



FINANCING AFFORDABLE URBAN HIGH-RISE MIDDLE-CLASS RESIDENTIAL PROPERTY DEVELOPMENT IN MALAWI

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JMBCOM001

CON5010Z – Minor Dissertation

March 2021

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This dissertation is submitted in partial fulfilment of the requirement for the Degree of Master of Science in Property Studies at the Department of Construction Economics and Management, University of Cape Town.

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ABSTRACT

Malawi's middle-class which must adapt to the experiences of liberalised housing sector, have not been able to do so due to increased exclusion in housing finance, imbalanced demand and supply forces in land resources, and disincentivised property development environment. Luckily, a strong demand for housing in Lilongwe City was for the first time met by the provision of urban high-rise residential plots. However, it remains untold if the mortgage industry will ably fund these developments and if innovative financing systems, while being successful elsewhere in the world, can do the same in Malawi.

Using a mixed study approach and semi-structured questionnaires, interviews were conducted to senior real estate stakeholders. Data from primary and secondary sources under two case studies were analysed qualitatively and quantitatively using thematic analysis and descriptive statistics respectively.

Key findings of the study revealed that technology-based innovations, flexible loan conditions, and appropriate legislation remain key contributors to financial institutions' inability to offer cost-reduced property loans. However, these commitments cannot be met in the short to medium terms making access to funding for affordable urban high-rise residential property developments (HRPD) impossible. Further, compromise by state organs have led to departure from prioritising HRPD in Lilongwe City as well as delayed implementation of housing subsidies, leaving the housing sector at a standstill. Finally, while it is currently illegal to crowdfund in Malawi, real estate crowdfunding (REC) has proved to be ideal for financing urban HRPD in the country as is the case in the continent. It is recommended that the state organs must start the process of making available land for urban HRPD and strengthening the land use control systems in a bid to reduce property development risks. This should be supported by unlocking subsidies and relaxing regulation to allow for REC to change the affordable housing finance landscape in Malawi.

Acknowledgements

I am thankful to everyone that formed part of this study directly and indirectly. Firstly, I thank God for being faithful to me throughout my studies. Secondly, I would like to thank my supervisor, Associate Professor Dr. Manya Mooya, for his supervisory role throughout my research journey. His guidance, support, and availability were abundantly invaluable.

I would also like to thank the research participants for their time and informative contribution towards this research.

Finally, I would like to thank my beautiful and lovely wife Sarah, my son Jayden-Aden and my nephew Domwe for their unwavering support throughout my studies.

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Table of Contents

ABSTRACT	II
ACKNOWLEDGEMENTS	III
PLAGIARISM DECLARATION.....	IV
TABLE OF CONTENTS.....	V
LIST OF TABLES	X
LIST OF FIGURES	XI
ABBREVIATIONS AND ACRONYMS	XII
CHAPTER 1: INTRODUCTION	14
1.1 BACKGROUND TO THE STUDY.....	14
1.2 PROBLEM STATEMENT	16
1.3 MAIN OBJECTIVE.....	17
1.4 SPECIFIC OBJECTIVES	17
1.5 RATIONALE OF STUDY	17
1.6 METHODOLOGICAL APPROACH	18
1.7 RESEARCH OUTLINE	19
CHAPTER 2: LITERATURE REVIEW	20
2.1 INTRODUCTION	20
2.2 HOUSING ISSUES AND CHALLENGES	20
2.2.1 CHALLENGES OF TRADITIONAL REAL ESTATE FINANCING.....	22
The Extent of Exclusion in Malawi's Financial Institutions	22
2.2.2 OPPORTUNITIES OF ALTERNATIVE OR INNOVATIVE REAL ESTATE FINANCING OPTIONS.....	25

MFI	25
Crowdfunding	27
2.3 LITERATURE ON REAL ESTATE CROWDFUNDING	27
2.3.1 CROWDFUNDING DEFINED	27
Crowdfunding in the World	28
Potential for Crowdfunding in Africa	28
2.3.2. RISKS OF CROWDFUNDING	29
2.3.3. CROWDFUNDING REGULATION	29
The African Crowdfunding Association	30
2.3.4. MODELS OF CROWDFUNDING RELATING TO REAL ESTATE	30
2.4. REAL ESTATE CROWDFUNDING AS A MEANS OF FINANCING AFFORDABLE HRPDS	31
2.4.1 HOW REC WORKS	33
2.4.2. TYPES OF REC	33
Debt REC	33
Equity REC	33
2.4.3. BENEFITS OF REC	34
2.4.4. RISKS OF REC	35
2.4.5. REC INVESTMENT LANDSCAPE: INDIVIDUALS VS. INSTITUTIONAL INVESTORS	35
2.5. AFFORDABLE URBAN HIGH-RISE RESIDENTIAL PROPERTY DEVELOPMENT ISSUES IN MALAWI	35
2.5.1 LAWS AND POLICIES	37
The Malawi Constitution	37
The National Housing Policy	37

The Malawi Growth and Development Strategy (MGDS) (2017 – 2022) III.....	40
2.5.2 SUPPLY OF LAND FOR HIGH-RISE RESIDENTIAL PROPERTY DEVELOPMENTS.....	40
Ministry of Lands, Housing and Urban Development.....	41
Lilongwe City Council.....	41
Lilongwe Urban Structure Plan (LUSP).....	41
2.5.3. CRITICAL MASS FOR ALTERNATIVE INVESTMENTS IN MALAWI.....	42
2.6. EMPIRICAL STUDIES.....	43
2.6.1. OVERVIEW OF AFFORDABLE HOUSING AND FINANCE.....	43
2.6.2. REAL ESTATE CROWDFUNDING.....	45
2.6.3. SUCCESS OF CROWDFUNDING IN THE SOUTHERN AFRICA.....	47
CONCLUSION.....	48
CHAPTER 3: METHODOLOGY.....	49
3.1 INTRODUCTION.....	49
3.2 RESEARCH PARADIGM.....	49
3.3 RESEARCH DESIGN.....	49
3.4 RESEARCH PURPOSE.....	50
3.5 RESEARCH PHILOSOPHY.....	50
3.6 RESEARCH STRATEGY.....	51
3.7 RESEARCH APPROACH.....	51
3.8 DATA COLLECTION, RESEARCH INSTRUMENTS AND SAMPLING PROCEDURES.....	53
Research Sample.....	53
Data Collection Strategy.....	54
Research Instruments.....	55

Research Instruments Validation	55
3.9 DATA ANALYSIS TECHNIQUES	55
3.10 LIMITATIONS	56
CHAPTER SUMMARY	56
CHAPTER 4 DATA PRESENTATION AND ANALYSIS	57
INTRODUCTION	57
4.1 LITERATURE STUDY FINDINGS ON THE CONTEXT OF HRPDS FINANCING IN MALAWI.....	57
4.2 CHALLENGES, OPPORTUNITIES AND INSTITUTIONAL FRAMEWORKS FOR HRPDS.....	58
4.3 FUNDING LANDSCAPE FOR HRPDS IN MALAWI	77
4. 4 THE BEST INNOVATIVE PROPERTY FUNDING MECHANISM FOR HRPDS IN MALAWI	81
CONCLUSION.....	82
CHAPTER 5 CONCLUSION AND RECOMMENDATION (S)	84
5.1 INTRODUCTION	84
5.2 ADDRESSING THE RESEARCH PROBLEMS	84
5.3 ACHIEVING THE RESEARCH OBJECTIVES	85
5.4 HOW WILL CROWDFUNDING AS AN INNOVATIVE FUNDING OPTION WORK FOR HRPDS IN MALAWI?	86
5. 5 LIMITATIONS OF THE STUDY.....	90
5.6 RECOMMENDATIONS FOR FURTHER RESEARCH	92
BIBLIOGRAPHY	93

APPENDIX.....	99
<i>Signed Ethics Clearance Report</i>	99
<i>Consent Letter</i>	100
Approved Land Use Zones for Area 54 and parts of Areas 55 and 26.....	101
New Area 54 High-Rise Residential (bordered in red) – A Case Study	102
2030 LUSP Land Use Plan	103
Area 17 High-Rise Residential (bordered in red) – A case Study - LUSP	104
The Old Area 54 – As Per LUSP	105
Plot Application Form	106

List of Tables

Table 2. 1 Models of Crowdfunding related to Real Estate.....	31
Table 2. 2 Excerpts of NHP’s Intervention in Housing Sector with Targeted Outputs by 2023	39
Table 2. 3 Over-Subscribed Companies during IPO on Malawi Stock Exchange	43
Table 2. 4 List of Crowdfunding Platforms in Southern Africa	48
Table 3. 1 Types of Research Methods	52
Table 3. 2 Profile of Research Respondents.....	54
Table 4. 1 Demographics of Respondents	59
Table 4. 2 MHC’s Current High-Rise Residential Properties being Developed in Malawi	75
Table 4. 3 Loan Conditions for Financial Institutions’ Real Estate Loan Products in Malawi	78

List of Figures

Figure 2. 1 REC Out-Performing other Crowdfunding types in Europe in 2016	32
Figure 4. 1 Reasons for Not Securing a Bank Loan for HRPDs by Plot Owners	61
Figure 4. 2 Sample House under DAHSP Government Program	63
Figure 4. 3 Preferred Loan Terms for HRPDs.....	64
Figure 4. 4 High-Rise Residential Properties being constructed by MHC.....	76
Figure 4. 5 Implementable Financial Innovations on Home Loan Processes	80
Figure 4. 6 Alternative and Attractive Funding that could be used to Finance HRPDs	81

Abbreviations and Acronyms

ACfA	African Crowdfunding Association
BR 1, 2	Respondents from Standard Bank and National Bank respectively
CAFH	Centre for Affordable Housing Finance in Africa
CBD	Commercial Business District
CCODE	Centre for Community Organisation and Development
CLR	Commissioner of Lands Respondent
CPPR	Commissioner of Physical Planning Respondent
DAHSP	Decent and Affordable Housing Subsidy Programme commonly called Cement and Malata Subsidy Program
EDH	Enterprise Development Holdings
GoM	Government of Malawi
HRC	United Nations Human Rights Council
HRPD	High-rise Residential Property Development
LCC	Lilongwe City Council
LCCR	Lilongwe City Council Respondent
LUSP	Lilongwe Urban Structure Plan
MGDS	Malawi Growth and Development Strategy
MFI	Micro-Finance Institution
MFI 1, 2, 3	MFI Respondents from Finca, Select Africa, and CCODE respectively
MHC	Malawi Housing Corporation

MHCR	Malawi Housing Corporation Respondent
MNTM	Malawi National Transport Masterplan
MoLHUD	Ministry of Lands, Housing and Urban Development
NHP	National Housing Policy
NUA	New Urban Agenda
OMR 1, 2	Old Mutual Respondent 1, 2
PPP	Public Private Partnerships
PPR	Physical Planning Respondent
RBM	Reserve Bank of Malawi
RBMR	Reserve Bank of Malawi Respondent
REC	Real Estate Crowdfunding
REITs	Real Estate Investment Trusts
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
THA	Traditional Housing Area
UDR	Urban Development Respondent
UDHR	Universal Declarations on Human Rights
EXCHANGE RATE	\$1 = MK 738.00. adopted as of 31 st March 2020.

CHAPTER 1: INTRODUCTION

1.1 Background to the Study

Expensive and limited real estate funding from traditional finance systems have largely restricted low and middle income earners in least developed countries from accessing funding for housing (United Nations, 2019; UN Habitat, 2010). Resultantly, the problem of housing shortage in developing countries, as vindicated by Covid-19 pandemic, has continued to increase over the years (Bayer, Enermark, and Kirk, 2019; Carey and Tshangana, 2020b). This is against global efforts to address the housing problem largely affecting vulnerable and least developed countries through policies (United Nations, 2016), funding, and insights (World Bank Group, 2016) in the light of a bleak future (UN Habitat, 2015) and slow Sustainable Development Goals' (SDGs) progress (United Nations, 2019).

The United Nation's review of the progress of SDGs indicate that Africa's poor countries are the most affected (ibid). Poverty, the main contributor of funding inaccessibility also continues to grow in the region (ibid). For instance, least developed countries in Africa lead in the world in levels of unemployment (at 66%, average) and levels of informal employment (at 85.8% of total employment) (World Bank Group, 2015).

Though the continent harbour these impediments, its rate of urbanisation currently at 3.5% per annum (United Nations, 2015) is projected to respectively exceed Asia and Europe by 2040. At this point, a real housing crisis (World Bank Group, 2015) will have been created if no meaningful intervention is employed. While access to housing is directly linked to the success of other SDGs, SADC countries are at a disadvantage due to the lack of regional housing policies leaving the task in the hands of individual countries (Tshangana and Carey, 2019). Importantly, it has been noted that adopted approaches to providing housing in developing

countries, in the light of limited funding, has been made on wrong and unsuccessful assumptions (Tripple, 2015).

Specific for housing and finance in Africa: formal housing is restrictive to most households (Carey and Tshangana; 2020b, Hoek-Smit, 2012), mortgage loans are very excludable with no affordable financing alternatives, there are limited subsidies, imported formal building materials are expensive, there is no development finance to support private sector investment, and existing infrastructure gap limit housing developments (Adabre, Chan, Darko, Osei-Kyei, Abidoye, and Adjei-Kumi, 2020; World Bank Group, 2015; Tshangana and Carey, 2019; Limba, 2018). Zeroing further down on Sub-Saharan Africa; 95% of adults cannot access mortgage loans (World Bank Group, 2015, p. 3). In addition, housing supply systems have increasingly been incapable of matching with ever-growing demand for housing in the region (Chimhowu and Woodhouse, 2006; Centre for Affordable Housing Finance in Africa Yearbook, 2017).

In Malawi, for over a decade (from 2009 to 2018), the country has failed to exceed the 2% margin on urban dwellers ability to buy a standard newly built house through mortgage loans (Tshangana and Carey, 2019; UN Habitat, 2010). Also, the percentage of urban population accessing housing loans has only increased by 2.5% to 8.5% (Tshangana and Carey, 2019, p.175) over the same period, amidst an annual deficit of 100, 000 housing stock (Wood, 2019a) in the year 2015. This is an increase of 376% from figures estimated 5 years earlier (UN Habitat, 2010), but with only 1, 800 houses constructed in 2018 (Tshangana and Carey, 2019).

Secondly, due to the housing finance challenges most residential housing developments are done horizontally (Japan International Cooperation Agency Report, 2010), thereby effectively underutilising the already deficient land portions. As a solution to this problem, the government of Malawi introduced new

high-rise commercial and residential uses to promote high-rise property developments in Lilongwe City (ibid, 2010). However, such an initiative has not been supported by financial remedies to enable recipients of land parcels manage to develop the allocated land instead of selling the undeveloped parcel to the rich or foreigners (UN Habitat, 2010).

Calls for a dire need of innovative financial solutions – such as Micro Finance (World Bank Group, 2015), and other forms of non-bank lending interventions (United Nations, 2019; World Bank Group, 2015; Jumbe, 2014) – to provide housing in Africa have largely been made (McGaffin, Spiropoulos, and Boyle, 2019; Centre for Affordable Housing Finance in Africa Yearbook, 2017; World Bank Group, 2015). There is need therefore to understand the current context of affordable urban high-rise residential property development (HRPD) financing, its challenges, and identify the best alternative finance solutions for Malawi.

1.2 Problem Statement

In the midst of increasing urbanisation and housing deficit, lack of government housing subsidies, and low access as well as restrictive mortgage products, (World Bank Group, 2015) Malawi continues to grapple with provision of affordable urban HRPDs for the middle-class. The newly introduced zones for the development of high-rise residential properties in Lilongwe City (Japan International Cooperation Agency Report, 2010; Lilongwe City Council, 2015; Lilongwe City Council and Japan International Cooperation Agency Report, 2014), provides an opportunity for HRPDs in the city. However, 5 years after the plots were offered in areas 17 and 54 where HRPDs were zoned, no such buildings exist on site. It is therefore imperative to ascertain if such a scenario is due to lack of access to funding by traditional financial institutions and whether the alternative innovative financing systems can resolve the financing impediments for affordable urban HRPD in Malawi.

1.3 Main Objective

The main objective of the study is to investigate the constraints and opportunities of financing affordable urban HRPD in Malawi through the lens of areas 17 and 54 in Lilongwe City.

1.4 Specific Objectives

- a. To provide information about challenges of traditional financing, opportunities of alternative financing, and the nature of institutional framework in respect of HRPDs in Malawi.
- b. To assess the extent of challenges of traditional financing, opportunities of alternative financing and the nature of institutional framework in respect of affordable urban HRPDs in Lilongwe City, Malawi.
- c. To map the funding landscape for affordable urban HRPDs in Lilongwe City, Malawi in terms of sources, types and conditionalities.
- d. To identify the best innovative property funding mechanism for affordable urban HRPDs in Malawi.

1.5 Rationale of Study

Central to housing problems in Malawi as revealed in literature are shortage of housing and lack of access to housing finance for property developments. Being a small and highly populated country with rapid population growth characterised by urban sprawls and squatter settlements, the country needs impactful solutions to its housing problems. However, interventions, in terms of housing supply, has previously focussed on providing single storey residential houses resulting in limited supply of housing and usage of large chunks of land. This study puts focus on urban high-rise residential developments for their advantages of enhancing effective utilisation of land and supplying more housing units within a small piece of land and reducing urban sprawls.

In addition, the solution to failure by traditional finance to provide financing for property development has been established to be introduction of innovative funding. However, there is no innovative financing model that has been identified to support HRPDs in Malawi. This study did not only identify the best innovative financing model for HRPDs but it also established critical issues supporting its rollout.

Further, this study provided information on the current property funding landscape, challenges associated with access to those funds, and the institutional framework for housing and HRPDs in Malawi. This provided information base to stimulate further discussions on contextualisation of appropriate financing for HRPDs and other property developments in general in Malawi. Lastly, the study contributed to the award of the master's degree to the researcher.

1.6 Methodological Approach

The research methodology in this study used a mixed study research approach under a case study environment. Two case studies of land zoned and allocated for HRPD zones according to 2030 Lilongwe Urban Structure Plan (LUSP): areas 17 and 54, were identified purposively. Semi-structured questionnaires were administered to plot owners in these case studies which were largely analysed quantitatively. Further, interviews were conducted to financial institutions, Lilongwe City Council (LCC), Ministry of Lands Housing and Urban Development (MoLHUD), pension funds, plot owners and Reserve Bank of Malawi (RBM). The qualitative data from the interviews were analysed using thematic analysis. Chapter 4 below provides a detailed discussion of the methodology employed in this research.

