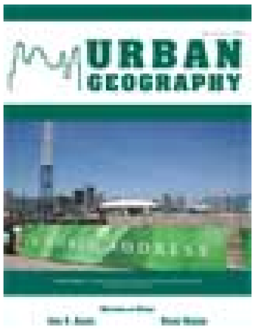

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Financializing Africa's urban peripheries: the rise of housing microfinance

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ABSTRACT
Housing microfinance is transforming Africa's urban peripheries. While many actors, factors, and processes are driving the financialization of peripheral urban Africa, social enterprises and fintech (financial technology) play a key role in making these spaces the "new real estate frontier". At the same time, efforts to promote financial inclusion are hampered by longstanding challenges related to informality and state bureaucracy that are becoming important sites of regulatory reform and political contestation. The rise of housing micro-finance in urban Africa poses important questions and calls for more critical geographical research. In this piece, I highlight three themes that deserve particular attention: models and impacts, informality and fintech, and restructuring of states and urban governance.

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Introduction

In this short article, I argue that Africa's urban peripheries are emerging as important spaces of housing financialization. This process is driven by housing microfinance institutions (HMFI), including so-called social enterprises, and their innovative use of financial technology (fintech). Although scholars have recently highlighted the need for more research on African urban peripheries (Meth et al., 2021) and how financialization is transforming urban development (Gillespie, 2020; Jorge, 2020; Migozzi, 2020; Pitcher, 2017), there is very little research on housing microfinance in these spaces (Grubbauer & Mader, 2021). In the meantime, policymakers, development institutions, and civil society organizations are busy rolling out housing microfinance schemes in urban Africa and cities of the South more generally (Grubbauer, 2019, 2020; Grubbauer & Mader, 2021). Given the rapid uptake of housing microfinance across the African continent (CAHF, 2022), I argue that they represent the "new real estate frontier" (Gillespie, 2020), calling for critical interrogation and conceptualization from geographers and scholars in cognisant disciplines.

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This paper aims to serve as a starting point, by beginning to sketch the growth, forms, and potential impacts of housing microfinance in African urban peripheries. By African urban peripheries, I specifically refer to urban spaces in Africa where residents slowly, incrementally, and in transversal relations to the state build their homes and neighbourhoods (Caldeira, 2017). These peripheral spaces comprise the majority of the urban population; often located at the spatial margins of the city (Meth et al., 2021). However, their peripheral character does not necessarily have to be related to their spatial location. Rather, peripheral spaces are those areas that are socially and politically marginalized within the urban system (Caldeira, 2017; Pieterse, 2019). These peripheral spaces, which have historically been excluded from formal real estate finance (Gillespie, 2018; Migozzi, 2020; Smets, 2006), witness the emergence of financial markets, actors, practices, and narratives in the production and consumption of housing – a phenomenon that scholars have termed the financialization of housing (Aalbers, 2016).[1] Although many actors, factors, and processes are driving financialization, and therefore require critical examination, I will argue that social enterprises[2] and fintech (financial technology) accelerate the incorporation of (poor) African homeowners into global capital circuits. At the same time, efforts to promote financial inclusion are hampered by longstanding challenges related to informality and state bureaucracy that are becoming important sites of regulatory reform and political contestation.

In the next section, I will introduce the role of housing microfinance in urban peripheries, which is followed by a discussion of its growth on the African continent in Section "Africa's housing microfinance revolution". Section "Researching housing microfinance in Africa's urban peripheries: three critical themes" will then highlight three major themes that I argue deserve particular attention from critical researchers. The final section "Conclusion" offers a brief conclusion.

Housing microfinance in urban peripheries

Urban peripheries have long been characterized by incremental and informal housing construction, or what is commonly termed "auto-construction" (Caldeira, 2017). Since most households living in the peripheries are excluded from formal mortgage finance, they rely on savings, family support, and other (in-)formal sources of finance to construct their homes. Most often these households cobble together various resources when and as they are available, which means that constructing their homes progresses incrementally and can take years or even decades to complete (Ferguson & Smets, 2010; Mitlin, 2011; Smets, 2006). Meanwhile, they live in inadequate, often overcrowded, and under-serviced dwellings and neighborhoods, which negatively impacts their health and well-being.

