

The Role of Financial Institutions in Housing Development in Nigeria

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ABSTRACT

This project work is objectively designed to examine the roles of financial institution in housing development in Nigeria. The provision of adequate, decent and affordable housing in a country is one of the key indicators for measuring socio-economic development and stability of the citizens. Housing is therefore a basic necessity of all humans in the world. The importance of housing have been underscore by the famous Abraham Maslow's theory of human needs which puts housing (shelter and security) immediately below the physiological needs in the pyramid of human needs. This research work includes the introduction, the aim and descriptive and quantitative and analytical approaches for qualitative and quantitative data respectively. The data collected from the primary sources were collated, synthesized and analysed it was summarized and conclusion was drawn that the contribution of financial institutions to housing development is not satisfactory because of limited options available and the lack of consideration for the poor majority of the Nigeria population and it was recommended that there should be moderation of the interest charge on mortgage loans, coupled with simple and convenient loan arrangement process, flexible interest rate, convenient redemption periods and little stress on collateral security.

KEYWORDS: Financial, institutions, housing development

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I. INTRODUCTION

The provision of adequate, decent and affordable housing in a country is one of the key indicators for measuring socio-economic development and stability of the citizens. Housing is therefore a basic necessity of all humans in the world [1]. The importance of housing have been underscored by the famous Abraham Maslow's theory of human needs which puts housing (shelter and security) immediately below the physiological needs in the pyramid of human needs. The availability of adequate, decent and affordable housing has had a long history of enhancing the living conditions and overall productivity of people in any social setting [2].

Housing being a vital aspect of human living has been discussed extensively by many authors: for the purpose of this research, one would need to review some of the past literature on the housing issue. [3] in his book said that housing is not only shelter but part of the fabric of neighborhood and of the whole social and physical setting in which people live. It also concerns many facets of industrialization, economic activities and development. He went on to point out that it does not likely include the physical structure that mankind uses for shelter but also the environment of that structure including all necessary services facilities, equipment and devices needed for the physical health and social well-being of the family and individuals.

In his own contribution, [4] identified housing as being more than shelter and the process involved in delivery systems as being carried out through government or private organization.

However, the availability of adequate housing units for easy access by citizens of a country is a major challenge for most developing countries [5]. In recognition of the countless of benefits associated with the provision of adequate and affordable housing to national productivity and socio-economic stability, countries around the globe continue to renew their commitment to meet the housing needs of their citizens [3].

In Nigeria, housing (lack in the number of houses needed to accommodate the population of an area) deficit has been escalating since the pre-colonial times and is still a major national crisis, even after so many years of independence. The country has enacted and implemented several housing policies to address housing deficit difficult problem for quite some time now but it appears the state alone is incapable of delivering the required housing units to address the housing deficit situation [6]. This was recognized by the state and prompted the need for public private partnership in the housing delivery in Nigeria in order for the private sector to augment the effort of the government in the housing development process [7].

According to [8], the magnitude of the housing deficit (lack in the number of houses needed to accommodate the population of an area) continues to make things worse and individuals have adopted several mechanisms of accommodating themselves. This is because the private developers produce houses beyond the financial capability of the majority of the population (low to moderate income earning groups). People have therefore resorted to renting apartments or constructing their own housing units without the support of the government through the incremental.

It is therefore imperative to carefully examine the role of these financial institutions in housing development in the country since financial institutions are the only ready option for seeking financial support by low income earning citizens in trying to meet their housing need.

II. LITERATURE REVIEW

Housing development in Nigeria is driven by both the formal and informal sector in the housing market [9]. There is the participation both the public and private sector in the housing delivery process. However, housing delivery was largely driven by the state through policy interventions by several governments from the pre-colonial era to the post- independence period. Housing deficit (lack in the number of houses needed to accommodate the population of an area) in the country is resistant to the policy interventions because despite the extremely large set of housing policies in the history of the country, the deficit seems to be positively correlated to the interventions. The housing market in Nigeria is currently driven by individual developers and contributions from the private sector with little addition from the formal sector [9].

[1], contended that the major setback in the housing development is the inaccessibility of the insufficient available financial products and resources, especially by the low income earners.

[10] identifies poverty, low household income and unemployment, housing supply constraint, no access to financing and land as the causes of inadequate housing. There are several ways by which homeowners finance their housing acquisition, they finance housing acquisition through, savings, increments, loans and mortgage [11].

Many other households save to build a house in ways similar, using similar proportion of their savings, but the typical pattern in Nigeria is quite different. Raising lump sums is one way to get cash together to acquire housing, but housing is also improved or obtained incrementally. Nearly half of Nigerian homeowners says that they acquire their homes by buying the housing supplies bit by bit over time. Other means of acquisition might be saving a lump sum that is, saving up through a saving club or getting a payout from a pension scheme [11]. Households also use retail credit from stores, usually a local supply store. Rarely do households acquire their home through an informal loan from a bank and about one quarter, mostly in the rural areas inherit their homes [4].