1.7 Research Outline

The rest of the research document is outlined as follows: Chapter 2 presents the review of the literature on affordable housing and innovative funding in relation to the topic under study. Chapter 3 provides the aspects of the research methodology that this study adopted in order to effectively achieve the set objectives. In chapter 4, the analysed report data are presented in respect of key findings of the study. Finally, chapter 5 provides conclusion and recommendations for future study.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter undertakes a literary study to address the first objective of the study which is to provide information about challenges of traditional financing, opportunities of alternative financing, and the nature of institutional framework in respect of HRPDs in Malawi. It provides a discussion and review of literature on affordable HRPDs and financing. Subsection 2.2 discusses key housing finance issues with respect to challenges of traditional financing. Subsection 2.3 discusses opportunities of alternative or innovative financing options. Subsection 2.4 provides literature on real estate crowdfunding as one of the products of innovative property funding with regards to types, benefits, risks, success stories and crowdfunding opportunities for developing countries. Subsection 2.5 discusses real estate crowdfunding in relation to financing affordable HRPDs. In subsection 2.6 a focused discussion is provided about institutional framework, housing finance and HRPDs in Malawi in relation to LUSP 2030. Lastly, in subsection 2.7, the literature on empirical studies is provided.

2.2 Housing Issues and Challenges

As already pointed out in chapter one, cities of the world have recorded increasing growth of urban populations over the years, with recent projections showing that the number will almost double by 2050 (New Urban Agenda, 2016). By this same time Africa's urban population will also have increased to 50% (United Cities and Local Governments of Africa Report, 2020). The main challenge for Africa now is that it is urbanising at the fastest rate in the world with 3.5% annual rate though the population of its city urban dwellers is still lower than rest of the continents (ibid). However, for Sub-Saharan Africa, such increasing urbanisation is happening while there are no meaningful housing investments and per-capita

economic leaps like is the case in the rest of the world and other African regions (World Bank Group, 2015).

In addition, urbanisation is increasing while poverty levels are widening unlike the experiences from other continents. Poverty and GDP are interlinked such that low per-capita income increases citizens' inability to access quality housing due to low disposable income levels (ibid; Doling, Vandenberg, and Tolentino, 2013). Statistics show that when Sub-Saharan Africa's urbanisation rate reached 40% in 2013 its GDP per capita was \$1,018 but Middle East and North Africa's GDP per capita was \$1,806 at this urban rate 40 years earlier (World Bank Group, 2015). Sub-Saharan Africa's situation also tarries behind East Asia and the Pacific, and Latin America and the Caribbean (ibid). Resultantly, urban areas now harbour myriad of challenges – one of it being housing – effectively, becoming a recipe for shuttling economies in the region (New Urban Agenda, 2016; Doling *et al.*, 2013). Literature also points to the failure by governments in Sub-Saharan Africa to effect policies that should aim at providing affordable housing (ibid, p. 32; Carey and Tshangana, 2020; Bayer *et al.*, 2019).

However, new schools of thought have challenged the status quo and devised means through which cities can sustainably become the solution through planning, designing, financing, developing, governing, and managing human settlements (Bayer *et al.*, 2019). These perspectives are provided as declarations in the following documents: New Urban Agenda (NUA), Sustainable Development Goals (SDGs) and Universal Declarations on Human Rights (UDHR).

Thematically, these declarations aim to “**leave no one behind**” in the provision of resources including adequate and affordable housing (Jenik, Lyman, and Nava 2017). In particular, the SDGs have pro-affordable housing conventions which are enforceable to United Nations members. For instance, SDG goal 11, target 1

provides a commitment to ensuring access to adequate and affordable housing. Also, UDHR under Article 1 provides for a right to own property alone as well as in association with others, just as it is enshrined in the Constitution of Malawi (Section 28). Malawi as a signatory to these declarations is obliged to set up relevant policies and allocate necessary resources in respect of these requirements.

2.2.1 Challenges of Traditional Real Estate Financing

Globally, the operations of traditional finance were changed or tightened after the 2008 credit crunch to avoid the recurrence of the economic crisis (Montgomery, Squires, and Syed, 2018). New regulations such as Basel II and III forced banks to be more risk averse, liquid, have enhanced due diligence, and limit exposure to derivative products such as securitisation (ibid).

Consequently, when issuing mortgage loans, banks undertake due diligence to limit loan defaults (Carey and Tshangana, 2020b). For developing countries, risks tend to be high due to unstable economic conditions, thereby causing banks to increase loan charges due to perceived property risks (Centre for Affordable Housing Finance in Africa Yearbook, 2019; Kadale Consultants, 2009; Kajimo-Shakantu and Evans, 2006). Resultantly, clients on the lower end of the wealth ladder, SMEs and start-up companies tend to be excluded from financing services due to their high-risk profile status (Shneor, Zhou, and Flaten, 2020).

The Extent of Exclusion in Malawi's Financial Institutions

Exclusion in Commercial Banks

There are only four banks that offer mortgage loans with standard loan terms being: interest rate 20% - an amount 4% higher than Southern Africa average -, and loan repayment period of 20 years and equity contribution of 10% (Carey and Tshangana, 2020a). The mortgage industry in Malawi does not have products that support land acquisition and house construction though creditworthy clients

can be considered (Kadale Consultants, 2009; Carey and Tshangana, 2020b). An assessment of eligibility for a loan is illustrated by passing mortgage terms and conditions as per table 1.1 below.

Loan Elements	In Kwacha (MK)		In Dollars (\$)	
	Minimum Loan Commercial Banks can offer	12,000,000	16,000,000	16,284
Passing Interest Rate	19.50%	19.50%	19.50%	19.50%
Repayment Period (in years)	20	20	20	20
Number of payments per annum	12	12	12	12
Derived monthly payment (from mortgage repayment calculation using the data given).	199,160	265,546	270	360
<p><i>If the MK 199, 160 (\$ 270) and MK 265, 546 (\$ 360) are the maximum amounts that banks are legally authorised to deduct from borrower's monthly income (being 35% of monthly salary) ?</i></p>				
Then the borrower's monthly salary must exceed	569,028	758,704	772	1030

Source: By Researcher with excerpts from Centre for Affordable Housing Finance Report, 2020

Table 1. 1 Eligibility for a Mortgage Loan at Commercial Banks in Malawi based on passing Mortgage Conditions

Commercial banks offer mortgage loans in the minimum range of MK12 million (US\$ 16, 284) to MK16 million (US\$ 21, 712). Under the passing loan conditions as per table 1.1 above, a borrower will have to make monthly payments within the range of MK199, 160 (US\$ 270) to MK 265, 546 (US\$ 360). If this range represents the maximum allowable monthly salary deduction of 35% on mortgage repayment, then it means that the borrower's monthly salary should not fall below the range of MK 569, 028 (US\$ 772) to MK 758, 707 (US\$ 1030).

However, with MK 400, 000 (US\$ 543) being the average salary of loan applicants, (Carey and Tshangana, 2020a) it means that as at year 2020 more than 70% of loan applicants fell short of income requirement to access a mortgage loan for a house purchase.

Secondly, for-sale-properties within these quoted minimum price range would either be available in the outskirts of the cities or in squatter / unplanned areas as properties near to commercial business district (CBD) are more than three times these costs. For instance, a 25 sqm model of an affordable three bedroomed house identified by Centre for Affordable Housing Finance costing about MK 14, 000, 000 (\$20, 000) in 2019, while it can be bought by only 6.25% of Malawians (Carey and Tshangana, 2020b) may strictly be available in out-of-town or squatter areas. Additionally, these locations are outside commercial banks' catchment areas making it impossible for a purchaser or developer of such a model house access a bank loan.

Exclusion in Micro-Finance Institutions (MFIs)

As at 2020 there were about 46 Micro-Finance Institutions but only 3 (namely: Centre for Community Organisation and Development – CCODE, Epik Finance, and Enterprise Development Holdings – EDH) offer home loans for either plot purchase and house construction at the place of applicants' choice (Carey and

Tshangana, 2020b). These home loans are offered at a lower interest rate than the rest of loans products. Other MFIs offering home loans are Select Africa and Finca.

MFIs target mainstream government employees and uses their employment as collateral. Monthly loan repayments are deducted by government from source. As at December 2020 the maximum loan amount per applicant was MK 2, 000, 000 (US\$ 2, 714). Comparing with the cost of an affordable 3BR model house described under section 2.2.1 above, the loan amount is 80% short of meeting the affordable house sale price. There is need therefore to determine a most effective and affordable means of supplying middle-income housing within the city precincts. Other MFIs, mostly Saccos, are using shareholding and investment loan business models to target low and middle-income earners in the private sector. However, these have not started offering home loans.

As per research objective one, this study sought to understand deeply the financing landscape of commercial banks and MFIs offering property-related loans from secondary data sources. The aim was to find out if MFIs can finance affordable urban HRPD, and what innovative funding models if adopted can facilitate affordable urban HRPD funding.

2.2.2 Opportunities of Alternative or Innovative Real Estate Financing Options

MFIs

Across the world, MFIs have become very innovative and more flexible than traditional banks (Banerjee, Duflo, Glennerster, and Kinnan, 2015) though statutory restrictions have limited their growth in most jurisdictions (Montgomery *et al.*, 2018). Where impediments are eliminated, MFIs as a form of non-bank financial institution, outperform commercial banks (Pinglo, 2016). Sofoles – a niche mortgage lender in Mexico – is an example of such a success. This non-deposit

mortgage lender introduced innovative lending solutions such as flexible loan repayment periods, expanded target market – not only salaried or government clients - lower interest rates, specialisation in real estate loans, participating in property development projects, attaching loan repayments to proceeds from the developed property, and offering microloans other than wholesale etc. (Pinglo, 2016).

In Africa, MFIs are growing as a reliable source of innovative funding for affordable housing (Carey and Tshangana, 2020b; Banerjee *et al.*, 2015), but in SADC region literature is not available on loan sizes offered and a share that is apportioned to housing development, and the same applies to SACCOs (Wood, 2019a). In Malawi, MFI Act was enacted in 2010. Ever since, MFIs have satisfactorily grown over the years with a capital growth of about 15% in 2019 from MK38.1 billion (US\$51.7 million) in 2018 (Carey and Tshangana, 2020b).

Elimination of stringent conditions for offering loans make MFIs more competitive than traditional banks. For instance, the loans do not require collateral, a civil servant only needs to provide their employee number to qualify for a home loan of a maximum amount of MK2, 000,000.00 (US\$ 2, 714) repayable over 60 months at 2.6% monthly loan interest on a reducing balance. It is not known, however, about how many loans have been disbursed to date.

It is also worth noting that there is no Micro Housing company specialising in real estate in Malawi, though the Micro-Finance Act has a provision for the same. Also, due to current restrictions on the MFIs in Malawi (on the type of clientele and loan limits – as provided in the Micro Finance Act, 2010), which clearly shows that the institutions cannot support affordable HRPDs as the same are capital intensive in nature, this study did not pursue Micro Finance as a solution to financing urban HRPDs.

Crowdfunding

While being restricted by economic instabilities, institutional and regulatory limitations as well as cultural barriers, trends have shown that Africa will benefit a lot from crowdfunding much more than developed countries' early stages due to utilisation of more advanced technology (infoDev, 2013). Africa's key resources are the growing middle-class, rapid internet penetration, and a strong need for alternative financial solutions to replace the ineffective traditional financial systems (Montgomery *et al.*, 2018). Related examples are the success of mobile money payment in East Africa-Mpesa, India's successful adoption of most effective irrigation systems, and Brazil's success of ethanol fuel technology adoption (*ibid.*). With number of adults using mobile money accounts increasing from 8.4% in 2015 to 53.64% in 2018 in Malawi (Owolade and Borgstein, 2019), the country could be heading in the right direction.

Crowdfunding is already becoming an effective means of diaspora remittances to Africa with 76% of funds coming from foreign investors (Ziegler, Shneur, Wenzlaff, Wang, Kim, and Odorovic, 2020). Remittances have been identified as a potential source of housing finance in Africa having recorded a cash inflow of US\$40 billion in 2010 with half this amount going to Sub-Saharan Africa (World Bank Group, 2015). Finally, crowdfunding is stimulating and widening Africa's economic base by providing a diversified investment product to complement the ever-restricted capital market and generating higher returns for investors (infoDev, 2013).

2.3 Literature on Real Estate Crowdfunding

2.3.1 Crowdfunding Defined

Crowdfunding is a concept that was birthed out of innovative financing solution in the aftermath of the 2008 credit crunch. This resulted in the banks becoming more risk averse when providing loans to SME's and start-up companies due to

the consequences of prolonged bank failure and high illiquidity levels (InfoDev, 2013; Montgomery *et al.*, 2018).

By definition, crowdfunding is a way through which using the internet funds are raised from interested individuals for profit or in other cases without gain into a pool to meet a certain financial need appealed by a fundraiser (Shneor *et al.*, 2020; Jenik *et al.*, 2017). It is a form of FinTech innovation that disrupts the traditional finance industry by providing more efficient solutions to financial services (Shneor *et al.*, 2020). A definition of FinTech by the Basel Committee of Banking Supervision is stated as:

“Technologically enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services”

Crowdfunding in the World

Over the years crowdfunding has received great adoption in various uses owing to increased global internet penetration (infoDev, 2013) growing by 42% in one year alone; 2016 to 2017 (Shneor *et al.*, 2020). China leads the way in crowdfunding adoption with a traded volume of \$358, 275 followed by USA and Canada with a traded volume of \$43, 641. Middle East and Africa region had the least traded volume of \$428 combined (Shneor *et al.*, 2020, p. 47) in 2017.

Potential for Crowdfunding in Africa

Africa alone registered an increase of 102% of alternative finance trading volume in 2018 from \$103.8 million in 2017, a pace of growth that has been maintained for over a decade now (Ziegler *et al.*, 2020, p. 180). These figures only represent formalised crowdfunding platforms and not informal channels which are also vibrant but have not been reported (ibid). Southern Africa has a second largest stake of Africa's crowdfunding landscape with 21% following East Africa which

has 58% market share. Further, the region recorded a sharp increase of crowdfunding activities from \$18.3 million in 2017 to \$43.1 million in 2018 (ibid; p 182).

2.3.2. Risks of Crowdfunding

Crowdfunding, especially equity crowdfunding is highly risky as SMEs and start-ups are by nature risky. A 2015 study in United Kingdom showed that between 2011 and 2013 about 94% of fundraisers through crowdfunding made losses (Jenik *et al.*, 2017). The other risks available in the literature (infoDev, 2013; Claessens, Frost, Turner, and Zhu, 2018; Kirby and Worner; 2014; Montgomery *et al.*, 2018; Marsden, 2016) include: illiquidity, difficulty to conduct due diligence, campaign fraud, high default rates, collapse due to malpractice, cyber-security breach, and change in regulation.

2.3.3. Crowdfunding Regulation

Countries that have reaped the benefits of the adoption of crowd funding and recorded massive growth and adoption of the technology did so by setting up legislation to support the development of crowdfunding (Montgomery *et al.*, 2018). These include USA, UK, Australia, New Zealand, and China. Other countries mostly in the west have taken a path of introducing tailor-made legislation to support crowdfunding, moving away from Securities Act which presented enormous barriers to crowdfunding (Jenik *et al.*, 2017).

In Africa, the following countries are operating crowdfunding platforms: Zambia, South Africa, Nigeria, Egypt, Morocco, Zimbabwe, Botswana, Cameroon, Uganda, Tunisia, Senegal, Kenya, Ghana, Algeria, Rwanda, Ivory Coast, Tanzania, and Togo (Afrikstart, 2016; Ziegler *et al.*, 2020). However, it could be that these countries have waived some restrictions to allow for crowdfunding other than enacting law, which normally takes time.

In Southern Africa, regulation is skewed towards debt-based crowdfunding platforms as all of those in operation are regulated. For equity-based platforms only 29% are regulated (Ziegler *et al.*, 2020). In this region also, only 29% of equity based crowdfunding models are authorized. A further 29% of platforms are unauthorised but have permission to operate, while 42% of the platforms do not require regulation altogether (ibid. p. 195). Generally, it is not clear which types of equity crowdfunding would not require regulation. In Malawi there is Securities Act in place which would be a stumbling block to crowdfunding. Additionally, there are no specific law or waivers on crowdfunding.

The African Crowdfunding Association

The African Crowdfunding Association (ACfA) is a self-regulated organisation with a task to lobby countries within the region to make regulations supporting crowdfunding (Howard and Mbengue, 2019). Malawi has not enacted any crowdfunding legislation to date and there are no formal crowdfunding platforms that are operational. However, ACfA active web-system on the status of African countries on regulation show that the organisation engaged Reserve Bank of Malawi in 2019 on the possibility of setting up waivers or tailor-made regulations on crowdfunding and they are waiting for response (ACfA, 2020).

2.3.4. Models of Crowdfunding relating to Real Estate

Table 2.1 below provides details of the crowdfunding typologies (Shneor *et al.*, 2020) relating to real estate.

General Model	Specific Model	Definition
Investment – Debt	P2P/ Marketplace Property Lending	Property collateralised loans are offered to established businesses crowd-raised by individuals or institutions
	Micro-Finance	Individuals or institutional funders crowd-raise funds that are made into capped loans targeting the poorest of the poor but capable.
Equity	Real Estate Crowdfunding (REC)	Mobilisation of funds from individuals or institutions for an opportunity to develop real estate and acquire equity stake in the investment undertaken by a legally established entity. REC can also exist under debt

Source: (Ziegler et al., 2020; Jenik et al., 2017)

Table 2. 1 Models of Crowdfunding related to Real Estate

Based on the categorisation of the crowdfunding typologies it can be noted that Micro-finance and P2P cannot support HRPDs better than REC due to the latter’s specialisation in real estate developments. The third objective of this study was to undertake a literature study to identify alternative financing models that can support the financing of affordable urban HRPDs in Malawi. The study therefore focused on real estate crowdfunding.

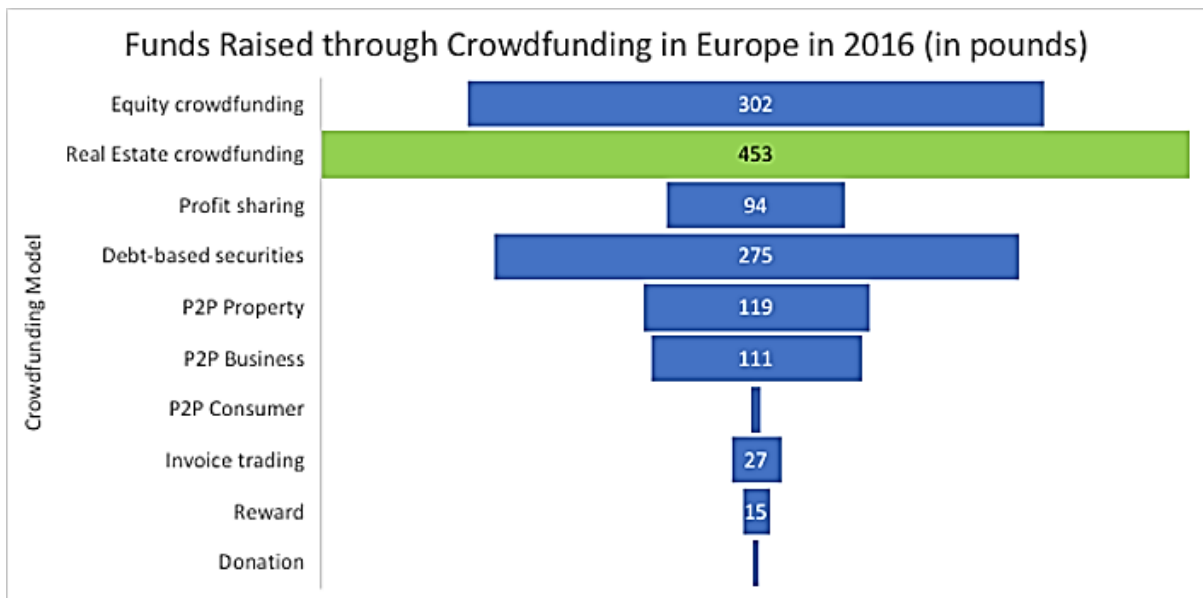
2.4. Real Estate Crowdfunding as a means of Financing Affordable HRPDs

Real Estate Crowdfunding (REC) is defined as mobilisation of funds from either individuals or institutions for an opportunity to develop real estate and acquire equity stake in the investment undertaken by a legally established entity (Shneor

et al., 2020; Jenik et al., 2017; Montgomery et al., 2018). Schweizer and Zhou (2016) also proposed a definition for REC, as follows:

“Real estate crowdfunding is a form of financing in which real estate project developers make an open call on the internet (typically through specialised platforms) to sell a specified amount of equity- or bond-like shares in a company or project, with the aim of attracting a large group of (primarily accredited) investors.”

