developing country especially for low income earners it is a big challenge to have property required by lenders. Various literatures also reported collateral as a main constraint for low income earners of households to access mortgage loan provided by formal financial institutions.

**Table 9: Type of property pledged and intended to pledge as collateral for mortgage loan by respondents.**

|   | Valid                        | Frequency | Valid Percent |
|---|------------------------------|-----------|---------------|
| If you used loan to finance your house, what security was given for the loan? | Property itself              | 84        | 26.5          |
|   | Another property             | 2         | .6            |
|   | Employer letter of Assurance | 17        | 5.4           |
|   | Land title                   | 1         | .3            |
|   | Business licence             | 1         | .3            |
|   | Total                        | 105       | 33.1          |
|   | Not applicable               | 212       | 66.9          |
|   | Total                        | 317       | 100.0         |
|   | The property/house           | 157       | 61.6          |

|  |                              |     |       |
|--|------------------------------|-----|-------|
| If you get housing loan, what kind of security can you offer for a loan? | itself                       |     |       |
|  | Employer letter of assurance | 31  | 12.2  |
|  | Another property             | 53  | 20.8  |
|  | Land title                   | 11  | 4.3   |
|  | Business licence             | 3   | 1.2   |
|  | Total                        | 255 | 100.0 |
|  | Not applicable               | 62  |       |
|  | Total                        | 317 | 100   |

Source: Author's field survey, 2018

With respect to collateral problem, respondents were asked to specify the type of property or valuables which can be used and has been used as a loan security, given the availability of housing finance service in the country. The result (table 9) shows from 317 respondents only 105 had used mortgage loan in financing their house construction/acquisition. That is 33 percent of respondents have listed the various types of property/valuables they had used as collateral against mortgage loan. From property/valuables listed in the above table, the property, i.e. house under construction or the acquired house was used by majority of respondents in getting access to loan. The remaining valuables such as property other than the acquired house, employer letter of assurance, land title, business licence are used to some extent by households. On the other hand, respondents were asked their plan on the type of property/valuables they can avail if mortgage loan is available in the market and majority of them reported the same, i.e the house under construction/house intended to purchase. This indicates majority of households do not have the required collateral for mortgage other than the house intended to purchase or house under construction. Further question asked whether respondents had applied for mortgage loan or not was examined. Accordingly, as the analysis of data indicates majority of respondents who had not applied for housing finance from formal financial institutions reported that the main reason which hindered them not to apply for mortgage loan was lack of collateral. About 15.2 percent of respondents stated lack of collateral is one of the major reasons which hindered them not to apply for mortgage loan. Hence, from this finding we can conclude that lack of collateral is the main constraint to access housing finance in Ethiopia for majority of households.

#### 4.3.4. Down payment on loan

As cited by respondents, initial down payment amount, next to income level, house price & collateral, required by lenders is another most important factor hindering households in getting access to housing finance in Ethiopia. As supporting data during the survey period, responsible officers of the sample financial institutions were asked as to the main criterion required from applicant to qualify for mortgage loan. According to the lenders response initial down payment is the main requirement considered while screening application for mortgage loan. The initial down payment amount varies from 10% to 30% of the amount required to finance housing depending on the particular institution's policy. For example, the only publicly owned commercial bank providing such service, through integrated housing project run by the government providing low cost house for low income group of the society, require applicants to save 10% to 40% of house price in advance to

finance the house developed by the government. Others few private commercial banks extending mortgage loan require applicant's to cover 30% of the value of the house. Besides, as the data obtained from survey indicates construction of house or acquisition price is high in Ethiopia and for majority of households it is unaffordable (see table 8). The result showed majority of respondents claimed the current market value of house is above 2,000,000 Ethiopian birr. To qualify for housing finance provided by most of the banks, an applicant must pay 30% of the price of house. For example if we take a house costing two million birr, down payment required from borrower is birr 600,000 (30% \*2000, 000). For majority of Ethiopian households, particularly low and middle income earners down payment of 600,000 birr is difficult to cover unless they had saved for longer period of time. Hence, amount of down payment required for mortgage loan is the main constraints to access housing finance in Ethiopia.

#### 4.3.5. High interest rate

High interest rate or cost of borrowing is another major factor stated by respondents which hindered them to access housing finance in Ethiopia. For lenders providing mortgage loan it is not uncommon to charge borrowers to compensate for the time of loan period and risks involved since mortgage loan is long term by its nature. If we see from lenders perspective it is mandatory to charge certain percentage on yearly basis since they are in the process of doing business. Moreover, the fund extended for borrowers comes in the form of deposit polled from large public which had short term maturity period and also requiring cost for use of the fund. Amount of interest payment depends on the amount of principal and principal amount depends on the value of the house or cost of construction. As explained above, the existing price of house in the market is a major constraint to access loan for housing in the country as claimed by respondents. Hence, a specific interest rate applied on inflated house price would result in higher monthly interest payment. For households with higher income, higher amount of interest on loan might not be a problem since they can afford it, but for low income earners it is difficult to pay monthly principal as well as high interest on loan since most of these groups of society are struggling to satisfy their daily expenses. Others constraints such as monthly debt repayment amount, complexity of lender's loan approval process, inflation, government regulation, lack of information on availability of housing finance system in the country, lack of access to land and perception of respondents on risk involved in borrowing are reported as a factors impeding access to loan for housing depending on the magnitude of their effect based on the respondents perception.