Perceived role of mortgage bank as applicable to other financial institutions in housing delivery s among others are the mobilization of savings into Mortgage Institution, provision of incentives for the capital market to invest in property development, provision of policy controls over the allocation of resources between the housing sector and other sectors of the economy, facilitation of flow of domestic and international resources into the priority housing areas, such as low income housing, need for government to establish voluntary schemes, mandatory schemes and provide substantial budgetary allocations and financial transfer to the housing finance system, establishment of National Housing Fund (NHF) to be administered by the Federal Mortgage Bank and Commercial Banks, Merchant Banks and insurance Companies are given reasonable conditions to encourage them to invest in mortgage business [10].

[11] observes among other roles of financial institutions to includes improvement of urban and rural areas, upgrading and improvement of informal homes, increase in sale of building materials, significant growth of real estate sector, creation of job for participants in housing projects, finance of research aimed at improving housing patterns and standards in both urban and rural areas of the country and finance of companies engaged in the manufacture or production of building materials.

[12]Lemo (2007) rather opined that the housing delivery is limited by a plethora of factors including lack of long term finance for construction, unfavorable mortgage system and laws, high inflation translating into volatile increase in cost of building materials, high interest rate on loans charged by financial institutions and poor savings culture by the citizens; all operating in the housing market serving as recipe for the poor performance of the housing market. [13]Boachie-Yiadom (2015) also confirmed that high interest rate and high administrative bureaucracy in the arrangement of mortgage loans [6] for home construction presents a major challenge to housing delivery in Nigeria and the hindrances are multiplied for the lower income groups; who also dominate the Nigeria population.

[14]Sogbesan (2018) identified main factors that hinder the contributions of financial institutions in the provision of housing as inadequate funding, insufficient understanding of the appropriate relationship between subsidies and financial services, insecure land tenure, diversion and non-repayment of housing loan, mass poverty and unemployment, interaction of access to capital and foreign exchange risks, job

Insecurity, inefficiency of financial institutions in resource mobilization, rising population, urbanization, high cost of building materials and inflation, and policy and regulatory challenges.

Finally, the financial institutions also indicated that they faced the challenge in providing long term financing to clients for housing construction and acquisition because such funds are needed for the day to day operations of the institutions. This supports the asseveration by [15] that financial institutions in Nigeria tend to provide loans to ‘low-cost and low risk businesses’ which do not include housing, which require medium to long term financing involving substantial sums of money and has resulted in crippling the housing industry to a great extent.

The prospective homeowners and tenants who were contacted during the household survey were asked to indicate the challenges they faced, if any, in trying to obtain financial support from financial institutions or state reasons why they do not patronize the housing financial support available in the financial institutions for the acquisition of their houses. Most of the citizens are low income earning groups who cannot afford the collateral security to acquire loans even if they desired to seek support from the financial institutions [13].

Measures that can be adopted to improve the roles of financial institutions in the housing development in Nigeria includes: Modification of Central Bank of Nigeria Credit Guidelines and Legal Provision. The CBN should henceforth set higher housing credit allocations for commercial and merchant banks since their performance is highly influenced by this while reclassifying the housing sector into the preferred sector. In addition, the Government should amend the insurance law by allowing insurance companies channel increased proportion of their investible funds to the housing sector. Adequate provision of medium- and long-term capital to financial institutions by the Federal Government of Nigeria. Developing an effective Loan Recovery Strategy. In order to avoid delinquency and falling into intolerable arrears, care should be taken to ensure that mortgagors are not made to undertake repayment schemes they cannot keep. And as [16] opines, another possibility is to make greater use of a flexible scheme for repayments to recover capital sooner from high-income households than from low-income households. Loan recoveries could be made on a rising scale to correspond to the borrowers' income. In this manner, capital could be more quickly recouped and reinvested. There should be the provision of debt counselling services and regular sessions explaining the meaning of interest rates and charges.

III. METHODOLOGY

Fifty (50) questionnaire were administered and distributed but forty two (42) were returned and used. Data were obtained from both the primary and secondary sources which include interview, questionnaire, textbooks journal publications and internet facilities. The data was analyzed (i.e the mean and standard deviation), using statistical package for social society (SPSS).

The Likert scale involving rating on interval scale of 5 and 1 developed for application in social sciences and management researches for quantification of qualitative variable were used. It elicited information from the building construction professionals concerning the causes of rivalries among professionals in Nigeria construction industry. The responses of the items on the questionnaire were obtained on a 5-point scale ranging from 1 to 5. Strongly agree (5); Agree (4); Neutral (3); Disagree (2); strongly disagree (1).

IV. DATA ANALYSIS AND RESULTS

The data were presented using tables for clarification and better understanding. The analysis tools include descriptive and inferential statistics.