REC is proved to be a disruptive innovation to the traditional real estate finance sector (Montgomery et al., 2018). In Europe in 2016 REC was the most adopted of all crowdfunding typologies as shown in figure 2.1 below and was only out-paced by debt-based crowdfunding products globally in 2017 and 2018 (Shneor et al., 2020). Also, globally REC was only out-paced by debt-based crowdfunding products in 2018 (Ziegler et al., 2020). In Africa, Zimbabwe is the leader in real estate crowdfunding with about \$0.7 million of trading volume.



Source: (Shneor et al., 2020).

Figure 2. 1 REC Out-Performing other Crowdfunding types in Europe in 2016

2.4.1 How REC Works

The simplistic summary of how REC works is provided by Mian (2016):

“REC platforms have simplified the entire investment process. Everything can be done online, from reviewing and finding properties, to signing legal documents and transferring funds, to monitoring the investment, significantly saving time and costs for investors. By optimising the platform for mobile devices and focusing on a creative user interface, the online investment experience is vastly improved. Digital analytics and tools provide investors with targeted and tailored information to help them make more informed decisions. Investors are able to investigate numerous potential investments at one time and determine quickly whether the opportunity fits their portfolio strategy, risk appetite, or other criteria.”

2.4.2. Types of REC

There are two types of REC namely: debt and equity. These are discussed below.

Debt REC

Also called lending-based REC, this type of crowdfunding is a model where fundraisers receive funding from the crowd using debt instruments which are refunded back with interest at regular intervals (Jenik, 2017, p. 10). This type applies to real estate developments that are built for rent in nature. The rental income is paid back to the investors on a routine basis.

Equity REC

In an equity REC, investors pool their funds towards a development project for a target rate of return that becomes payable as a lumpsum when the completed development is disposed of (Borrero-Domínguez, Cordón-Lagares, and Hernández-Garrido, 2020). Equity REC relates to build and sale real estate developments.

2.4.3. Benefits of REC

Montgomery *et al.* (2018), infoDev (2013) and Jenik *et al.* (2017) listed the benefits of REC as:

- Opportunity to raise funds from the crowd using the power of technology. Unlike the traditional financing where access to finance for companies is based on credit worthiness of the company, its size, and proven track record, crowdfunding allows for new and innovative start-ups or SMEs to raise funds from investors provided if there is a sound business case and trust.
- Effectiveness, transparency, and efficiency in respect of flow of information and operations. Crowdfunding platforms provides fast, transparent flow of information and thus ensuring timely decision making. This is in sharp contrast with traditional financial systems which originate prolonged series of physical meetings to make decisions and effect payments to borrowers.
- Higher yields and increased returns. As a new investment venture with high growth prospects, crowdfunding provides a diversified and high yielding investment option. Also, when SMEs or start-ups grow and command a bigger market share in the economy, participating investors get direct financial and other benefits, outclassing traditional financial systems in rewarding depositors.
- Investor participation. Crowdfunding increases economic activities by allowing investors to access investment opportunities in SMEs and start-ups, a once restricted route. Investors also have an opportunity to vote and make decisions transparently and efficiently unlike in traditional finance systems.
- Proportionate exposure to incentives and risks. Both fundraisers and funders utilise and share, in the same ways, available opportunities and consequences of business' poor performance. These include option to enter or exit the investments.

- Access to global market. In crowdfunding, participating investors can come from any part of the world. This enables financial inclusion in situations where local capital markets are not fully developed or not available for crowdfunding and eliminates trading barriers that may exist in local countries such as restrictive regulations.

2.4.4. Risks of REC

Risks of REC are similar to those discussed under section [2.3.2](#) above on crowdfunding (Borrero-Domínguez *et al.*, 2020).

2.4.5. REC Investment Landscape: Individuals vs. Institutional Investors

Globally, there is an equal split between individual and institutional investments. Institutional funders are financial institutions such as banks, insurance companies, pension funds, brokers etc. Outliers are in USA, and Africa regions where majority of the funders are institutions and individuals respectively (Ziegler *et al.*, 2020). In 2018 in Africa, only 19% of funders were institutional investors and the rest were individual investors. This would indicate that institutional investors are resistant to participate in FinTech innovations or that there are other impediments for their participation. For REC, globally 16% are institutional investors while 84% are individual investors (*ibid*, p. 53). And for the individual investors participating in real estate crowdfunding, only 18% of funders are female globally. There is no data on how the individual investors are reflected in Africa (*ibid*, p. 64), but it can be assumed that the landscape is highly skewed towards men.

2.5. Affordable Urban High-Rise Residential Property Development Issues in Malawi

The definition of affordable housing is complex due to the elements that must be considered such as the 30% salary margin question (Adabre *et al.*, 2020). Where levels of income of the poor are not the same, the applicability of this threshold falls out of line. Grey areas that need to be clarified in Malawi's unique context

include: a determination of who must be the target for the affordable housing, for how long they should be under the beneficiary bracket, whether affordable houses should be of basic design and materials in order that cost meets the value, whether sustainability requirements when developing the affordable housing should be adopted, and to what extent should government contribute as per its obligation to ensuring housing for all (Vale, Shamsuddin, Gray, and Bertumen, 2014).

While that remains the case, all forms of housing supply - including informal ones - are currently not able to meet the 21, 000 annual housing supply deficit determined more than 10 years ago, in 2010 (UN Habitat, 2010; 2011; 2015; World Bank Group, 2015). Government of Malawi (GoM) liberalised the housing sector which means demand and supply forces drive the activities in the industry by determining what is built, where it is built and to whom it is built for. While the capitalistic approach to housing is endorsed by the bilateral partners and proven to be successful internationally (World Bank Group, 2015), the increasing shortage of housing is providing a need for specialised intervention for a country characterised by inelastic land supply. For instance, in line with this economic philosophy, the reported unabated demand for housing by the middle class was to be followed by supply. However, restricted supply of land, high cost of building materials, limited financial capacity, and increasing informality in the sector derail this drive - with only 10% of housing being supplied per year (Carey and Tshangana, 2020b).

On funding for affordable housing, between 2008 and 2016 Malawi only received 0.6% (\$50 million) from large scale land-related funding from either government, bank, pension funds, private companies, Development Finance (DFI) and international donors. This is against the fact that its neighbour Zambia received about 23.51% (Wood, 2019b) over the same period. Key to note is the fact that of the funding that Malawi received from African Development Bank, a top funder

in the African community, no funds were allocated for housing development unlike other beneficiary countries such as South Africa, Zambia, and Namibia etc. This is according to African Development Bank's website on status of funds disbursements to countries within the region.

2.5.1 Laws and Policies

The Malawi Constitution

The Constitution is the supreme law of the land in Malawi. Though the Constitution does not mention explicitly about housing there are other sections that indirectly address housing. Section 28, for instance, states that citizens shall have a right to own property alone or with others and they shall not be deprived of it arbitrarily. As pointed out under section [2.2](#) above, this is also articulated in the the United Nations Human Rights Council Article no. HRC/4/18.

The National Housing Policy

The National Housing Policy (NHP) was the long-awaited piece of document that saw the light of the day in 2019, a process that started twenty years earlier through National Land Policy and is expected lead to formulation of Housing Act in the future. Among others, the NHP was set under the following ideologies:

- Increased access to housing lead to economic growth,
- A socialist system in the provision of housing cannot work for Malawi,
- The obligation of the government must be to create a conducive environment for capitalist practices in the sector, and
- The local authorities must be responsible for implementing housing programs in tandem with their needs.

Key priority areas of the NHP related to housing are setting up pro-housing legal framework, supplying land for housing, improving the housing finance situation, and supporting property development and management. However, as it can be seen from the table 2.2 below, the NHP is largely providing interventions to the

lower income and vulnerable groups. For instance, vulnerable groups will be entitled to 50% of the serviced plots to be allocated annually.

Priority Area	Actionable Points	Outputs
Legal framework	Develop Sectional Title, and Landlord and Tenant Acts	<ul style="list-style-type: none"> NHL to be in force by 2022
Land for housing	<ul style="list-style-type: none"> Allocating land for housing 	<ul style="list-style-type: none"> 5,000 serviced plots annually nationally 50% of the serviced plots to be allocated to the vulnerable groups.
Housing financing	<ul style="list-style-type: none"> To promote innovative housing finance systems 	<ul style="list-style-type: none"> Every institution to have at least 1 scheme At least 30% of applicants to get the loans annually A minimum of 10 community savings group to be created per district
	<ul style="list-style-type: none"> Lobbying MFIs to increase their threshold to accommodate more vulnerable groups 	<ul style="list-style-type: none"> At least 10% of all disbursements More MFIs starting offering housing products
	<ul style="list-style-type: none"> Promoting incremental housing developments 	<ul style="list-style-type: none"> Construct 200 incremental houses annually
	<ul style="list-style-type: none"> Encouraging provision of housing to women, youth and vulnerable groups 	<ul style="list-style-type: none"> Included in the “at least 10% of all disbursements”

	<ul style="list-style-type: none"> • Lobbying central and commercial banks to reduce housing loans mortgage rates 	<ul style="list-style-type: none"> • People start accessing affordable housing loans by 2017
	<ul style="list-style-type: none"> • Exploring new ways of finance affordable housing 	<ul style="list-style-type: none"> • To have 5 financing models operational
	<ul style="list-style-type: none"> • Collecting affordable housing levies 	<ul style="list-style-type: none"> • All local councils to start collecting levies by 2020
Property development and management	<ul style="list-style-type: none"> • Promote High-Rise building construction 	<ul style="list-style-type: none"> • To build 200 incremental houses per year
	<ul style="list-style-type: none"> • Promote use of affordable construction materials 	<ul style="list-style-type: none"> • Reduce of cost import duty by 10% - 20%
	<ul style="list-style-type: none"> • Promote densification 	n/a

Source: (National Housing Policy, 2019)

Table 2. 2 Excerpts of NHP’s Intervention in Housing Sector with Targeted Outputs by 2023

Based on researcher's analysis under section 2.2.1 above, if a member of a vulnerable group gets a home construction loan from MFI capped at MK 2, 000, 000.00 (US\$ 2,714) the same cannot be enough to build a standard 3BR house within the formal urban setting. Also, this group cannot access funds from the bank as they are the under-qualified category. But NHP mentions about incremental high-rise buildings, therefore, this study made inquiries with the LCC and MoLHUD to find out the incentives that have been made available for these bulk developments and assess the progress made on the road to 2024, the year NHP targets will be retiring (National Housing Policy, 2019).

The Malawi Growth and Development Strategy (MGDs) (2017 – 2022) III

MGDS-III is the local implementation of the SGDs and a short-term implementation of the AU Agenda 2063 (Jenik *et al.*, 2017). In this document, housing is not among the key priority areas as has been the case with the previous strategies but is among other development areas under human settlements and physical planning. Malawi's implementation of housing strategies is in response to SGDs and AU Agenda 2063 commitments. SGDs target 11 addresses housing issues through a commitment to ensuring inclusivity, safety, resilience and sustainability in human settlements and cities. AU Agenda 2063 commitment no. 1 ensures inclusive growth and sustainable development in Africa.

On housing, the MGDS-III indicated the need to increase the stock of affordable and decent houses by among others, providing a legal framework, decentralising powers from central government, and building more houses (*ibid*, p. 60). Specific interventions include: establishing a housing fund, encouraging private developers with incentive to build houses, lobbying MFIs to provide more finance for housing, promoting public private partnerships (PPPs) in housing infrastructure, support use of cost effective building materials, and increasing allocation of land to women, youth and the disabled (*ibid*, p. 151). As it can be noticed, there is no specific intervention in respect to affordable HRPDs. In this study, inquiries were made to find out the extent to which government is accommodating the HRPDs.

2.5.2 Supply of Land for High-Rise Residential Property Developments

Critical for high-rise developments is the supply of land. The problem of multiple institutional landlords in Malawi's urban areas with no clear boundaries (Bayer *et al.*, 2019; UN Habitat, 2010) is exacerbating the situation. Landlords in Lilongwe City include: MoLHUD, LCC, Malawi Housing Corporation (MHC) and other small institutional landlords (UN Habitat, 2010). However, the main owner and allocator of land in urban areas of the country is MoLHUD. This study investigated if the

ministry designated land for different classes of affordable HRPDs as per the LUSP 2030.

Ministry of Lands, Housing and Urban Development

MoLHUD as the main landlord in Lilongwe's urban areas is also the lead implementer of government laws and policies relating to real estate. The LUSP 2030 is being implemented in Lilongwe City by MoLHUD and LCC with technical support from Japan International Cooperation Agency (Lilongwe City Council and Japan International Cooperation Agency report, 2014).

Lilongwe City Council

The main role of LCC is to guide orderly developments in the city and manage infrastructure through enforcement of development controls. The Lilongwe City is the capital of Malawi established in 1975 for its centralised location advantage (Japan International Cooperation Agency Report, 2010). Its total land size was increased from 393 to 456 square kilometers in a bid to ease urbanisation rate growing at 4% per annum – 2011 figures- being the fastest urbanising city in Malawi (Lilongwe Urban Profile, 2011). Public land makes up 60%, private land occupies 30% and customary land is 10% (Japan International Cooperation Agency Report, 2010). In 2008, Lilongwe City registered a population 674, 000 and in 2018 it increased by 318, 786 representing 47% with an intercensal annual population growth rate of 3.8 (National Statistics Office, 2018). This rate is nearly double that of Blantyre city and Zomba cities. The population of Lilongwe is projected to grow to 2, 151, 000 by 2031 with an annual growth rate of 4.4% in that year (Malawi National Transport Masterplan, 2020).

Lilongwe Urban Structure Plan (LUSP)

In 2015, LCC adopted the Japan-designed cluster shape Urban Structure Plan that will run until 2030 replacing the old Urban Spatial Development Plan (Lilongwe City Council and Japan International Cooperation Agency Report, 2014;

Lilongwe City Council, 2015). A cluster shape model was preferred for its ability to distinguish land uses, resolving unplanned developments, and promoting the greenery environment within Lilongwe City.

The structure plan introduced new high-rise residential zones in low and medium density areas namely: 3, 9, 17, 26, 33, 37, 42, and 52 on a land totaling to 1, 155 hectares, as shown in the appendix below. Implementation of these uses was planned to be done in phases with the first round comprising areas 3, 9, and 17 on a land totaling 230 ha. The first two sites are already developed such that introduction of these uses would apply when intending to do redevelopments, while area 17 was a bare land from which new serviced plots were planned to be offered. This study focused on area 17 as it was a site where majority of plots were to be offered at once and plot owners would have a strong need for property development finance.

2.5.3. Critical Mass for Alternative Investments in Malawi

The oversubscription of new companies listing on Malawi Stock Exchange provides strong evidence of increased demand for medium to long term investments by companies and individuals. All of the four companies that went public in the past 3 years namely: Icon Properties, Airtel Malawi, FDH Bank and MyBucks Bank exceeded their targeted financial thresholds (Chokani, 2020). This is an indication of too much money seeking too few investment opportunities in the economy. Table 2.3 below provides the details of these subscriptions.

Company	Type of Listing	Amount (MKs)	Amount (US\$)	Year
MyBucks Corporation (Bank)	Debt	13 bn	17.6 m	2018
Icon Properties (Real Estate)	Equity	14.7 bn	20.0 m	2019
Airtel (Telecommunication)	Equity	27.9 bn	37.9 m	2020
FDH Bank (Bank)	Equity	13.8 bn	18.7 m	2020

Source: (Chokani, 2020)

Table 2. 3 Over-Subscribed Companies during IPO on Malawi Stock Exchange

2.6. Empirical Studies

2.6.1. Overview of Affordable Housing and Finance

Affordable housing finance challenges are worldwide and traditional banks' failure to remedy the situation is a no secret (Awe, 2001; Jones and Stead, 2020; Limba, 2018; Pinglo, 2016). A need to deeply understand housing finance problems and identify solutions to affordable housing market is more important than ever before (Pinglo, 2016) but the same needs to be undertaken under structural perspectives in studies (Musvoto and Mooya, 2018).

The main questions that need to be answered are: can authorities identify land not away from the city and ideal for affordable housing developments? Can the houses be built with right densities, proper mix of users, and be priced affordably? It is argued that great advantage would accrue to affordable housing dwellers and the economy at large when the poor locate close to the central business district due to associated multiplier effects (Doling *et al.*, 2013). A study on affordable housing development in South Africa found that affordable houses that are constructed fall short of these requirements (Musvoto, 2019). Similar outcomes were found by Ekpo (2019).

Turning to the international scene, the question on affordable housing and finance has revolved around whether at worst the current systems can be sustained and at best if alternative and innovative solutions can revolutionise the traditional practice. Adabrea and others (2020) found that critical barriers to continuity of traditional financing of affordable housing include: high cost of serviced land, lack of supporting infrastructure for affordable housing, low disposable income levels, high interest rates on loans, and lack of robust policies and enforcement of existing housing regulations.

Other studies took perspectives of assessing whether innovative financing can be the game changer replacing the failed traditional financing systems. Interventions have included using special purpose Real Estate Investment Trusts (REITs) (Onyekwelu, Anil, and Nwaibe, 2020), public platform trading (Palladino, 2019), Real Estate Crowdfunding (Kirby and Worner, 2014; Latorre, 2016; Mian, 2016; infoDev, 2013) and other hybrid Micro Finance based solutions (Jones and Stead, 2020) as alternative innovative financing options.

A study by Jones and Stead (2020) looked at how the urban poor in Africa and Asia can access affordable housing by comparing a range of innovative finance schemes. A network of five unique innovative affordable financing companies in these two continents were analysed comparatively to determine their affordability, relevance, success, and sustainability. It was found that innovative financing solutions are capable of bringing two-fold benefits: first, achieving construction of above standard affordable residential houses in urban Africa, and secondly, providing a more than break-even return to loan issuers. However, the five innovative housing finance models used had products connected to state mortgage institutions which are not present in Malawi.