## CONCLUSION

Now a day's urbanization is increasing in developing countries especially in Africa. This urbanization growth created urban poverty. According to IHC (2007) estimation more than half of African's poor will live in urban areas in 20 years. Hence, housing and related infrastructure is a key for urban development, which in turn requires huge capital. To meet the need of urban dwellers, developing efficient and sustainable housing finance system is a must. Ethiopia is one of those African countries which necessitate the development of housing finance scheme to meet the housing needs of urban populations. Urbanization is growing at a rapid growth rate in Ethiopia, but the provision of shelter in those urban areas is not encouraging. As literatures in the area, government agencies report, and non-governmental organization report shows factors such as income level of households, affordability of housing, saving habit of households and lack of access to finance contributed for the scarcity of housing supply in the country. So, a study which was made in the housing finance area in the country is valuable for policy makers, financial institutions, potential investors, and all other stakeholders to identify possible means of solving the housing finance and housing problem and works towards fulfilling the nation's needs which in turn contribute and promote the economic

development of the country. With this, the present study examined accessibility of housing finance and identified the major constraints to access housing finance scheme in Ethiopia. Using survey data and descriptive data analysis technique, the finding showed in general housing finance in Ethiopia is inaccessible for majority of households. Only higher income group of the society and those working in financial sector have the opportunity to use loan for housing granted by few commercial banks operating in the country. The result also shows among the major constraints hindering households to access housing finance are; low income level of the households, high interest rate, high house price, inflation, down payment required by lenders, lack of collateral, high amount of monthly instalment payment, and lack of access to land for house construction. Besides, there is no formal financial institution which is established for the purpose of providing loan for housing in the country. Only few commercial banks are rendering the service for applicants who qualify for loan. Hence, the government and other stakeholders need to work on establishment of housing finance system so that the majority of the society benefits out of the service. Policy makers must work on creating stable macro-economic environment which could help the development of the financial system.

## REFERENCES

- [1] Akinwunmi, A. A. (2009). An Investigation Into Factors Affecting Housing Finance Supply in Emerging Economies: A case study of Nigeria, Wolverhampton University, UK.
- [2] Chiquier, L. and Lea, M. (Ed.). (2009). Housing Finance Policy in Emerging Markets. The International Bank for Reconstruction and Development/The World Bank: Washington, DC.
- [3] Doling, J., Vandenberg, P., & Tolentino, J. (2013). Housing and Housing Finance — A Review of the Links to Economic Development and Poverty Reduction, ADB Economics Working Paper Series, No. 362(362).
- [4] Elkhatim, M.M (2009), Demand and supply condition of Islamic housing finance in United Kingdom: perceptions of Muslim clients, Durham University, England.
- [5] Erbaş, S. N., & Nothaft, F. E. (2002). The Role of Affordable Mortgages in Improving Living Standards and Stimulating Growth: A Survey of Selected MENA Countries; IMF working paper (WP/02/17).
- [6] Fulwari, A. (2012). Issues of Housing Finance In Urban India :A Symptomatic Study. Maharaja Sayajirao University of Baroda.
- [7] IHC (2007). Housing challenges and opportunities in sub-saharan Africa, International Housing Coalition, Housing for all: Washington Dc
- [8] Meheret A. (2009). Access to Housing Finance in Africa: Exploring the Issues, Ethiopia. Habitat for Humanity (No. 9).
- [9] Melese, M. (2014). Assessment of Problems of Access to Residential Housing By Government Employees: The Case of Sodo Town, Wolaita Zone, SNNPR. Haramaya University, Ethiopia.
- [10] Mugambe, P. (2009). Access to Housing Finance by Urban Middle-low Income Salary Earners in Kampala City , Uganda. Erasmus University, Rotterdam, Netherlands.
- [11] Muleta, W. (2014). Assessment of Housing Provision Challenges on Urban Residents: The Case of Bekoji Town, Arsi Zone, Oromia Regional State. Haramaya University, Ethiopia
- [12] Nakweenda, T. L. (2014). An Investigation into Housing Finance Schemes in Namibia : a Case Study of Otjomuise , Windhoek. University of Namibia.
- [13] Nguena L.C., Tchona T.F., & Zeufack, G.A,(2015). Housing Finance and Inclusive Growth in Africa: Benchmarking, Determinants and Effects; a paper presented on African Economic Conference on 2015 (pp. 1–31), Kinshasa, Democratic Republic of Congo.
- [14] Nilsson, A. (2017). Housing Finance in Kampala, Uganda: To Borrow or Not to Borrow. KTH Center for Banking and Finance, Stockholm, Sweden.
- [15] Ojo, O. (2006). Problems Affecting Housing Financing in Southwestern Nigeria: Conference paper presented on "Construction in Developing Economies: New Issues and Challenges" (pp.1-9). Santiago, Chile.
- [16] Tesfaye, M.(2013). Assessment of Affordability of Private Residential Developments in Addis Ababa: University of South Africa (UNISA).
- [17] Tihitina, T. M. (2014). Financing the Housing Sector in Ethiopia- Evidence from Hawassa City. Ifsmrc International Publications (Pvt) Ethiopia, India.
- [18] Udoka, C. O., & Kpataene, O. M. (2017). Mortgage Financing and Housing Development in Nigeria. International Journal of Research-Granthaalayah, 5(5), 182–206.
- [19] Warnock, V. C., & Warnock, F. E.(2008). Markets and Housing Finance. Journal of Housing Economics, 17(3), 239–251.

- [20] Yinebeb G. (2015). Major Challenges of Accessing Housing Project Finance in Addis Ababa. Addis Ababa University College of Business & Economics