Table 1: Roles of the financial institutions in the provision of housing.

S/N	Roles of the financial institutions in the provision of housing	Mean	Rank
1	Upgrading and improvement of informal homes	4.38	1
2	Creation of job for participants in housing projects	4.30	2
3	Finance of companies engaged in the manufacturing/production of building materials	4.27	3
4	Increase in sale of building materials	4.22	4
5	Significant growth of real estate sector	4.11	5
6	Improvement of urban area	3.98	6
7	Finance of research aimed at improving housing patterns and standard	3.97	7

Upgrading and improvement of informal homes was ranked first with the mean value of 4.38 followed by creation of job for participants in housing projects and finance of companies engaged in the manufacturing or production of building materials. Finance of research aimed at improving housing patterns and standards in both urban and rural areas of the country was ranked least with the mean value of 3.97.

Table 2: Factors that hinder the contributions of financial institutions in the provision of housing.

S/N	Factors that hinder the contributions of financial institutions in the provision of housing	Mean	Rank
1	Inadequate Fund	4.38	1
2	Policy and regulatory challenges	4.30	2

3	Interaction of access to capital and foreign exchange risk	4.27	3
4	Insecure land tenure	4.22	4
5	Rising population, urbanization, high cost of building material and inflation	4.11	5
6	Mass poverty and unemployment	3.97	6
7	Job Insecurity	3.85	7
8	Diversion and non-repayment of Housing Loan	3.72	8
9	Inefficiency of financial institutions in resource mobilization	3.60	9
10	Insufficient understanding of the appropriate relationship between subsidies and financial services	3.47	10

Table 2 shows that inadequate funds has the great factors that hinder the contributions of financial institutions in the provision of housing. Insufficient understanding of the appropriate relationship between subsidies and financial services was ranked least with the mean value of 3.47.

Table 3: Measures that can improve the role of financial institutions in the housing development in Nigeria

S/N	Measures that can improve the role of financial institutions in the housing development in Nigeria	Mean	Rank
1	Modification of Central Bank of Nigeria credit guidelines and legal provision	4.63	1
2	Federal government should embark on upward review of salary from the current minimum wage	4.51	2
3	Adequate provision of medium- and long-term capital to financial institutions by the Federal Government of Nigeria	4.46	3
4	Developing an effective loan recovery strategy	4.35	4
5	Embarking on thorough monitoring of housing loan to avert loan diversion	4.24	5

Table 3 shows the measures that can improve the role of financial institutions in the housing development in Nigeria. Modification of Central Bank of Nigeria Credit Guidelines and Legal Provision was ranked first and ranked least by embarking on thorough monitoring of housing loan to avert loan diversion.

V. DISCUSSION OF FINDINGS

Table 1 shows the roles of the financial institutions in the provision of housing. Upgrading and improvement of informal homes was ranked first, Creation of job for participants in housing projects was ranked second, finance of companies engaged in the manufacturing or production of building materials was ranked third, increase in sale of building materials was ranked fourth, significant growth of real estate sector was ranked fifth, improvement of urban city was ranked sixth and finance of research aimed at improving housing patterns and standards in both urban and rural areas of the country was ranked least.

Findings from table 2 shown that there are factors that hinder the financial institutions in the provision of housing. Inadequate funds was ranked first followed by policy and regulatory challenges, interaction of access to capital and foreign exchange risks, insecure land tenure, rising population, urbanisation, high cost of building materials and inflation, mass poverty and unemployment, job insecurity, diversion and non-repayment of housing loan, inefficiency of financial institutions in resource mobilization and insufficient understanding of the appropriate relationship between subsidies and financial services was ranked least with the mean value of 4.24.

Table 3 also suggested measures that can improve the role of financial institutions in the housing development in Nigeria. Modification of Central Bank of Nigeria Credit Guidelines and Legal Provision followed by the Federal government should embark on upward review of salary from the current minimum wage, adequate provision of medium and long term capital to financial institutions by the Federal Government of Nigeria, developing an effective Loan Recovery Strategy and embarking on thorough monitoring of housing loan to avert loan diversion.

VI. CONCLUSION

The finding from this study has identified the factors that hinder the contributions of financial institutions in the provision of housing. Thus, the Federal government of Nigeria and the financial institutions should give priority to the suggested measures that can be adopted to improve the role of financial institutions in the housing development in Nigeria

RECOMMENDATIONS

From the above conclusion, the following are recommended based on the findings of this study:

1. Modification of Central Bank of Nigeria Credit Guidelines and Legal Provision
2. Federal government should embark on upward review of salary from the current minimum wage of N18,000 to enable low income earners have access to housing loan from financial institutions
3. Adequate provision of medium- and long-term capital to financial institutions by the Federal Government of Nigeria

4. Developing an effective Loan Recovery Strategy
5. Embarking on thorough monitoring of housing loan to avert loan diversion.

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