A call for a public investment platform as a means to widen access to financial products to the less privileged was done by Palladino (2019). However, this study looked at investments in general, becoming less important for this present study. Social purpose REITs are also a new innovative solution that is yet to get attention. Onyekwelu and others (2020) continued the work of handful authors about the potentials of social purpose REITs in providing finance for affordable housing. The study found potential of social purpose REITs in improving the affordable housing finance situation when right policies are implemented on such aspects as tax, public-private partnerships and mortgage systems.

In Malawi, there is a dearth of contemporary and in depth research on affordable housing finance and housing other than the generalised reports by multi-national organisations such as Centre for Affordable Housing Finance and UN Habitat. Dated and seminal work on affordable housing identified the loopholes in the housing sector in Malawi (Nyasulu and Cloete, 2007; Zeleza-Manda, 2007; Zeleza-Manda *et al.*, 2011), but more recent related studies have concentrated on different themes. These include: participatory planning and involvement of urban communities (Refstie and Millstein, 2019), village banks / savings loans and women empowerment (Maganga, 2020), and how commercial banks are supporting financial inclusion (Chipeta and Kanyumbu, 2018; Nkuna, *Lapukeni, Kaunde, and Kabango*, 2018). There is currently no study on real estate crowdfunding in Malawi.

2.6.2. Real Estate Crowdfunding

REC did not have early success in the literature with studies finding out that the system could not work even in developed countries. For instance, Latorre (2016) in his study to assess the potential of equity crowdfunding in providing finance for property developers excluded in the traditional banking system, found that the innovation was not capable of supporting affordable property developments.

However, though this was a case study (effectively falling short of generalisation) similar findings were arrived at in a more broader study in China and Finland. In China, regulation, infancy of the trading platforms, lack of diversification, and undesirable locations of the tagged properties were identified as the impediments for the operationalisation and success of real estate crowdfunding (Tang, 2011) while in Finland, a call to understanding investor behaviour was made (Bogdanova, 2018).

However, a recent literature review study based on disruptive innovation theory identified REC in real estate project finance as a proptech disruptive innovation with a potential to alter the real estate finance industry (Montgomery *et al.*, 2018). Also, a need for sustainability as a means of continued success in REC projects has been brought into context. A study on the success factors for REC found that loans for development projects – because of their high liquidity levels through monthly interest payments – are more sustainable than projects that are developed to be sold – which tie investors return to a sale date (Borrero-Domínguez *et al.*, 2020). In addition, higher total returns and risk exposure of property developments influence investors' participation in REC. As such investors' guide information is very necessary. The last to be considered is the study under REC on crowdfunding REITs vs equity REITs (Gibilaro and Mattarocci, 2019). This study analysed comparatively the performance of crowdfunding REITs and that of equity REITs using portfolio assessment-based statistics. The findings showed huge strength for crowdfunding REITs to that of equity REITs.

Important to note is the fact that regional studies on Southern Africa have only looked at on crowdfunding in general. Hiller (2017) in his study titled '*An empirical analysis of Crowdfunding in Sub-Saharan Africa*' found that Malawi and Mozambique are the only countries in region with highest impediments associated with rolling out crowdfunding. The study classified Malawi as a low-income and below median quartile class on crowdfunding global competitive

score. The study recommended that the country should first increase its productive capacity through institutional and infrastructure enablements in order to stimulate crowdfunding activities (ibid. p. 140). Another study looking at alternative financing to support clean energy access in Sub-Saharan Africa identified crowdfunding as one of the potential innovative financing solutions to addressing energy problems in the region (Michoud and Hafner, 2021).

2.6.3. Success of Crowdfunding in the Southern Africa

The Southern Africa has recorded successes in rolling out crowdfunding programs being the least performer in the continent (Michoud and Hafner, 2021). Table 2.4 below provides a list of crowdfunding platforms that were in existence as at 2021. Generically, foreign-based platforms namely: Indiegogo and Kickstarter control a large market share of crowdfunding in the region. This could be attributed to regularity restrictions in Southern Africa countries that make it illegal to crowdfund locally. There are only a handful of local crowdfunding platforms in the region namely: South Africa, Tanzania, and Zimbabwe (Michoud and Hafner, 2021, p. 92; Fsdafrika, 2016, p. 28; Hiller 2017, p. 87).

Country	No. of Crowdfunding Projects carried out	Platform	In-Country (I) or Out-of-Country (O)
Angola	8	Indiegogo	O
Zambia	59	Kickstarter,	O
		Indiegogo	O
		Trine	I
Namibia	38	Kickstarter	O
		Indiegogo	O
Botswana	40	Kickstarter	O
		Indiegogo	O

South Africa	1273	Kickstarter	O
		Indiegogo	O
		Backabuddy, Crowdprop	I
		Feenix, Go Global Jumpstarter, Thundafund	I
Swaziland	19	Kickstarter	O
		Indiegogo	O
Lesotho	11	Kickstarter	O
		Indiegogo	O
Mozambique	38	Kickstarter	O
		Indiegogo	O
Zimbabwe	128	Kickstarter	O
		Indiegogo	O
		Lloyd Corporate Capital	I
Malawi	38	Kickstarter	O
		Indiegogo	O
Tanzania	40	lendahand	I
		Wengi	I

Table 2. 4 List of Crowdfunding Platforms in Southern Africa

Conclusion

This chapter provided a comprehensive discussion and review of literature on affordable HRPDs. Precisely, discussed were challenges of traditional financing and opportunities of alternative or innovative financing options, explanations of what crowdfunding is and how real estate crowdfunding qualifies to be the promising solution to housing finance problems, and the Malawian context of HRPDs and housing with respect to acts, policies, processes, and programs.

CHAPTER 3: METHODOLOGY

3.1 Introduction

This chapter provides information on how the research was designed and strategised, how data were collected and analysed, and how results were presented.

3.2 Research Paradigm

A research paradigm is a scientific tool in research and has the following branches: epistemology, ontology, human nature, axiology and methodology (Creswell, 2014). The best research paradigm is supported by a “question-driven perspective” where questions inform a research strategy to be undertaken (Kothari, 2007).

In this study measurable research questions were addressed through quantitative approach while quality-centric questions were undertaken by qualitative paradigm (Blaxter, *Hughes, and Tight*, 2010; Tashakkori and Teddlie, 2009). Where usage of only qualitative or quantitative research is envisaged to leave gaps in the study, a combination of the two is recommended (Tashakkori and Teddlie, 2009). This study therefore adopted the mixed research approach.

3.3 Research Design

Research design is a tool in research that provides a link between research objectives and methodologies for collecting and analysing the research data (Axinn and Pearce, 2006; Walliman, 2006). It is pivotal in determining research approach to be adopted, identifying research participants, ascertaining the kind of data collection instruments to be used and establishing the type of analysis to be employed (Kothari, 2007; Creswell, 2014). This study aimed to answer the following research question: what are the constraints and opportunities for financing affordable urban HRPDs in Malawi? The sub-research questions were:

- What are the challenges associated with accessing HRPD funding in Malawi?
- What is the funding landscape for HRPD in Malawi?
- Do alternative / innovative property funding mechanisms provide an opportunity for HRPD funding in Malawi?
- Is real estate crowdfunding, a type of innovative funding systems, viable than traditional funding system in funding HRPDs in Malawi?

3.4 Research Purpose

Research purpose is categorised into exploratory, descriptive, correlational and explanatory (Blaxter *et al.*, 2010; Creswell, 2014). *Exploratory study* applies where, in a change friendly environment, there is a need to extract knowledge in order to gain a broader understanding of a phenomenon (Kothari, 2007). *Descriptive research* is intended to show a vivid picture of a phenomenon's true nature of being or operation (Burns, 2000; Blaxter *et al.*, 2010). *Correlational study* is open to hypothesis development in building and proving existence of relationships between variables under study. Lastly, *explanatory research* extends the inquiry in correlational study and looks at understanding why relationships exists between variables under study (Ibid). The topic under study employs exploratory and descriptive philosophical perspectives.

On exploratory philosophical perspectives, the study employed qualitative approach to inquire into funding environment for HRPDs in Malawi, assessing challenges associated with accessing HRPD funding and identifying opportunities of alternative / innovative funding mechanisms.

3.5 Research Philosophy

Research philosophy is the core of knowledge development in research as well as the nature and perspective (world view) of that knowledge (Walliman, 2006). Three kinds of research philosophies commonly called epistemological classes are

positivism, interpretivism, and critical studies (Tashakkori and Teddlie, 2009; Axinn and Pearce, 2006). Positivism relate to independent empirical studies on world processes to produce deductive and generalised scientific laws (Amaratunga, Baldry, Sarshar, and Newton, 2002; Kothari, 2007; Creswell, 2014). On the other hand, interpretivism is a subjective and inductive inquiry into natural and social realities with the understanding that everything is different as such researching them should involve a myriad of methods (ibid). Critical studies employ researcher's subjectivism in the evaluation of a study (Creswell, 2014). In this study the focus was centred on positivism (quantitative approach) and interpretivism (qualitative approach) in line with the mix study approach adopted for the research.

3.6 Research Strategy

Research can be designed as experiment (is further divided into classic, quasi and non-experimental), survey, case study, action research, grounded theory, ethnography and archival research (Walliman, 2006).

In this study a mix of case study and survey research designs were adopted. In respect of case study design, the areas that were newly allocated for HRPDs by MoLHUD and allocated to applicants were studied deeply as unique cases. For surveys, self-administered questionnaires with both structured and unstructured questions and interviews were conducted.

3.7 Research Approach

Three main research approaches are qualitative, quantitative and mixed (Creswell and Clark, 2007; Creswell, 2014). Qualitative research is an interpretivist study that provides subjective and in-depth understanding of social systems. Quantitative research is a positivist-focused study that is associated with objective assessment of world situations to show their relationships (Blaxter *et al.*, 2010; Creswell and Clark, 2007). Mixed methods have characteristics, or say combine,

both qualitative and quantitative approaches (Creswell, 2014; Patton, 1990 ; Bryman, 2006; Newman and Benz, 1998). Mixed methods cut across the limitations that are present, with respect to the nature of the research being carried out, when only one method is used (Tashakkori and Teddlie, 2009; Axinn and Pearce, 2006; Creswell and Clark, 2007). The summary of the approaches is shown in table 3.1 below.

Quantitative	Qualitative	Mixed-Methods
Pre-determined	Emerging methods	Both predefined and emerging
Instrument based	Open-ended questions	Both open and close ended questions
Performance data, attitude data, observational data, and census data	Interview data, observational data, document data, and audio visual data	Multiple forms of data
Statistical analysis	Text and image analysis	Statistical and text
Statistical interpretation	Themes, patterns interpretation	Combine both qualitative and quantitative interpretations

Source : (Creswell, 2014).

Table 3. 1 *Types of Research Methods*

This study adopted a mixed-methods approach of embedded nature to enable the researcher gather both qualitative and quantitative data. Embedded design enables the set of data for one type (either qualitative or quantitative) to be used by another where each data set is treated and reported separately. The benefits of this to the researcher is time efficiency and easy management (Creswell, 2014; Tashakkori and Teddlie, 2009; Creswell and Clark, 2007).

3.8 Data Collection, Research Instruments and Sampling Procedures

Research Sample

Research sampling is a methodology relating to selection of research participants from the pool each having equal advantage of qualification (Walliman, 2006; Blaxter *et al.*, 2010). A sample is a product of target population which is total number of respondents who qualify to participate in research for the context under study (Kothari, 2007). Choosing a sample for research is viable as it is a good cost cutting measure and a means for unbiasing the representation (Walliman, 2006; Blaxter *et al.*, 2010).

In this study the research sampling methods that were used are expert non-probabilistic sampling, multi-stage probability sampling - comprising simple random - and proportional stratified sampling. *Expert non-probability sampling* is a type of sampling that provides for selection of participants in due consideration of their knowledge of the phenomenon being studied thereby providing very relevant data (Burns, 2000; Blaxter *et al.*, 2010). This method was used in selecting loan officers at financial institutions, MoLHUD, pension funds, Reserve Bank of Malawi (RBM) officials and LCC land administrators to participate in the research. *Multi-stage probability sampling* is a combination of more than one sampling techniques in a bid to achieve a desirable outcome. In this research simple random and proportional stratified sampling methods were combined to form a multi-stage sample. Proportional stratified sampling allows for grouping like-for-like members of the population to form subgroups that are then selected based on their representative proportions using simple random sampling. Simple random sampling is a probability sampling method that provides every element of a sample an equal chance to be selected. In this study, strata were formed namely quasi-high-rise residential and flat high-rise residential. A simple random sample was then carried out from the population of individuals who were allocated the land. Table 3.2 below provides a summary of the sampling process.

RESPONDENT	SAMPLING METHOD	POPULATION	SOURCE
Loan officers at financial institutions (banks and Saccos)	Expert non-probabilistic sampling	8	Banks and financial institutions
LCC land administrators	Expert non-probability sampling	4	LCC
Plot owners in HRPDs areas in Lilongwe City	Multi-stage probability sampling (Simple random and stratified)	50	LCC high-rise residential plot recipient list
MoLHUD	Expert non-probabilistic sampling	4	MoLHUD
Pension funds	Expert non-probabilistic sampling	2	Pension funds companies
Reserve Bank of Malawi	Expert non-probabilistic sampling	2	Reserve Bank of Malawi

Table 3. 2 Profile of Research Respondents

Data Collection Strategy

Data collection strategy is about identification of right and appropriate tools of collecting data as well as analysing it (Newman and Benz, 1998; Hammersley and Gomm, 2000; Axinn and Pearce, 2006). As this study employed a mixed study approach, questionnaires in open-ended and close-ended design, and interviews were used.

Research Instruments

When conducting research it is very vital to collect and measure data using right and correct instruments (Axinn and Pearce, 2006). The research instruments used in this study were interviews, and close and open ended questionnaires. The questionnaires were assessed for relevance, appropriateness, ambiguity, coherence, consistency, objectivity, precision, neutrality e.t.c. in relation to nature of the data the study aimed to collect.

Research Instruments Validation

Research instruments must be valid internally and externally through the use construct validity and statistical conclusion validity tools (Kothari, 2007). Construct validity is achieved when the research instruments chosen are able to measure what they are intended to assess and a check of this is done through an external pilot study. Statistical conclusion validity is an internal validity tool that uses statistical procedures to measure validity and acceptability of research instruments and is applicable in quantitative studies. In this study, construct validation is applicable and was achieved using a pilot study to a sample of the respondents.

3.9 Data Analysis Techniques

Qualitative data recorded from interviews were transcribed and then analysed using thematic analysis as guided by Boyatzis (1998) and Patton (1990). Thematic analysis is a qualitative data analysis tool that allows for identification, analysis and description of data (Braun and Clarke, 2006). The process of thematic analysis involved studying the data, producing codes, identifying, defining and naming themes (ibid.). In the analysis of the data for this study, the researcher first familiarised himself with the raw data, identified common themes, indexed and charted the themes and finally mapped and interpreted the data (Hammersley and Gomm, 2000).

3.10 Limitations

Any piece of research work is associated with limitations in one way or another (Amaratunga *et al.*, 2002; Creswell, 2014). The limitations discussed here relate to research design and scope of work aspects and they include:

- The study only involved urban HRPD areas as per LUSP 2030 and the revised map of area 54.
- The formal lending institutions that were included are only those that offer housing finance products namely: Standard Bank, National Bank, NBS and FDH.
- MFIs involved with the study were those that offer housing products and have been in the industry for more than 10 years.

The other limitations relating to challenges in carrying out the research work are discussed under subsection 5.5 below.

Chapter Summary

This chapter provided the methodology that was used in this research including the adopted research philosophy, the research paradigm it falls under, the strategies and approaches that were chosen for the research and how the collected data was analysed to produce credible results.

CHAPTER 4 DATA PRESENTATION AND ANALYSIS

Introduction

This chapter first provides an overview of how data were analysed based on the research aims, objectives and the research methodology discussed in chapters 1 and 3 above. The data is presented and analysed in line with objectives of the study as follows: literature review on the context traditional financing in Malawi with respect to HRPDs under section 4.1; the extent of challenges, opportunities, and nature of institutional framework for HRPD funding in Malawi under section 4.2; the funding landscape for HRPD in Malawi under section 4.3; and the best innovative property funding mechanisms provide an opportunity for HRPD funding in Malawi under section 4.4.

4.1 Literature Study Findings on the context of HRPDs Financing in Malawi

As per chapter 2 above, the study has for the first time provided a profile for the HRPDs funding in Malawi with respect to challenges, opportunities and institutional framework. Further, the study found that while traditional financing systems fail to provide loans for HRPDs, alternative financing have opportunities to fill the gap. However, the nature of institutional framework either limit the size or disallow the operations as well as existence of these substitutes that can meaningfully address the HRPDs funding problems in Malawi. Finally, in light of the highlighted contextual environment, REC was singled out as a best innovative financing option that would be a game changer for HRPD funding. This finding informed the primary data phase of the study which sought to answer the fundamental question : Can REC be implemented as an innovative financing solution for HRPDs and if yes, what must be done by various stakeholders in Malawi?.

4.2 Challenges, Opportunities and Institutional Frameworks for HRPDs

Data collection was very slow due to change of government and Covid-19 pandemic. The former resulted in a lot of government officers desisting from giving information while the latter was due to introduction of shift work schedules.

Primary data were collected from key stakeholders, as per the second objective of this study, to establish the extent of challenges of traditional financing, opportunities of alternative financing and the nature of institutional framework associated with HRPD in Malawi. Table 4.1 below provides respondents demographics.

Four commercial banks and three MFIs were sampled in the study. Two commercial banks and three MFIs namely: Standard Bank (BR 1), National Bank (BR 2), Finca (MFI 1), Select Africa (MFI 2) and CCODE (MFI 3) respectively participated in the study. Additionally, other information was accessible from financial institutions' websites and public documents as highlighted in the literature review.

Demographics

Respondents	Targeted No.	No. Participated	Response Rate %	Gender	
				M	F
Plot Owners	50	40	80%	31	9
Ministry of lands, housing and urban development officials	4	4	-	3	1
City council officials	4	2	-	2	0
Reserve Bank officials	2	1	-	1	0
Pension Fund senior officials	2	2	-	1	1
Bank managers	4	3	-	2	1
MFI officials	4	3	-	2	1

Table 4. 1 Demographics of Respondents

Challenges of Traditional Financing for HRPDs

The study found out that neither commercial banks nor MFIs offer loans for HRPD in Malawi, and broadly, construction loans. BR1 highlighted that there are underlying risks affecting such long-term borrowing and stated that:

“First due to the characteristics of our economy, we have problems to fund high-rise property developments as they fall in the category of long-term repayment loans. These projects are associated with high default rates, and low resale potentials when the client has failed to service the loan. Secondly, the lack of Sectional Title Act, forbids us to dispose of such bulk developments as units thereby limiting us from providing high-rise property development loans.”