Informality – understood as the non-compliance with formal regulations and procedures, especially regarding tenure, planning, and building regulations – is a common feature of "peripheral urbanisation" (Caldeira, 2017; Meth et al., 2021). Nowadays, most governments recognize – in their policies at least – the scale of and need for working with informality to improve housing conditions for the poor, as illustrated in many global policy commitments, including the New Urban Agenda (UN Habitat, 2017). This increasingly supportive stance toward informality has been accompanied by an equally important and powerful development agenda promoting the financial inclusion of the poor (Kar, 2018; Mader, 2015; Mawdsley, 2018). Together, these global trends are creating a policy environment that is spurring the rise of housing microfinance institutions and services around the world (Grubbauer, 2020; Grubbauer & Escobar, 2021; Grubbauer & Mader, 2021). Given the persistent challenges of extending conventional mortgage finance into Africa's urban peripheries (CAHF, 2022), governments and micro-finance institutions are promoting housing microfinance services, which are small value, non-mortgage loans for purposes of home improvement, renovation, and incremental building (Grubbauer, 2019; Smets, 2006).

Urban scholars have begun to analyze the drivers and impacts of housing microfinance in different geographical contexts (Grubbauer, 2020; Grubbauer & Escobar, 2021; Grubbauer & Mader, 2021), thereby contributing to important debates around the financialization of housing in capitalist peripheries (Aalbers et al., 2020). While this nascent body of work has made significant contributions to our understanding of housing microfinance in cities of the South, especially in the Latin American context, their conceptualizations and evidence have neglected African urban spaces as critical sites of analysis.

Africa's housing microfinance revolution

Housing microfinance is playing an increasingly important role on the African continent (CAHF, 2022; Rust, 2021; TCIS, 2018). It is symbolic that housing microfinance was a key topic discussed at the first Africa Housing Summit in May 2022. Given the high levels of unemployment, irregular, self- and informal-employment in many African cities, most urban residents do not meet basic conditions to access conventional mortgage finance (CAHF, 2022). Incremental, self-help, and informal sector modes of home construction dominate African urban peripheries. Aside from homeowners themselves, informal builders and small-scale developers are increasingly being targeted by financial institutions as an important market segment with enormous growth potential (Rust, 2021; TCIS, 2018).

Housing microfinance institutions and services can be found across the continent – in Northern, Eastern, Western, and Southern Africa – although their loan volumes and amount of providers vary considerably (CAHF, 2022). For instance, in Northern Africa, housing microfinance is largest – according to loan values – in Egypt, Morocco, and Tunisia. Morocco has seen efforts to grow the microfinance industry since 2002 (Al Sayyed, 2021). In Tunisia, legislative changes and international investments have supported the establishment and scaling up of micro-finance institutions (McVitty, 2013). In addition to conventional housing microfinance schemes, there are also Islamic microfinance instruments operating in the low-cost housing sector (Iqbal & Roy, 2018).

In Eastern Africa, the "Building Assets, Unlocking Access" project, which is a partnership between Habitat for Humanity and the Mastercard Foundation, is a key initiative to grow the sector. Its aim is to assist microfinance institutions to develop scalable and innovative products for both rural and urban clients in Sub-Sahara Africa (TCIS, 2018). The core strategy was to provide technical assistance to six leading financial institutions in Uganda and Kenya to develop housing microfinance products and support services for people living on less than USD 5 per day. More than 40,000 families in Uganda and

Kenya received support from the project to access housing finance and more than 30 million USD in capital have been mobilized to advance housing microfinance loans across these two countries (TCIS, 2018).

There has also been a strong upward trend of housing micro-finance institutions across Southern Africa both in terms of loans disbursed and the number of clients served (Wood, 2019). An interesting example comes from Angola, where for-profit company KixiCredito partnered with HabiTerra (both founded by the well-known NGO Development Workshop Angola) to lend small loans of under USD 10,000 for short 36-month terms for incremental and upgrading of dwellings. More than 25,000 clients and USD 45 million had been reached in 2015. In Botswana, the publicly listed company Letshego Holdings Limited achieved a market capitalization of USD 500 million with an agenda of fostering inclusive finance in Southern, West, and East Africa (Wood, 2019). In South Africa, several housing micro-finance institutions and products have emerged in recent years, specifically in response to growing investments in the small-scale rental housing sector. Their products and services are geared toward providing finance to homeowners and micro-developers for constructing affordable rental accommodation in South Africa's largest cities (Di Lollo, 2020; Scheba & Turok, 2020).