Lack of Access to Commercial Banks’ HRPD Loans

The study found that the only property related loan products available at all commercial banks under study include home, asset-based, and home improvement loans. A *home* loan is for a purchase of a complete house within the city’s qualifying locations and with title deeds. *Home improvement* loans support completion of buildings that are constructed to a minimum of roof level. Lastly, loans acquired for other purposes with underlying property used as collateral fall under *asset-based* loans and these loans do not relate to property directly. Both BR1 and BR2 indicated that if available, construction loans are privately open to high class clients and only as a generic product, that is, not catering for *high-rise* property developments. MFI 2 reported that their home construction loans are capped at MK 2, 000, 000.00 (US\$ 2, 714) and target low earning civil servants. MFI 1 and 3 indicated that they do not offer any property loans currently. This reveals that there is no property loans targeting HRPDs at the existing financial institutions in Malawi.

Turning to plot owners in the case study areas, borrowing from financial institutions for the construction of HRPD is impossible and remains unpopular concept with only 20% of plot owners applying for a bank loan. Of this number, none was offered a home construction loan from financial institutions at the time of the study. This explains the extent to which access to financing in the traditional

financing industry is limited as found in chapter 2 above. The research further found out that of the remainder that did not apply for a loan did so due to the following reasons: loans are expensive and unaffordable represented by 40%, lack of collateral represented by 19%, fear of repossession of underlying property when in default represented by 15%, using own funds and not knowing the requirements / viability of getting a house construction loan represented by 11%, and finally utilising alternative funding sources represented by 4%. Figure 4.1 below shows these details.

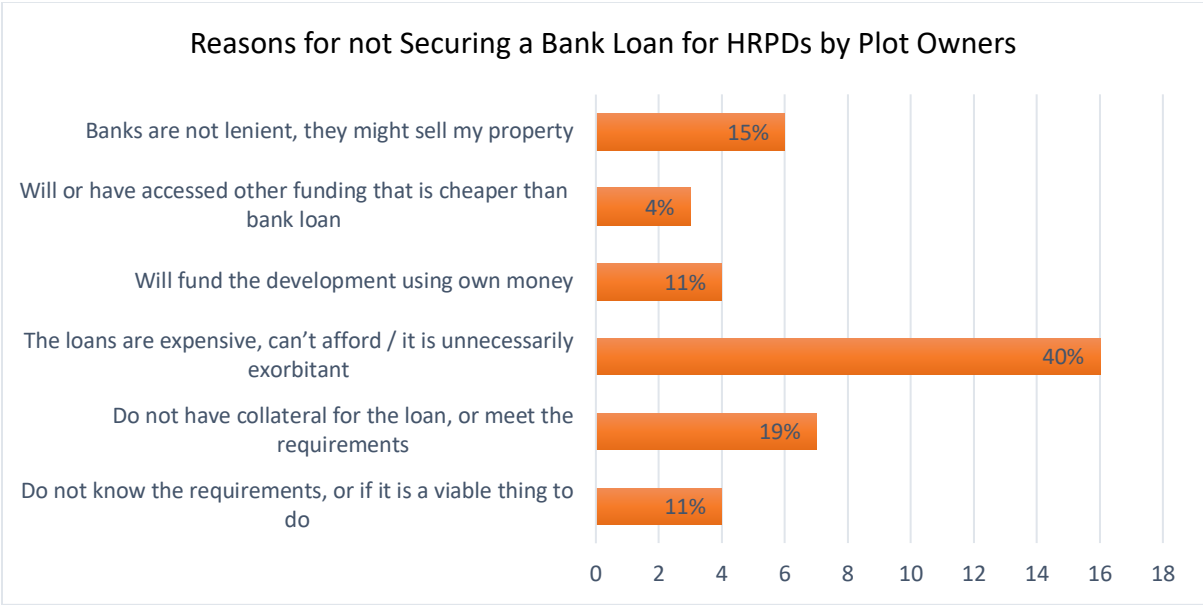


Figure 4. 1 Reasons for Not Securing a Bank Loan for HRPDs by Plot Owners

Conclusively, though not generalisable, these results indicate that current property loan products from commercial banks are not competitive and attractive to support HRPDs. Also notable is the fact that cheaper sources of funds which have been opted by 4% of the respondents have not been scaled up or marketed enough to the masses. Further probes on plot owners to establish the source of such funding revealed that the funds were raised through village bank. Since the last 5 years, village banks while operating informally have become

common in Malawi with a representation of 37.9% of financial borrowings in urban Malawi in the year 2020 alone (National Statistics Office, 2021).

In further establishing the extent of challenges of traditional financing as per second objective of the study, the research analysed the current loan conditions at both banks and MFI's to assess their competitiveness. The analysis showed that MFIs are more accommodative with less stringent conditionalities than commercial banks on the accounts of low interest rates, provision of uncollateralised loans, project support and speedy loan processing. However, though MFIs have been found to be more competitive – and as established in the literature (Banerjee *et al.*, 2015), this study has revealed that the impact of MFIs on real estate sector is near to nought such that if not incremented the same cannot support HRPD in Malawi.

Subsidy, Incentive, and Discounts Associated with Building HRPDs in Malawi.

The study found out that there have not been subsidies, incentives and discounts rolled out by government to cater for HRPD or the housing sector in general. One plot owner said that,

“There is no subsidy at all, none zero. With how expensive everything is nowadays, the government could truly consider putting up some subsidies.”

This is against the government's commitment to implement a housing subsidy of 10% - 20% reduction on the cost of import duty for construction materials (National Housing Policy, 2019). Commissioner of Lands Respondent (CLR) stated that:

“Instead, the government rolled out a project called Decent and Affordable Housing Subsidy Programme commonly called Cement and Malata Subsidy Program (DAHSP) targeting the poor in the rural areas rolled out in 2014 and it is still running.”

The photo below shows a sample house under the DAHSP program.



Source: Nyasatimes, 2020

Figure 4. 2 *Sample House under DAHSP Government Program*

Similarly, in the 2021/2022 national budget, the Minister of Finance only announced tax waivers in respect to the importation of building materials for church or mosque construction and nothing for housing, let alone affordable urban HRPDs (Government of Malawi, 2021).

Solutions to Challenges Faced by Property Developers in Accessing Funding

Plot owners were asked to recommend kind of interventions that should be employed to ease access for HRPD financing as shown in figure 4.3 below. Majority of respondents, 36%, pointed towards lowering of loan interest rates. Following were respondents who indicated that there should be loans for affordable urban HRPDs that should use land as collateral, and those who preferred that loan repayments should come from property with representations of 28% and 16% respectively. On the lower end were proposals for flexible loan repayments represented by 8%, removal or reduction of associated loan costs (e.g. early repayment and lower administration costs) represented by 6%, adoption of fixed interest rate regimes represented by 4%, and extension of loan

repayment period represented by 2%. It is however not very likely that these adjustments can be implemented by commercial banks as lending rates are influenced by increased inflation, interest rate, and supply of credit in the market. These are economic fundamentals that are rarely stable in Malawi. Also, as shown above, banks are inflexible and less innovative than other financial institutions like MFIs.

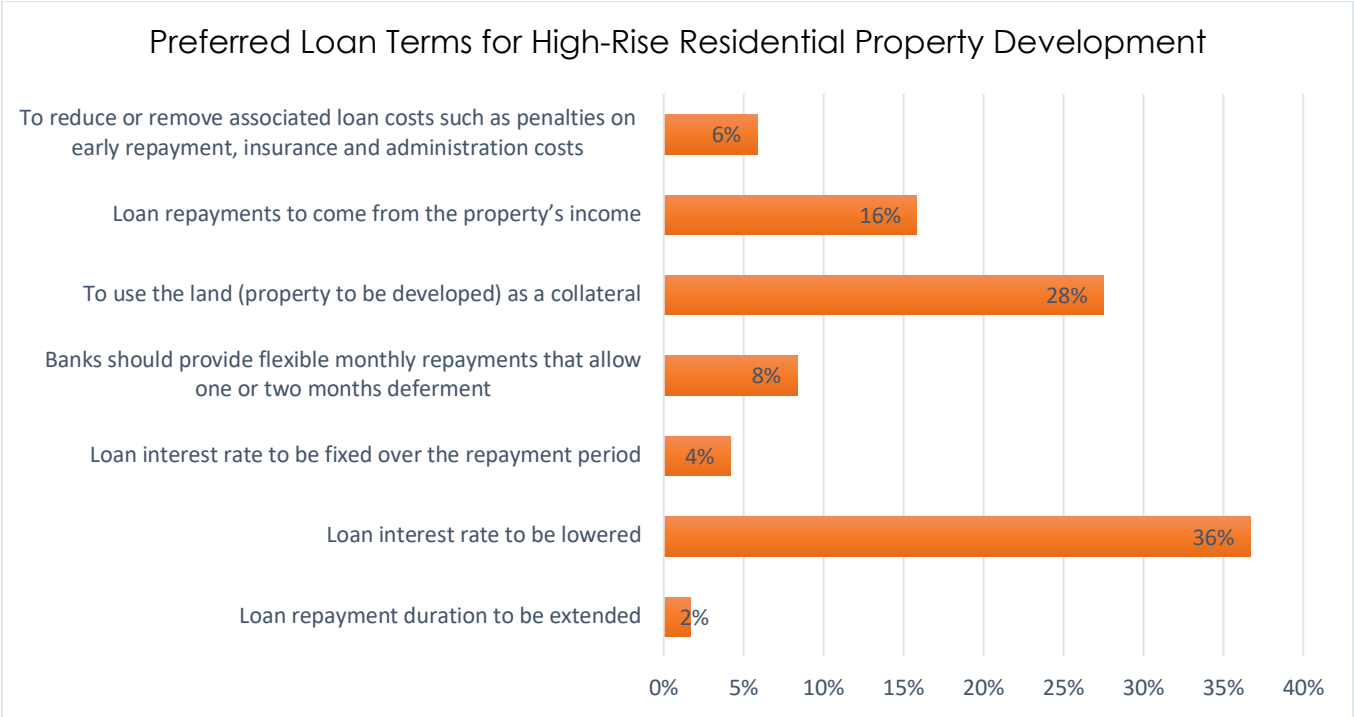


Figure 4. 3 Preferred Loan Terms for HRPDs

Opportunities of Alternative Financing for HRPDs

The study found out that long term investors encounter challenges related to investing in money and capital markets creating a need to pursue other profitable and diversified ventures. OMR 1 pointed out that the challenges of investing in money and capital markets were mainly associated with micro-economic uncertainties such as volatility of the local currency and inflation. On the capital market front, the respondent pointed out liquidity constraints and forex unavailability as the most encountered challenges. OMR 2 stated that:

“Our agriculture-dependent economy is seasonal and unstable. Throughout the year economic fundamentals keep changing with the worst happening during the lean period which is from September to about May. Our currency losses value a lot. Such a situation increases business risks as all investments on the capital markets pursue treasury bills (TBs) which are generally break-even ventures. In many times we end up investing in the TBs or sometimes we just hold the money, as a lesser risk exposure profile. It has however become clear to us that the recent oversubscription of new companies going public namely, Icon properties, Airtel Malawi, FDH Bank and MyBucks bank, is an indication of too much money seeking too few investments opportunities in the economy. This is the situation that has influenced us to embark on a diversification program. If HRPDs can be proved to be profitable we will surely invest in them”

These impediments build a strong case for a need to diversify into HRPDs investment space for long term investors such as pension funds and insurance companies subject to acceptable profit margins.

Success of Long-Term Funders in Financing Other Types of HRPDs

The study interviewed senior managers responsible for investment of pension funds at Old Mutual (OM), the largest pension fund pool in Malawi. Other collectors of pension funds administrators are insurance companies. However, there was no response from the insurance authorities.

The study found that OM, a long-term funder and a predominantly money and capital market investor, diversified into high-rise real estate property developments. The organisation's recent and first of its kind participation in this new asset class relate to investing in high-rise hostel property developments through Public Private Partnerships (PPPs) with the Malawi Government. The

success of this venture has increased the organisation's interest to tap into more real estate developments. OMR 2 stated that:

“Particular for real estate, as far as I can tell, we have invested in property development through arrangements such as PPP with the government. Overall, projects we invest in must pass a certain threshold to be approved for investment. As a responsible organisation, the projects we invest in do not only need to meet a favourable return of investments, but they must also have corporate and social responsibility (CSR) aspects, good environmental, social and governance (ESG) principle, and must adopt green building development systems.

In previous years we only concentrated in the capital market, but we have noted that we are well placed to tap into long term investments as a diversification strategy through responsible investing. The PPP arrangement we have undertaken on construction of university hostels is a taste of waters. If we will realise gains with this project, there are higher chances that we will invest in similar profitable property developments in Malawi be it HRPDs”.

The pension fund managers joined the property development space in Malawi in 2020 as an investor for a project of constructing university student hostel at Lilongwe University of Agriculture and Natural Resources (LUANAR) and College of Medicine (CoM) through PPP agreement with Public Private Partnership Commission, a representative of Malawi government. OM chose this project for its potential to providing a better rate of return of investment. As a PPP project, LUANAR only provided the land and OM is investing its funds in the development of the property under the Build, Operate and Transfer (BOP) agreement. When the hostel is complete and occupied, OM will remain the receiver of income generated by the property for 35 years, a time it is expected that the expected

level of return will have been realised. Thereafter, the property ownership will transfer to LUANAR.

Other hostel development projects are to be undertaken by private companies. Nico Asset Managers will build Kamuzu College of Nursing hostels while M&M Consortium will build Natural Resources College (NRC), The Malawi Polytechnic, Mzuzu University (MZUNI), Malawi University of Science and Technology (MUST), and Chancellor College (Chanco) hostels.

These are the only high-rise housing projects, as a sub-category of infrastructure - one of the government's prioritised sectors, developed through PPP in Malawi (Malawi Investment and Trade Centre, 2021) since the passing of PPP Act in 2011 (Public Private Partnership Commission, 2021; World Bank Group, 2021). Supported by the Act, it clearly shows that interest is now growing by long term funders to invest in high-rise property projects. The increasing shortage of housing in Malawi and the documented shortage of finance for affordable urban HRPDs are pointers to an opportunity long-term funders can competitively exploit.

The study also found that OM has only undertaken investments at a corporate level for the main reason of reducing risks. They have also not been approached by an individual entity with a good investment case and mitigated risk profile. OMR 1 stated that:

“An individual company could be considered for HRPD funding or a pact if it shows that it has a formal structure with relevant professionals, good track record, the capacity to do property developments within time and good business case. If vetted by the in-house team in terms of the fundamentals the concept can be approved.”

In the literature, it was established that institutional funders such as pension funds have been a major participant in crowdfunding globally and only growing slowly in African region (Ziegler *et al.*, 2020). In Malawi, with a good enabling environment institutional investors can become key players in affordable urban HRPDs crowdfunding programs.

Regulatory and Policy Relaxation in Support of Affordable Urban HRPDs Funding

This study found out that Reserve Bank of Malawi (RBM), recent policy intervention has ruled out the potential of financial institutions resolving financial access problems to support property developments in Malawi. Instead, the institution has streamlined its regulation on pension fund investments prioritising infrastructure funding. RBM1 pointed out that,

“Though helpful in the general mortgage industry, the available property loan products are not able to support HRPDs. Moreover, banks in their nature cannot lend long. This is where the gap is. The solution lies in pension funds. However, previous practice of the pension funders has seen other key areas not being prioritised / invested. For instance, property only received 3% of investments when other asset classes such as listed equity, government bonds, among others, had 49%, and 27% investments respectively of pension and life insurance funds. This is against a background of increasing pension funds contribution of MK110 billion (\$150 million) in 2019 from MK40 billion (\$54 million) in 2015 owing to the passing of Pensions Act in 2011. RBM has therefore prepared a policy paper on mortgage lending in Malawi. This draft proposal advocates for rationing of pension funds’ investments and 10% apportionment of pension money to property sector. We hope that this proposal will benefit affordable urban HRPD in Malawi.”

On the part of policy relaxation towards development of affordable urban HRPD, the study established that (LCC), has put up a policy to encourage rezoning of medium density, high density, and Traditional Housing Areas (THAs) near Lilongwe CBD to be redeveloped into residential high-rise uses and where applicable undergo land consolidation processes to enhance effective utilisation of land. These areas have single storey houses majority of which are in dilapidated state. LCCR stated that:

“Currently there is a provision that approvals should be made for medium density, high density, and THAs rezoning applications to two storeys or more depending on location. When submissions are made, we just make sure that we visit the site to recommend the appropriate ways the property should be oriented considering privacy concerns, size of the land and how supporting services like sewerage, drainage, electricity, and water can be provided in the area to make sure there is order. Mostly, approvals are made to land parcels which are big enough or pieces of land that can be consolidated. However, though this is a better way to addressing housing problems within our city, contemporary economic environment is restricting people from coming in good numbers with such applications.”

Crowdfunding and the Legal Environment in Malawi

The study established that there is no regulation on crowdfunding in Malawi, making it illegal to raise funds in this way. However, RBM 2, indicated that if crowdfunding can have a sound business case providing technologically enabled innovations with a range of benefits, the regulator can grant permission for the rolling out of such projects and follow with the regulations, just like how mobile money transfer innovations were incorporated in the country. The respondent stated that:

"In the law we currently have, public funds are only raised through Initial Public Offerings (IPOs) done through Malawi Stock Exchange (MSE) as regulated by the Securities Act, other than that the funds must be raised privately. When seeking to raise funds publicly, all MSE listing regulatory procedures must be followed. Among others, this is done to protect the public from financial exploitation. The MFI Act, also, regulates how MFIs, Saccos and Cooperatives can collect funds from its members. Of course of late we have noted the increasing growth of Village Banks which is an indirect version of crowdfunding, I would say. However, we have also discovered that there is a huge potential in raising funds through crowdfunding worth exploring with reference to the challenges the current funding channels have. Raising funds through this medium is currently illegal. There are however exceptions we can accommodate as a regulator. For instance, we did not have regulation in Malawi on mobile payments when Airtel money and TNM Mpamba mobile payments were rolled out. We allowed the systems to roll out and we studied the practice and operations of these products. Later, we developed legal framework from these experiences. This was an out of the ordinary arrangement but there was a strong business case in that the similar system was working in other parts of Africa such as Mpesa. On the benefits, it was proven that while boosting financial inclusion to the Malawi population, the system was also capable of broadening the tax base."

The study further established the extent to which RBM has advanced the facilitation of legislation on crowdfunding in Malawi. This included engaging with international bodies and governments to draw lessons on the successes and failures, policies and regulations of crypto currencies and associated technologies. RBM 1 said that:

“Technology is bringing enormous opportunities such as new governance systems, and operational efficiencies, but it also brings challenges. Experience has shown that learning and understanding technological advancements early enough helps in managing it as a lot keeps changing daily. A section of our department is focused on that. We have taken keen interest in the digital money space as they are very easy to grow unsupervised while impacting the economy. Currently, we are in consultations with some organisations and stakeholders involved or intending to participate in these technologies. We are also in touch with governments which have entered in this space so that we should learn from their experiences.”

[The Institutional Framework for Affordable Urban HRPDs](#)

In understanding the institutional framework in respect of affordable urban HRPD in Malawi so as to address specific objective two of this study, land supply side key stake holders namely: LCC, MoLHUD, and MHC were interviewed.

The study confirmed that LCC is the custodian and implementer of the 2030 LUSP and the only institution mandated through Planning and Development Directorate to facilitate orderly and sustainable physical urban development in Lilongwe City. Put in other ways, no structures are permitted to be developed in the city unless LCC approves them in accordance with the city's development plans, zoning, restrictions, standards, permissions, and regulations. The institution ensures that areas that were zoned for urban HRPDs are only permitted to be developed that way. The LUSP supported by Lilongwe City Development Guidelines and Standards Guidebook and other new city maps designated permitted uses and approved building heights for property developments within Lilongwe City. In addition, LCC has powers to demolish structures that are erected in defiance of these requirements. This study further established that ownership and allocation of vacant land, related to the allocated urban HRPDs as per 2030 LUSP,

is done by MoLHUD. LCC only controls all property developments throughout the city even on land it does not own. LCCR stated that:

“As LCC we do not allocate plots. We are only given already developed and occupied land from MoLHUD to manage. These land parcels are largely within the formally developed high density areas and informally developed areas called THAs the within the city. The low and medium densities are owned and allocated by MoLHUD. However, when it comes to what should be developed on any land within the city, we have powers to approve or reject and demolish in accordance with development control requirements.”

The study revealed that development controls lack enforcement as required and that the 2030 LUSP is an alterable document.

On lack of enforcement of development controls, this study found that there are multi-fold challenges affecting such tasks. Firstly, LCC compromise on enforcing the height restrictions for areas that have requirements for HRPDs. It was revealed that LCC issues an approval of a single storey developments for areas that are zoned for high-rise residential. The respondent pointed out that such waivers are put in place to accommodate plot owners who complain that they lack funds to build HRPDs. Secondly, LCC is shorthanded with staff namely property scouts to be enforcing the regulations within the city throughout the time. LCCR said that:

“We have few property scouts here at the council which provides us with a challenge to do enforcement. Lilongwe City is wide and with the pace at which developments are taking place here in the capital you realise that three weeks after visiting a place a new structure is elected to up to say roof level. The main reason for our failure to employ more staff is lack of resources by the management. What we also noted is that people just decide to defy the regulations. They either ignore our warnings or bribe the

scouts so that they shouldn't report them to our offices. Secondly, neighbours complain of privacy breaches when a multi-storey structure is built next to them. Lastly, sometimes the problem is interference by businesspersons and politicians."

On changing or altering the 2030 LUSP, the study interviewed senior officers or commissioners of land (CL), physical planning (PP), surveys (S) and urban development (UD) and found out that the maps get updated to meet new and contemporary needs of the government. UDR stated that:

"I should mention that the LUSP as a long-term development planning document is not followed to the letter. Annually and every 5 years, the document is updated or changed. One of the contributing factors for these changes in the recent past is increased urbanisation into the city amidst a huge demand for housing largely by low to medium income earners and civil servants."

PPR pointed out that:

"The structural plans are done based on projections. So, into time, when we notice a need for a change in response to contemporary challenges the layouts are modified. It is never a static plan, but the changes are not to the whole thing. Like for the area 54 map I have shared with you, on the Japan International Cooperation Agency LUSP this area was reserved for forestry though on the ground the land is bare, and people were slowly encroaching on the land. Considering increasing demand for high-rise housing in the city, accumulation of traffic along the Lilongwe-Kanengo road, and expansions of industrial developments between Kanengo and Lumbadzi, a need to set aside land for high-rise residential developments became a strong necessity."

The analysis of the 2030 LUSP show that both of the two case studies namely: area 17 and area 54, were changed. Firstly, area 17 was changed from a building height of 5 – 8 storeys to single storey. MoLHUD offered these plots to civil servants and is currently 98% developed with horizontal structures. Lastly, area 54 was changed from forestry zone to urban HRPDs to support the neighbouring industrial and commercial uses that were introduced between the Kanengo and Lumbadzi areas. Plots in this location were allocated to the public by MoLHUD. The study also revealed that area 54 where a new 5 – 8 storeys urban high-rise residential use was approved, structures are not as that high. Only a quarter of this area is developed with largely two storey residential properties as the remaining portion is affected by compensation issues. Maps for old and new area 54 is attached in the appendix.

Another institutional framework challenge is that of lack of coordination between land supply side stakeholders. The study revealed that there is no proper coordination and prioritisation of urban high-rise residential use between MoLHUD, the plot allocation committee and LCC in relation to development control issues and land use zones. MoLHUD is not involved in determining the specific floor height limit of the plots they offer. The beneficiary of the plot is the one who submits a proposal for a high-rise development to the city council and the latter approves or disapproves based on the facts of the application. Samples of plot application form and plot allocation offer letter, attached in the appendix, show that applicants indicate the type of plot they are applying for on the form. Similarly, the offer letter makes a particular mention that the development should only commence after obtaining planning approval from the Lilongwe Town Planning Committee and that the offer is subject to the observance of the provisions of Land Act and the Registered Land Act and the regulations. As per this, the obligation is therefore on the LCC to make approvals based on the set

standards and on the client to make sure they comply with all the legal provisions in the land associated with her/his use of land.

With regards to assessing the extent to which government agents have advanced the NHP's interest to provide subsidies and accommodate innovative finding schemes interviews were done with the MoLHUD. This study established that there are no tax waivers on imported building materials on HRPDs, subsidies, and affordable loans for high-rise property developments that have been implemented. Equally, there are no administrative incentives that have been implemented to promote allocation of land to Malawian and women though the NHP made provisions for these.

Finally, the study revealed that the only state owned and legally mandated institution to own land, develop houses, and manage different classes of residential units, Malawi Housing Corporation (MHC), has failed to provide HRPDs in Lilongwe City. Interviews were done with the senior managers at MHC. MHC attributed its failure to build HRPDs to the lack of funds even after changing status to a commercial entity over 5 years ago. The study found that of the six blocks of flats (translating to 36 units) being part of the 240 houses the institution is currently constructing across the country has no HRPD for Lilongwe City. The table 4.2 and figure 4.4 below show the details.

Location	No. of Blocks	No. of Units
<i>Mzuzu, Kaning'ina</i>	1	6
<i>Zomba, Nandolo</i>	3	18
<i>Blantyre, BCA Hills</i>	2	12
<i>Lilongwe, Area 49/5</i>	0	0
Total	6	36

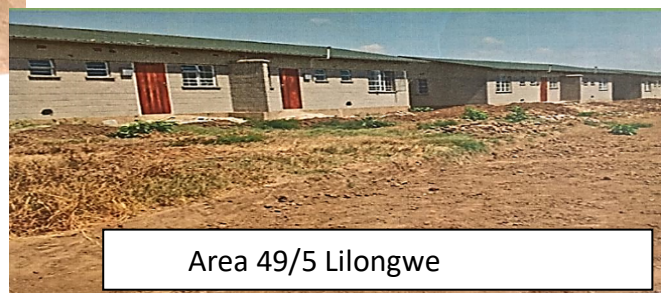
Table 4. 2 MHC's Current High-Rise Residential Properties being Developed in Malawi



Flats at BCA Hills, Blantyre (12 units)

Source: (Malawi Housing Corporation, 2020)

Flats at Kaning'ina, Mzuzu (6 units)



Area 49/5 Lilongwe

Figure 4. 4 High-Rise Residential Properties being constructed by MHC

MHCR stated that:

“We understand the increased demand for housing in Lilongwe City and the need to provide High-Rise property developments. However, from the six billion loan that we got it is not enough to put up such structures in Lilongwe. We plan that from the next loan we shall acquire, residential flats for the middle-class should be prioritised.”

However, analysis of the 2030 LUSP shows that area 49 has permission for double storey housing or more. Such an opportunity for effective land use was not utilised by the statutory body. Also, it was found that MHC does not have specialised zones for HRPD in Malawi.

4.3 Funding Landscape for HRPDs in Malawi

In line with the third specific objective of the study namely; to map the funding landscape for property development in Malawi, interviews were conducted with senior officials at commercial banks, MFIs, and pension funds. Below are findings of the study.

The study found out that there is no loan product that support the construction of HRPD at all commercial banks, long term investors and MFIs in Malawi.

On property loan conditionalities, the analysis of loan terms and conditions offered by financial institutions in Malawi show that MFIs are more accommodative than commercial banks with more affordable and less stringent conditionalities such as low interest rates, no requirements for collateral, project support and speedy loan processing as shown in table 4.3 below.

	NBS Bank	National Bank	Standard Bank	FDH Bank	MFIs
Bank statement is required if from another bank	✓	✓	✓	✓	X
Applicant should be an account holder, min. 3-6 months	✓	✓	X	✓	X
Recent pay slip is required	✓	✓	✓	✓	X
Collateral with title deed is required	✓	✓	✓	✓	X
Confirmation letter from employer is required	✓	✓	✓	✓	X
Property loan interest range	Base rate +6.1% pa	Base rate +6.1% pa	Base rate, 12.1%	Base rate	2.6%

				+6.1% pa	
Maximum equity contribution by client in percentage is	>= 25%	>= 25%	>= 15%	>= 20%	N/A
Other costs apply: insurance, valuation, legal, conveyancing, search, processing fees	✓, all	✓, all	✓, all	✓, all	X
Property title deed is needed	✓	✓	✓		X
Collateralised property to be in designated locations only	✓	✓	X	✓	N/A
Fixed interest rate applies	X	X	X	X	✓
Fluctuational interest rate applies	✓	✓	✓	✓	X
Maximum loan amount in percentage by the financial institution is	-	90%	MK75 million (US\$101,819)	-	MK2 million (US\$2,715)

Table 4. 3 Loan Conditions for Financial Institutions’ Real Estate Loan Products in Malawi

Long term investors, namely: pension funds and insurance companies, have not started providing HRPD loans. Instead, they invest in real estate guided by their investment policies, but the same has not extended to HRPD yet. OMR 2 stated that:

“Particularly for real estate, as far as I can tell, we have not provided loans for property development, but we have invested in property development through arrangements such as PPP with the government. For HRPDs I would say we are yet to start venturing in that space as currently we are only involved with hostel housing developments at universities”

MFI 1 pointed out that:

"We are more competitive in the market as our loans take three-five days only and there is no need for collateral – we use employment number – with our home loans pegged at 2.6% and on a reducing balance."

However, as already pointed out, its impact is minimal in the real estate sector and most importantly, under the current regulations and associated scalability and growth limitations, it cannot support HRPD in Malawi. Also, this can be assumed to be due to the fact that MFIs lending environment is small and less risky. Clearly and agreeing with Pinglo (2016), the limitation of MFIs is not a risk averse strategy but a resource shortage. This challenge is in two folds; failure to have enough funds to grow the sector; and low equity on the part civil servants due to low salaries. MFI 1 stated that:

" In previous years we were receiving some funding from Habitat for Humanity but they stopped. That time we also partnered with them in providing construction technical support to clients. This involved visiting a site, preparing house plans and analysing construction costs in relation to the funds the client intends to borrow. It was a success. Another challenge affecting our growth is low salaries that civil servants receive as the amount of loan is limited by how much one can repay per month. The legislated requirement is that one's loan deduction should not exceed 30% of their monthly earnings."

It is not yet known if the government's increase of minimum wage for civil servants from MK35, 000.00 (US\$ 47.5) to MK50, 000.00 (US\$ 67.9) and tax-free band adjustment from MK45, 000.00 (US\$ 61.9) to MK100, 000.00, (US\$ 135.8) according to 2020-2021 Malawi Budget Statement report, will result in boosting MFIs home loan caps. However, these adjustments still fall short of catering for HRPDs. Other players namely: MyBucks, EazyLoans, MEDEF, and Ufulu Finance are targeting

SMEs and the private sector. However, the level of their impact has not been quantified and their loans are also not pro-HRPDs as such they did not form part of this study.

Financial Institutions’ Innovations to Improve Participation in HRPDs Financing.

This study assessed how financial institutions can reduce challenges in a bid to be more competitive and able to support HRPDs. The study particularly assessed the likelihood of implementing innovations on home loan processes that can help cut loan costs. Figure 4.5 below shows that all financial institutions are able to use paperless transactions and participate in property development projects as means of reducing costs and lending risks.

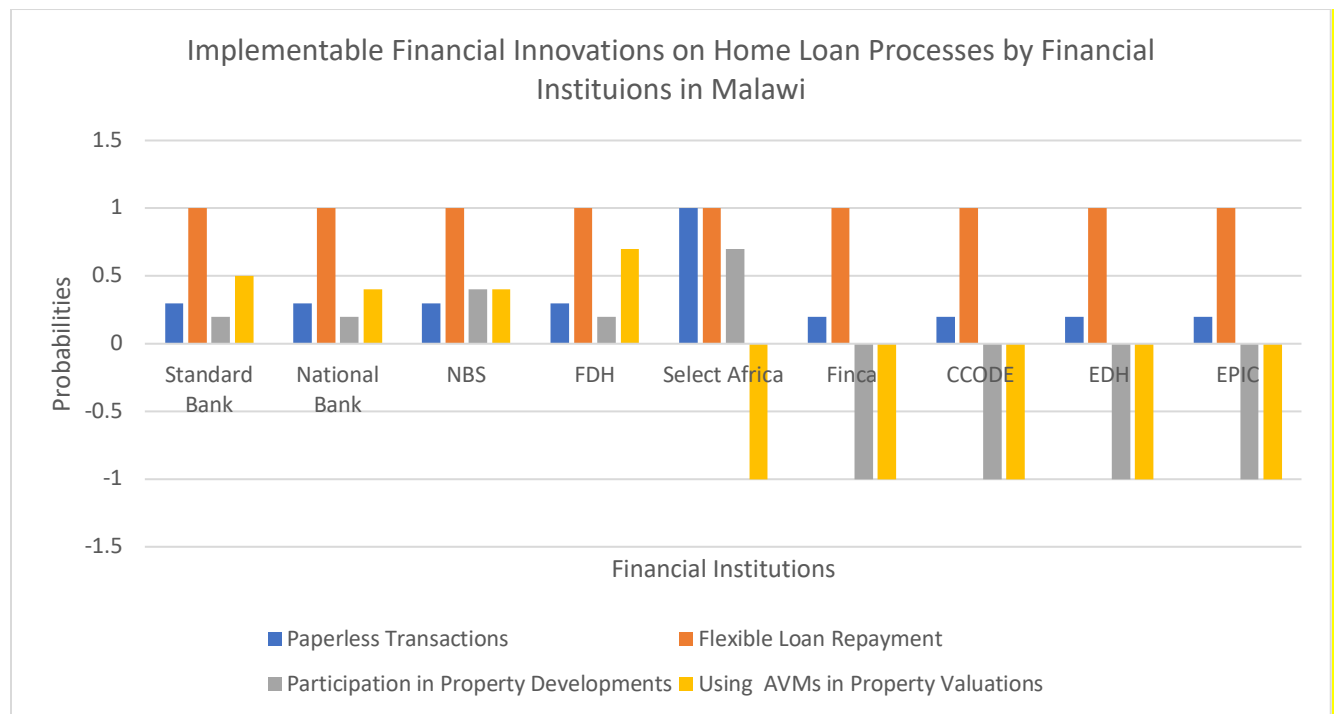


Figure 4. 5 Implementable Financial Innovations on Home Loan Processes

All financial institutions are already employing flexible loan repayment conditions to clients. Commercial banks, unlike all MFIs but Select Africa, are ready to participate in property developments and adopt AVMs in property valuations and revaluations. Select Africa is an MFI that is ahead of all financial institutions in using paperless transactions and participating in property development with a

digital system already in place and successfully running. All MFIs are on the negative on adoption of technology to support valuation of properties as they do not require this service in their loan processes. BR 2 pointed out that these innovations are needed and could have been rolled long ago, but the drawback has been on the part of as it is where a lot of delays take place. Elsewhere in the world, innovation is one such tool that increases the role of financial institutions in the mortgage market (Pinglo, 2016, p. 18; Carey and Tshangana, 2020; Banerjee, *et al.*, 2015).

4. 4 The Best Innovative Property Funding Mechanism for HRPDs in Malawi

Plot owners were asked to identify other means of alternative and attractive funding that could be used to finance HRPDs. Analysis of the responses as per figure 4.6 below showed that there is a great hope in Micro Finance with 53% representation, followed by cooperatives with 20%, then village banking / group saving with 15% and finally international finance with 12%. Interestingly, crowdfunding was not identified as one of the alternative options for financing HRPDs. This shows that crowdfunding is not widely known locally pointing to a need for public awareness for wider adoption.

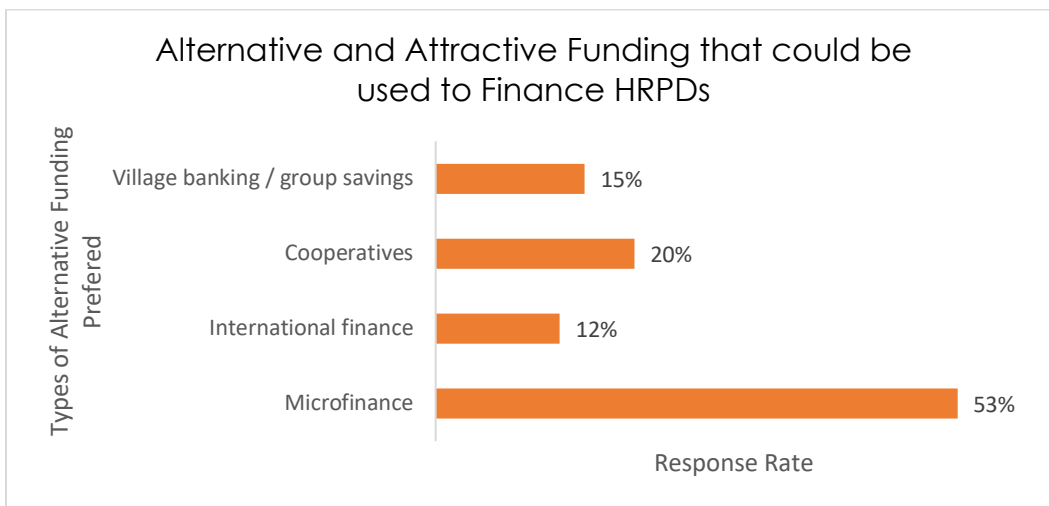


Figure 4. 6 Alternative and Attractive Funding that could be used to Finance HRPDs

The present study revealed that only about 15% of MFIs currently operating have real estate products with a maximum loanable amount of MK 2, 000, 000 (US\$2, 715), a figure too small to meet construction costs for HRPDs. Generally, MFIs are the potential source of alternative and innovative funding capable of supporting affordable housing property developments (Carey and Tshangana, 2020; Banerjee *et al.*, 2015; Pinglo, 2016) as explained in the literature and as this study found above. However, in both cases MFIs in Malawi are not capable of achieving this goal because of loan cap issues.

Cooperatives and village banks are gaining popularity and patronage in Malawi and if properly organised and specialised to property development they can provide cheap and affordable pooled source of funds. However, proper management of such schemes, currently not present, would be required. Also, it may take time before such an initiative can be used for HRPDs due to capital intensive nature of the latter. In the literature, the NHP indicated that the government will support development of alternative and innovative funding models, an idea which is only on paper.