In West Africa, housing microfinance is comparatively strong in Nigeria, Cote d'Ivoire, Cabo Verde, and Togo (CAHF, 2022). A nascent body of research exists on housing microfinance in Ghana, which has witnessed growing policy support and investments in recent years (Bondinuba et al., 2017; Gillespie, 2018). This includes policy and civil society efforts to support the financial inclusion of collective self-help housing schemes and local cooperatives (Gillespie, 2018).

The above is only a cursory review of new developments in housing microfinance initiatives in Africa's urban peripheries. Nevertheless, we can safely say that housing microfinance is growing, diversifying, and digitalizing on the continent. Private sector companies are collaborating with development finance institutions, governments, civil society organizations, and social enterprises to develop new ways of extending (micro-)finance to African homeowners for the purpose of constructing, extending, or renovating properties. These initiatives are supported by new policies and legislation, as well as disruptive financial technologies (Ferreri & Sanyal, 2022; Lai & Samers, 2021), which transform the low-cost housing sector into the new frontier of real estate investments (Gillespie, 2018). This peculiar form of financialization raises important questions about what this means to people, places, and urban societies in Africa, and elsewhere. In the following sections, I want to highlight three major themes that I believe deserve critical attention.

Researching housing microfinance in Africa's urban peripheries: three critical themes

Models and impacts

First, similar to the Latin American context, the housing micro-finance landscape in Africa is diverse and complex. There is a great variety of institutions and organizations that are promoting housing-related financial products and services to African homeowners. While all of them proclaim financial inclusion for development, they have different backgrounds, interests, and business approaches, which influence how they engage with their clients and attempt to reconcile profit maximization with social impact. Some of the HMFIs emerged and remain tightly linked to larger financial institutions that are primarily concerned to expand financial services into lower-income market segments to increase their bottom line. Others have a history and deep-rooted connection to housing struggles and view microfinance as a necessary means to improve living conditions. Many of those HMFI provide comprehensive technical, business and management support to their clients to reduce risks and increase social benefits from microfinance.

The types of models used will have major implications to how housing microfinance will unfold across urban spaces in Africa. Extending loans to historically marginalized residents, who often live under precarious work conditions, bears considerable risks for the households and finance institutions. At the same time, access to credit – especially if tied to productive assets – can be a vital tool to create and sustain livelihoods (Kar, 2018; James, 2014; Smets, 2006). Housing microfinance changes the relationship between homeowners, social enterprises, and financialized markets – often requiring changes in behaviors and practices to comply with legally binding contractual terms (Kar, 2018). Examples from Mexico demonstrate how social enterprises and cooperatives can be important "negotiators" between the multiple operational logics and motivations behind housing microfinance initiatives, sometimes creating opportunities for financial inclusion to operate in favor of household instead of against them (Grubbauer & Escobar, 2021; Grubbauer, 2020). As different models come with different terms and conditions regarding inclusion, debt repayment, and risk management, studying their geographical reach, business approaches, and household-level impacts should be a key theme for future research.

A key question is whether and how models implemented by social enterprises and NGOs differ from those that are primarily profit driven, and whether any of them create opportunities for genuine empowerment and sustainable development. Answering these questions requires critical geographical research, across different scales using quantitative, qualitative, and mixed methods approach. Aside from surveys, mapping, and qualitative interviewing, there is a need for deep, ethnographic studies on how financialization changes social, cultural, and political-economic aspects of everyday life in different contexts. Inspiration can be taken from recent anthropological research on microfinance and development, which offers helpful insights and pointers in this regard (e.g. Kar, 2018).