Conclusion

This chapter presented the analysis of the collected data providing meaning, understanding and critique to the information resources generated through this study in perspective of the research problem, specific objectives, and literary contexts. Key findings of the study were that Micro Finance Institutions outclass commercial banks in loan conditionalities, flexibility and technology-based innovations though the former's scope still remains in the lower end; both banks and MFI's do not have the capacity to finance construction of high-rise residential development, giving such opportunity to pension funds who have not yet fully explored this diversification-perfect investment venture; the state organs are failing to effectively coordinate to address the shortage of land and housing and

promoting urban HRPDs while on the other hand plots developers bend the rules in the absence of the long awaited government's subsidy bailout; and finally while it is currently illegal to crowdfund, there is a window of opportunity both on regulatory waivers and funding if the same can have a sound and responsible business case.

CHAPTER 5 CONCLUSION AND RECOMMENDATION (S)

5.1 Introduction

The purpose of this study was to investigate the constraints and opportunities of financing affordable urban HRPD in Malawi using traditional financing systems and assess the potential of alternative funding through the lens of high-rise residential areas 17 and 54 in Lilongwe City. Analyses of findings were made in reference to the literature review and empirical evidence which, for the first time, build the profile for Malawi's HRPD financing landscape. The study aimed to fill the gap in literature on whether innovative financing systems can be an answer to Malawi's affordable urban HRPDs funding problems.

5.2 Addressing the Research Problems

The research problems of this study were:

- There is no new knowledge of whether plot owner's failure to develop the offered land parcels for high-rise residential properties is due to lack of access to funding, and
- Whether the alternative innovative financing systems can be a solution to affordable housing finance problems in Malawi.

This study has addressed these research problems by making revelations as follows. Firstly, plot owners have / will fail to develop HRPDs on the land parcels designated for the same due to lack of affordable funding. Both the literature and empirical evidence have reinforced this position. On the other hand, government agents' laxity to enforce development controls as well as failure to provide housing subsidies have made a worse off contribution to the situation. Secondly, it has been established that innovative financing systems have a potential to solve funding problems in Malawi's housing finance landscape with MFIs serving as a herald to this success but falling short to support HRPDs. REC as

a capital capable, more scalable system, profitable, and HRPD funding-perfect option needs a justification and regulatory support to roll out in Malawi.

5.3 Achieving the Research Objectives

The following are the objectives of this research and how they were addressed;

a) *To provide information about challenges of traditional financing, opportunities of alternative financing, and nature of institutional framework in respect of HRPDs in Malawi.*

This objective was addressed through literary study presented in chapter two of the study. A profile was established in respect of HRPD funding on the following:

- i. Challenges of existing traditional financing systems. The study on commercial banks and MFIs showed that there are no financing products for HRPDs in Malawi.
 - ii. Opportunities of alternative financing for HRPDs. The literary study established that alternative financing such as MFI and crowdfunding provide a good and cheap source of financing for HRPDs around the world. However, for Malawi's context it was established that MFIs cannot support HRPDs due to regulatory limitations in form of loan caps.
 - iii. The nature of institutional framework in Malawi supporting HRPDs. The roles, functions, and nature of institutions in connection with HRPDs in Malawi was provided. And as found out under point "d" below, the current legal framework do not support innovative funding to support affordable urban HRPDs.
- b) *To assess the extent of challenges of traditional financing, opportunities of alternative financing and the nature of institutional framework in respect of affordable urban HRPDs in Lilongwe City, Malawi.*

The results of the study provided a deeper understanding of lack of access to finance for HRPDs. The study further found that high interest rates, lack of subsidies, restrictive loan conditions, and lack of property development loans affect HRPDs financing landscape. On the contrary, long-term funders have the characteristics and financial resources to finance HRPD, but this awaits establishing a viable business case to support diversification into such a new space. Finally, bureaucratic institutional systems are encouraging compromise in enforcement of laid down development control HRPD related guidelines and principles.

c) To map the funding landscape for affordable urban HRPDs in Lilongwe City, Malawi in terms of sources, types and conditionalities.

Empirical evidence showed that on property loan conditionalities, MFIs are very competitive, more adaptive to technological innovations, and affordable than commercial banks though the former still fall short of supporting HRPDs with regards to their mechanics.

d) To identify the best innovative property funding mechanism for affordable urban HRPDs in Malawi

This study found that crowdfunding is the best innovative funding capable of supporting HRPDs in Malawi. However, there is need for enabling legal environment and stakeholder participation to support its rollout.

5.4 How will Crowdfunding as an Innovative Funding Option Work for HRPDs in Malawi?

Based on the empirical evidence, the current study has shown that traditional funding is devoid of supporting HRPDs in Malawi. Similarly, long-term funders are only beginning to join the real estate development space with a priority other than that of HRPD. It was also established that crowdfunding is currently illegal in Malawi according to the Securities Act. Further to this, having established that

there is evidence of demand for investable products like crowdfunding as proved by over-subscription of four companies raising funds on Malawi Stock Exchange through debt and equity over the period 2018 – 2020, the study has shown that the regulatory environment forms the next most important aspect in the operationalisation of crowdfunding in Malawi.

For crowdfunding to work in the HRPD space in Malawi, the following needs to be done:

- **Legislative Change.** The Securities Act must change and Sectional Titles Act must be introduced to support the development of HRPDs in Malawi:
 - The Securities Act No. 20 of 2010 needs to be changed or amended. The Act under Section 49 limits public raising of funds to listed and registered firms only. The section states that “*no person shall directly or indirectly, purchase or sell, or counsel or procure another person to purchase or sale securities if the same are not publicly available*”.

Collective Investments Schemes (CIS) are the parts of the Securities Acts that represent, very closely, the nature of crowdfunding. However, Act under Section 57 makes it illegal to operate such establishments by entities not registered and listed on the MSE. There are two registered CIS currently registered in Malawi namely: a unit trust owned by Old Mutual Unit Trust, and an investment Trust owned by National Investment Trust Limited. However, none of these are raising funds for real estate developments let alone HRPDs. This study has established that changing the Securities Act or introducing tailor-made regulations to support crowdfunding is a major step for the growth of REC (Jenik *et al.*, 2017).

Further, Collective Investment Authority (CIA) could be established to be an institution to manage, regulate and monitor unlisted CIS' to which crowdfunding would fall under other than having the same managed under the registrar of financial institutions. Until then, this task could immediately be taken up by the Reserve Bank of Malawi (RBM), through its department that regulates financial institutions. This would ensure effectiveness and growth of unlisted CIS in Malawi. CIA could work hand in hand with other statutory institutions such as Malawi Revenue Authority, Malawi Communications and Regulatory Authority, Malawi Investment and Trade Centre, Financial Intelligence Authority, Competition and Fair Trading Commission, and Reserve Bank of Malawi, among others, for compliance on tax payment, online trading regulations, investment benefits, and limiting money laundering, among others. The Reserve Bank Act might also need to be aligned with the HRPDs objective.

- In addition, government of Malawi should pass Section Titles Act currently under draft or introduce tailor-made regulation to allow for tokenisation of real estate assets. This implementation would enable Malawi to join South Africa, Zambia, Kenya, Zimbabwe, and Tanzania in rolling out crowdfunding and improving financial inclusion. Another Act that could be enacted to support HRPDs is the Housing Act to compliment the Sectional Titles Act.

- **Promotion of Supply of Land Parcels and Services for HRPD in near CBD locations.** Empirical findings have shown that strategic location for HRPDs must be a priority to retain the benefits of agglomeration economies. Effective utilisation of land within the city precincts that supports urban regeneration and reduced impact of negative externalities such as traffic

congestion and increased infrastructure will reduce the cost of HRPDs and increase their viability. Actionable interventions are as follows:

- GoM through the MoLHUD as the main landlord and supplier of plots in Lilongwe City must prioritise allocation of vacant land near cities' CBDs specific for HRPDs.
- MHC should allocate as well as repurpose underutilised strategically located residential properties in the cities to cater for HRPDs in the cities' CBDs.
- City councils must encourage HRPDs and urban regeneration through processes such as rezoning of the underutilised near CBD residential locations and enforce building height regulations on areas poised for HRPDs in the cities.
- City councils must prepare maps indicating near CBD locations that fall under permitted HRPDs rezoning showing the requirements in terms of infrastructure, service plan and networks, recommended plot size and area ratios, and building height requirements among others for the public consumption. This will guide private developers in decision making relating to property purchase and redevelopment decisions in HRPDs catchment areas.

➤ **Incentives and/or Subsidies for Affordable Urban HRPDs**

GoM must introduce incentives or subsidies specific for HRPDs. Such interventions could be in form of tax waivers on importation of building materials for verifiable HRPD projects or provision of infrastructure and services to support affordable urban HRPDs in near CBD residential locations of Malawi. This will ensure that the cost related risks of engaging in bulky property developments are minimised, thereby encouraging the private sector to enter in affordable urban HRPDs space. As found by this study, housing related programs are already in government's programs,

however, the only one that was ever implemented – cement iron sheets subsidy program – was a very basic intervention targeting rural households.

- **Operationalisation of REC through a Special Purpose Entity (SPE).** Private property companies intending to participate in REC to raise funds from investors for HRPDs do so efficiently through SPEs. Empirical evidence has shown that using SPE-like system is very effective, but the same is present in Malawi. Use of SPE will, among others, ensure that investors are protected even when the implementing company goes bankrupt, increasing the tax base and ease of tax collection, effective management of investors assets, and easy regulation and supervision of the entity by RBM.

In addition, the type of REC that will easily work and be more profitable to the investors is debt-based REC as opposed to the equity-based in the light of the fact that more investors are pro-short to medium term returns. With debt-based REC, investors' contributions will translate debt obligation guarantee of rental cashflow returns received on regular basis. Equity REC will be applicable to long term investors as their returns come as lumpsum payments upon the sale of the property development.

5. 5 Limitations of the study

Undertaking the research in the time of a pandemic alongside social restrictions provided a major limitation of this study heavily affecting the data collection process. Face to face interviews were impossible and the only alternative was the phone. However, arranging for interviews was difficult due the emergencies and working-in-shifts system. Resultantly, other key respondents did not participate as planned. In addition, other information needing organisation and consolidation was not made available. In some cases responses were jotted down instead of having them recorded. The research, therefore, did not capture an excellent representative view of the normal practices.

Research specific limitations were that;

In assessing the challenges associated with borrowing for property development, this study showed that 80% of the respondents did not apply for a loan and for the remaining that did, no one qualified. This did not provide an in-depth experience in relation to accessing the loans for HRPDs. It could have been more informative if the respondents were drawn from people that got a home loan from both commercial bank and MFI.

It was noted that majority of land designated for high-rise residential uses had single storey structures. Also, that more than 80% of the land under two case studies was already developed. This could have been followed with observation to draw a true picture of what is on the ground. Resource constraints limited the researcher from utilising drone technology services.

Financial institutions were not able to provide data on number of loan applications, loans offered, and number of loan defaults on mortgage loans due to time constraints. This limited the extent of analysis of demand and supply of real estate loan products.

The study found that there was no consensus on land ownership and uses by respondents within MoLHUD and LCC. An indication that there is overriding control and management of these resources by the institutional managers, as was made known from the literature. A change in data collection methodology to focused interviews where all the parties are brought together could provide agreed upon information from the respondents.

Finally, while presenting a deeper exploration of REC as a more superior innovative housing financing tool than MFI's, due to time constraints, this study did not access the critical mass of individual investors that would participate in such

a scheme. The study relied on the over-subscription of IPOs registering on Malawi Stock Exchange as an indication of critical mass.

5.6 Recommendations for Further Research

In the literature, the NHP has made a proposal for exploring alternative and innovative financing models to be adopted in Malawi. This study has shown that real estate crowdfunding is one such tool that has potential to be rolled out with evidence from as close as within the African region. However, this study did not go as far as comparing the viability of REC vs. traditional financing to build a robust case in support or against the innovation as it has been provided in the literature. A study comparing these investment platforms in terms of rate of returns, cost and affordability would be very enlightening. Also, in the literature, it was pointed out that there are two types of crowdfunding; equity and debt. A study on the viability comparison of the two would be important to guide establishment of such schemes in Malawi.

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Appendix

Signed Ethics Clearance Report

Application for Approval of Ethics in Research (EIR) Projects
 Faculty of Engineering and the Built Environment, University of Cape Town

ETHICS APPLICATION FORM

Please Note:

Any person planning to undertake research in the Faculty of Engineering and the Built Environment (EBE) at the University of Cape Town is required to complete this form **before** collecting or analysing data. The objective of submitting this application prior to embarking on research is to ensure that the highest ethical standards in research, conducted under the auspices of the EBE Faculty, are met. Please ensure that you have read, and understood the **EBE Ethics in Research Handbook** (available from the UCT EBE, Research Ethics website) prior to completing this application form: <http://www.ebe.uct.ac.za/ebe/research/ethics1>

APPLICANT'S DETAILS		
Name of principal researcher, student or external applicant	COMFORT WATHU JOHN MERCY JUMBE	
Department	C E M	
Preferred email address of applicant:	ambccm001@myuct.ac.za Jmbccm001@myuct.ac.za	
If Student	Your Degree: e.g., MSc, PhD, etc.	MSc
	Credit Value of Research: e.g., 60/120/180/360 etc.	60
	Name of Supervisor (if supervised):	DR. MANYA MOOYA
If this is a research contract, indicate the source of funding/sponsorship	N/A	
Project Title	FINANCING AFFORDABLE URBAN HIGH-RISE PROPERTY DEVELOPMENT IN MALAWI: A CASE OF AREA 56 IN Lilongwe	

I hereby undertake to carry out my research in such a way that:

- there is no apparent legal objection to the nature or the method of research; and
- the research will not compromise staff or students or the other responsibilities of the University;
- the stated objective will be achieved; and the findings will have a high degree of validity;
- limitations and alternative interpretations will be considered;
- the findings could be subject to peer review and publicly available; and
- I will comply with the conventions of copyright and avoid any practice that would constitute plagiarism.

APPLICATION BY	Full name	Signature	Date
Principal Researcher/ Student/External applicant	COMFORT WATHU JOHN MERCY JUMBE		2/09/2020
SUPPORTED BY	Full name	Signature	Date
Supervisor (where applicable)	MANYA MOOYA		1/09/2020

APPROVED BY	Full name	Signature	Date
HOD (or delegated nominee) Final authority for all applicants who have answered NO to all questions in Section 1; and for all Undergraduate research (Including Honours).	Louie van Schalkwyk		18/09/2020
Chair: Faculty EIR Committee For applicants other than undergraduate students who have answered YES to any of the questions in Section 1.	Louie van Schalkwyk		18/09/2020

Consent Letter



INFORMATION SHEET & CONSENT FORM – RESPONDENTS

Financing Affordable Urban High-Rise Property Development In Malawi: A Case Of Area 56 In Lilongwe”.

Greeting!, I am Comfort Jumbe, a student at University of Cape Town and I am conducting research towards my master degree. I am researching on financing issues associated with affordable high-rise developments in Malawi’s urban areas and would like to invite you to participate in the project.

I am interested in finding out about loan conditionalities, challenges and opportunities for innovations in property development funding in Malawi. Your participation to this project, which shall involve answering a questionnaire, is voluntary and you can decline or withdraw at any time if you so wish without any consequences. However, I would be glad if you would assist me by answering the questionnaire which will take about 10 minutes to complete. In addition, there will be no cost or payment involved in this exercise.

There is a possibility of risk of harm to reputation if data collected from the participants lacks confidentiality. As a principal researcher, I will strive to limit chances for such risks by ensuring that data is kept safely in strict confidentiality and privacy under my care so that there should be no chances to expose identifiable information to the public. Also, during research reporting, identifiable data about individuals or organisations’ will be hidden to preserve anonymity. After this study the collected data will be destroyed.

The report will be a property of University of Cape Town and will be made a public document in its anonymized state. I will be pleased to share you a copy of the report of this study and please tick the box below to indicate your interest.

For any further information contact me on jmbcom001@myuct.ac.za. Thank you in advance.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Comfort Jumbe".

Comfort Jumbe

Principal Researcher MSc in Property Studies student – UCT

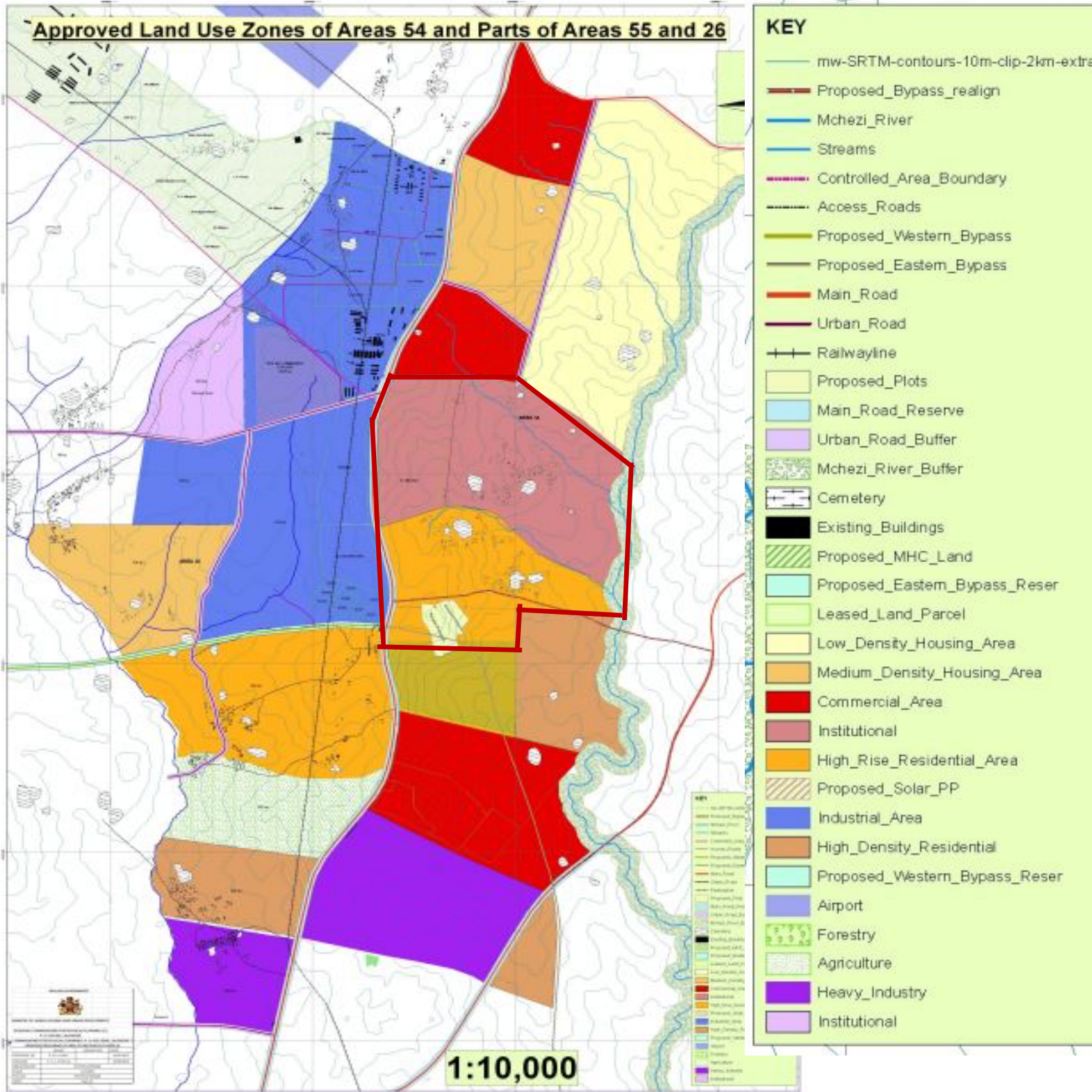
Name of participant _____ Signature _____ Date / / 2020

Do you want a copy of the research report?

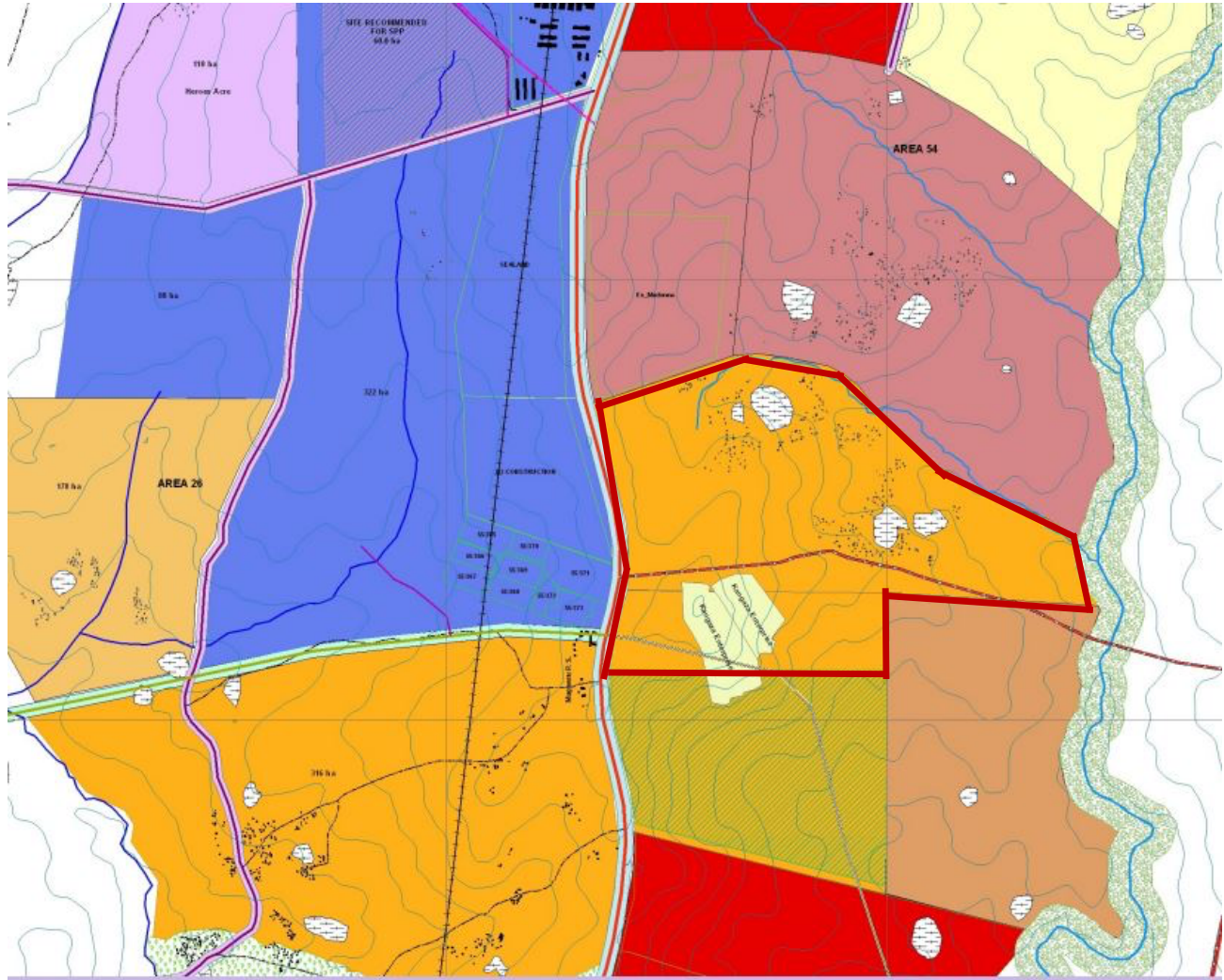
Yes No

If yes provide the email address to use here _____

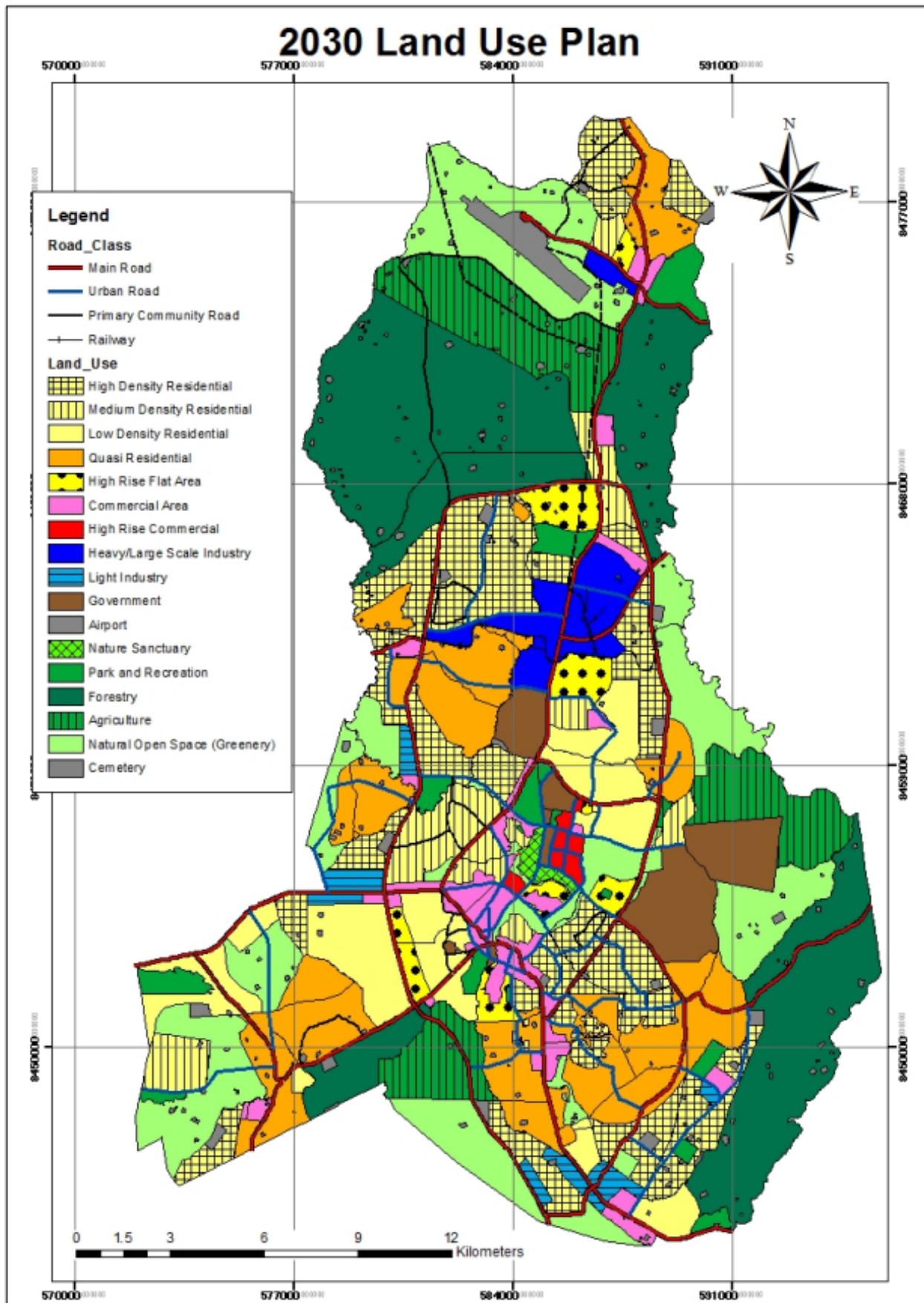
Approved Land Use Zones for Area 54 and parts of Areas 55 and 26



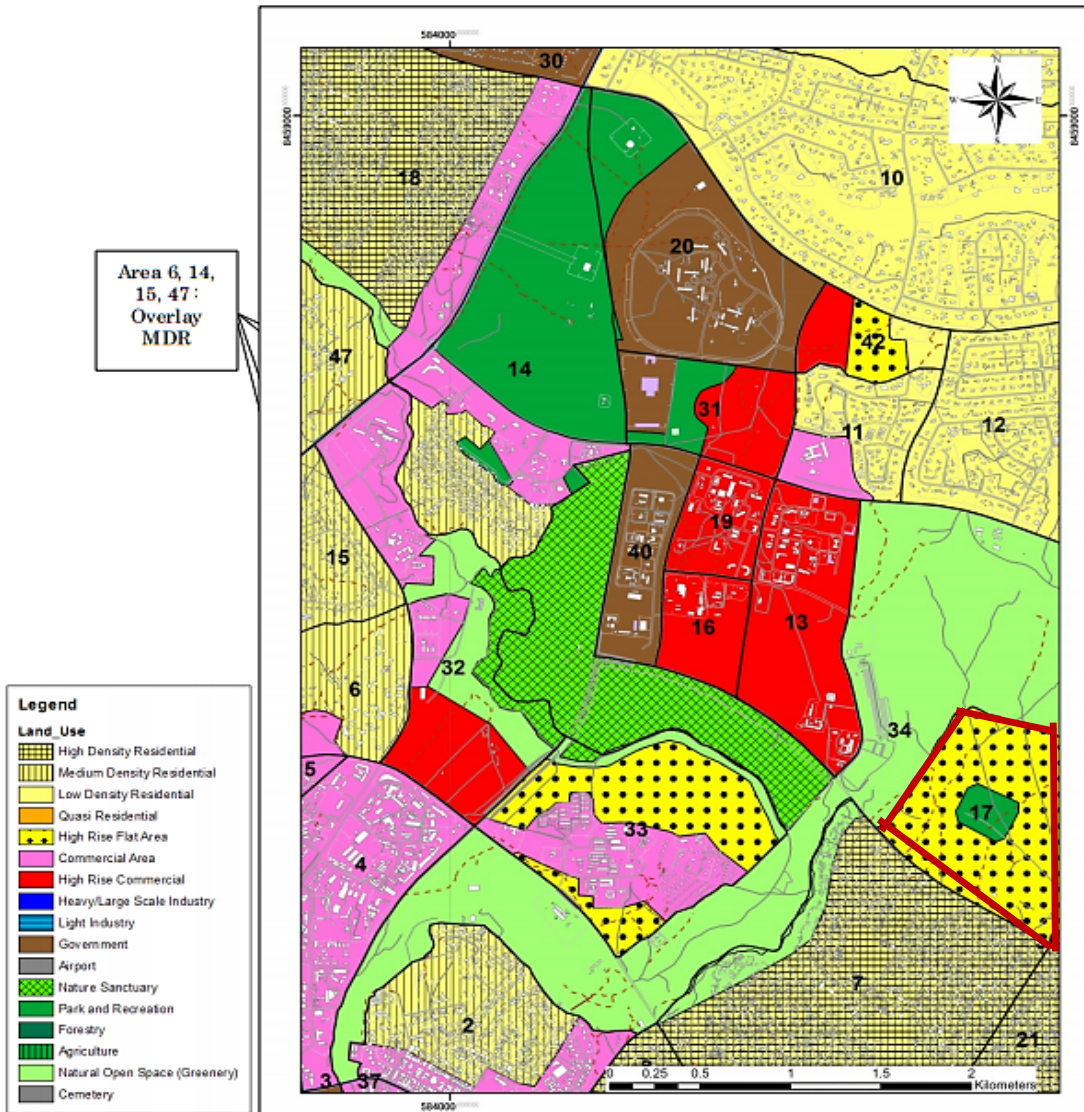
New Area 54 High-Rise Residential (bordered in red) – A Case Study



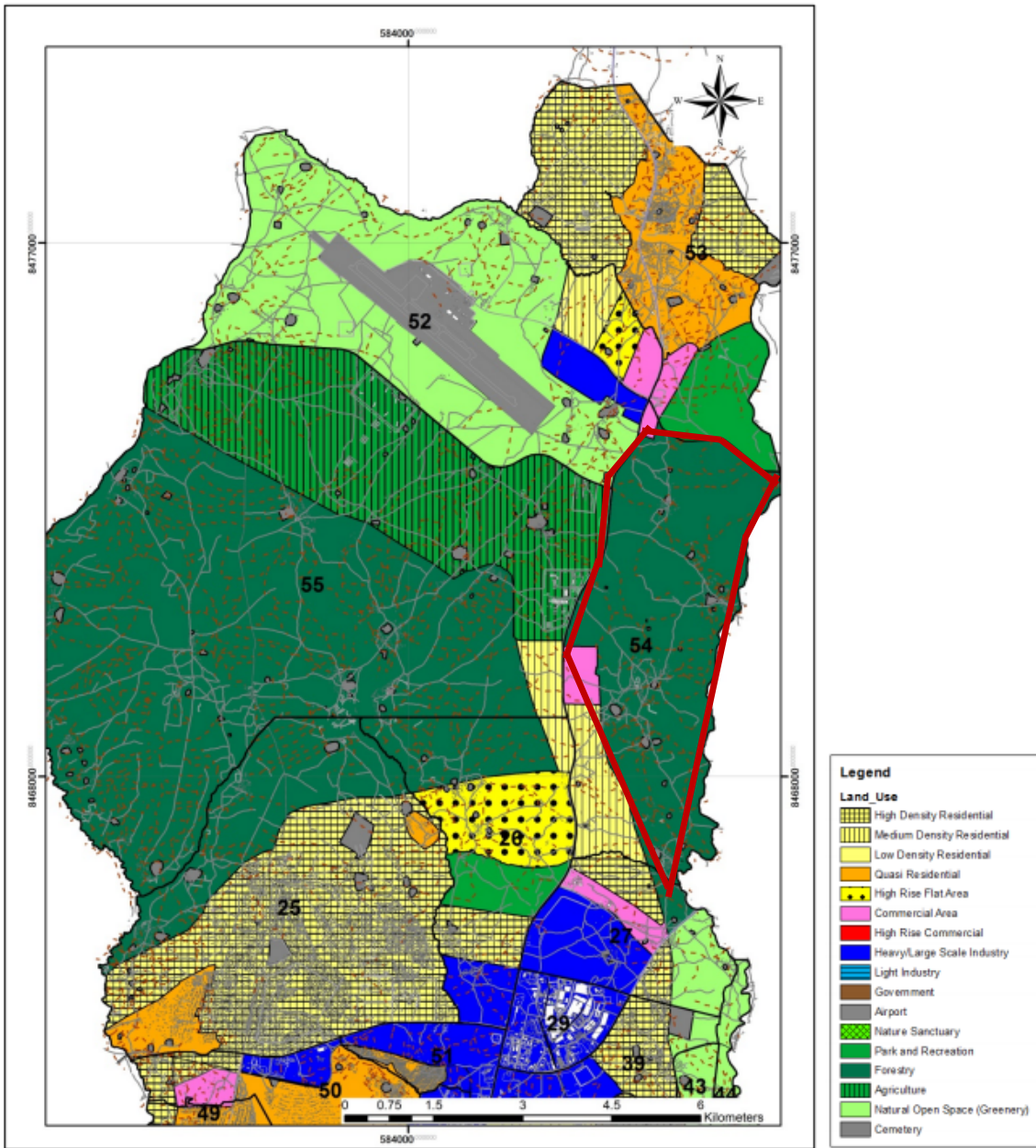
2030 LUSP Land Use Plan



Area 17 High-Rise Residential (bordered in red) – A case Study - LUSP



The Old Area 54 – As Per LUSP



Plot Application Form

MALAWI GOVERNMENT
DEPARTMENT OF LANDS AND VALUATION Standard Form EM/A

APPLICATION FORM FOR LONG LEASE OF A PLOT IN LILONGWE CITY

NOTE: It is a requirement under the provisions of Land Act CAP 57.00 that an application fee of K5,000.00 is paid.

1. DETAILS OF APPLICANT. NB this must be one of the following:

Private individual(s)	<input type="checkbox"/>	_____
Registered partnership	<input type="checkbox"/>	_____
Registered limited company	<input type="checkbox"/>	_____
Registered trust	<input type="checkbox"/>	_____
Corporation	<input type="checkbox"/>	_____
Statutory body or parastatal	<input type="checkbox"/>	_____
Government department or ministry	<input type="checkbox"/>	_____

FULL OR REGISTERED NAME:

If a partnership, trust or limited company, Full Names and Nationalities of all partners, trustees or directors:

FULL NAME:	NATIONALITY:
_____	_____
_____	_____
_____	_____
If a Malawian, Village	_____
home address: T.A./Chief	_____
District:	_____
If a foreinger, Nationality:	_____

2. ADDRESS: _____
 3. TELEPHONE: _____
 4. TYPE OF PLOT APPLIED FOR: (tick only one of the following):

low density residential	<input type="checkbox"/>	_____
low/medium density residential (Old Town)	<input type="checkbox"/>	_____
medium density residential	<input type="checkbox"/>	_____
two storey residential (flats)	<input type="checkbox"/>	_____
small scale light industrial	<input type="checkbox"/>	_____
medium scale light industrial	<input type="checkbox"/>	_____
large scale industrial	<input type="checkbox"/>	_____
rail-served industrial	<input type="checkbox"/>	_____
local centre commercial	<input type="checkbox"/>	_____
old town commercial	<input type="checkbox"/>	_____
city centre offices (including Area 13)	<input type="checkbox"/>	_____
institutional	<input type="checkbox"/>	_____
other (please specify type of proposed development)	<input type="checkbox"/>	_____

5. **BRIEF DESCRIPTION OF PROPOSED DEVELOPMENT**

ESTIMATED TOTAL FLOOR AREA: _____
ESTIMATED CAPITAL EXPENDITURE ON BUILDINGS: K _____
ESTIMATED CAPITAL AVAILABLE FOR LAND ACQUISITION: K _____
PROPOSED COMMENCEMENT DATE OF CONSTRUCTION: _____

NAME OF APPOINTED REGISTERED ARCHITECT OR ENGINEER (NOTE THIS is a requirement in respect of types of plot marked + under paragraph 4 above)

6. **CAPITAL POSSESSED BY THE APPLICANT. Give brief description of capital assets**

7. **PROPOSED METHOD OF FUNDING. Eg. Building Society, Mortgage, loan, etc.**

8. **DECLARATION OF OTHER LEASEHOLD, FREEHOLD LAND OWNED IN MALAWI:**

9. SIGNATURE OF APPLICANT: _____
DATE: _____

FOR OFFICIAL USE ONLY

Appl. Fee GR. No. _____	SEMO (C)	Approved
DLV Date Stamp:	Comments:	Deferred
<div style="border: 1px solid black; width: 200px; height: 50px;"></div>	Passed to:	_____
	Date:	_____