Informality and fintech

Second, housing microfinance requires solutions to longstanding challenges of informal and insecure tenure, non-compliance with planning and building regulations, lack of proof of regular income and credit history. These challenges have been key factors behind the historical exclusion of most urban residents from formal financial markets. As informality, precarious work conditions, and lack of formal documentation will persist for the foreseeable future on the African continent, HMFI is developing new approaches to enter into the low-income segment. Fintech, which can be defined as "as a set of innovations and an economic sector that focus on the application of recently developed digital technologies to financial services" (Wójcik, 2021, p. 1), is becoming a key enabler of microfinance in cities of the South (Lai & Samers, 2021). Across the African continent, fintech such as blockchain technology, smart phone apps, and mobile payment systems disrupt traditional ways of banking/financing and offer new possibilities for historically marginalized residents (Cirolia et al., 2022). Technological innovations offer cash-stripped African homeowners new opportunities to connect with global financial markets. In overcoming historical socio-economic and geographical barriers to financial inclusion, they are considerably reshaping relationships between financial institutions, people, and the urban state (Ferreri & Sanyal, 2022; Pollio & Cirolia, 2022).

How will fintech shape this financialization process? How will technology influence the selection of clients – in other words, who among the many African homeowners ultimately gets included into financial markets? How do fintech apps and algorithms assess, recruit, and manage borrowers in terms of their gender, class, and ethnicity and what does this mean regarding social stratification in urban peripheries? Will fintech perpetuate or disrupt existing socio-spatial inequalities within and beyond the peripheries? For those who will be incorporated into new financial networks, questions emerge as to how technological innovations will be used to "discipline" and manage them as financially savvy entrepreneurial subjects. By using technology to directly manage debt relations, collect data, and control money flows, fintech may amplify the power of HMFI to put pressure on households to practice market behavior and meet contractual relations, specifically regarding loan repayment. For homeowners, this may lead to taking a firmer stance and less flexibility in dealing with household financial matters, including becoming less tolerable regarding non or delayed payments of rent by tenants.

Restructuring of states and urban governance

The third and final point considers the role of the (local) state in enabling/disabling the growth of housing microfinance in Africa's urban peripheries. Regulatory barriers and unfavorable institutional environments have long been recognized as key factors hampering investment into low-cost housing in African cities (TCIS, 2018). The growing political and policy support behind housing microfinance will augment pressures to reform legislation and laws, reduce "red tape" and, in some instances, offer new types of incentives to support private-sector investments into urban housing. In some cases, these efforts will come along with broader initiatives to formalize informal housing construction and consumption. Any restructuring of state bureaucracies and institutional environments will create political contestation and resistance, which will be fought over both publicly as well as behind doors. Studying the various political-economic interests behind housing microfinance-related reforms, and the strategies and practices utilized by different social groups, is another important area for future research.

A key question is how African governments respond to and engage with the rise of housing microfinance institutions and services in their urban peripheries – and who benefits/loses from potential interventions. Which international and national coalition networks are driving housing microfinance reform processes in different places and who are they coming up against in doing so? Studies in Mexico highlighted the increasingly blurred boundaries between various societal sectors and the variety of institutions engaged in institutional restructuring (Grubbauer, 2020; Grubbauer & Escobar, 2021). Over the longer term, a key question is what impact the growing financialization of African property will have on urban governance and democracy. Are we going to see changes in democratic politics as we witness a rise of financialized African property class?

Conclusion

The rise of housing microfinance in Africa's urban peripheries raises important questions and calls for more geographical research into the drivers, forms, and impacts of this peculiar type of housing financialization. By rigorously interrogating and conceptualizing housing microfinance as the new real estate frontier in African cities (Gillespie, 2020), urban geographers are well-placed to counter overly positive narratives and uncritical studies that currently seem to prevail within and beyond the academy. While I highlighted three major themes worthy of critical examination – models and impacts, informality and fintech, and restructuring of states and urban governance – there are undoubtedly many more that deserve scholarly attention. There is significant scope for research to contribute to global debates on housing financialization or come up with new theoretical concepts. More importantly, geographical analysis of housing microfinance can help to influence praxis, with the ultimate objective of making African cities more liveable and equitable spaces.

Notes

1. While the literature on the financialisation of housing has begun to pay more attention to cities Africa, it continues to neglect the role of microfinance, social enterprises, and financial technologies in shaping urban development on the continent (Aalbers et al., 2020; Gillespie, 2020; Jorge, 2020; Migozzi, 2020; Pitcher, 2017).
2. A social enterprise is defined as "a trading business – selling goods and services – but whose primary objective is to achieve social and/or environmental benefit" (SENI, 2021).

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