A DEVELOPMENT FINANCIERS' EXPERIENCE IN FINANCING LAND AND HOUSING DEVELOPMENTS WITH REFERENCE TO THE DEVELOPMENT BANK OF NAMIBIA

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ABSTRACT

The objective of the study was to examine key challenges faced by the Development Bank of Namibia (DBN) and land and housing Developers in the financing and development of land and housing projects, with a view to recommending strategies to enhance the provision of housing finance. The DBN is a Development Finance Institution (DFI), which endeavours to provide solutions to pressing national economic priorities such as housing. The study took a descriptive approach with a surveying three distinct participants involved in the housing provision process, i.e., DBN staff members, Developers and Contractors as well as Consulting Engineers. The study identified the rising non-performing loans as the main challenge faced by DBN using cross case analysis. The rising non-performing loans are ascribed from a combination of internal and external factors such as weak credit risk assessment, portfolio management inefficiencies by the DBN and weak project management on the part of Developers or Contractors. Moreover, the study found that Developers and Contractors lack capital to contribute to equity as required by financial institutions such as the DBN. Furthermore, the study found that Developers and Contractors lack technical capacity to execute land and housing projects successfully. The study recommends for the DBN to refine its credit risk assessment and strengthen its portfolio management function in evaluating projects. The study further recommends Developers to enhance their project management skills in order to improve their project implementation skills.

Key words: *Consultants, Contractors, Credit Risk Management, Development Bank of Namibia, Development Finance Institution, Developers, Investments, Non-Performing Loans Portfolio Management, Public Private Partnerships*

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I thank my Heavenly Father for making all things possible and for giving me the strength, endurance, hope and faith to keep moving forward. Many times, I had set-backs, but with the inspiration of my heavenly Father, I had the determination and desire to succeed. I remain indebted to my employer, the Development Bank of Namibia for providing me the research base and support which I will re-advance through the learnings acquired during the research process. I thank my supervisor for being the shadow beneath the quiet storm and to all those who directly and indirectly make a positive contribution to my life, this is for you.

DECLARATION

By submitting this research report, I, Hellen Amupolo, declare that the content of this thesis represents my own unaided work, and has not previously been submitted for academic examination towards any qualification.

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26 April 2023

Signature **Date**

DEDICATION

I dedicate this research to all agencies and stakeholders championing the plight of availing affordable land and housing delivery in Namibia. No mountain is too great to concur, together we can find a solution!

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ACRONYMS

DBN	:	Development Bank of Namibia
DFI	:	Development Finance Institution
DFRC	:	Development Finance Resource Institute
ETC	:	Eenhana Town Council
NTC	:	Nkurenkuru Town Council
NHE	:	National Housing Enterprise
MOF	:	Ministry of Finance
MURD	:	Ministry of Urban and Rural Development
NPL	:	Non-Performing Loan Ratio
PPP	:	Public Private Partnerships
SADC	:	Southern African Development Community
SPV	:	Special Purpose Vehicle

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

1.1.1 Namibia's housing market landscape

Namibia continues to experience an acute shortage of affordable housing and according to the FNB housing Index of March 2022300,000 households continue to live in shacks countrywide, while the ongoing rural–urban migration adds to this number daily. The National Housing Enterprise (NHE)'s Strategic Plan (2017-2022) estimated the backlog to be around 110,000 units, growing at an annual rate of 3,700 units. Housing Finance Africa (CAHF, 2018) put the NHE backlog alone as having increased from 76,800 in 2016 to 84,940 by mid-2017. The Minister of Urban and Rural Development, in 2016, quoted a national backlog of 100,000 units, with the largest backlog of 45,000 units being for the lowest income group with incomes ranging from zero to N$ 1,500 (Shaningwa, 2016). City Councils have their own backlog lists and there is no system of consolidating the waiting lists, updating it or eliminating double applications or listings. Despite the inconsistent estimates, it is apparent that the demand for housing is high and that it outstrips the supply. The growth in the backlog is as a result of limited supply and higher demand. Household sizes have been declining over time (from 5.7 persons in a household in 1995 to 4.4 persons in 2016) and according to Kalili (2017) number of households increased from 63,426 in 1994 to 80,853 in 2016. Latest statistics (FNB Housing Index) indicate a national backlog of over 300,000. These figures point to significant challenges affecting the housing supply system in Namibia.

Since independence, informal settlements have mushroomed in all urban centres in the country. This crisis is further worsened by limited affordability levels of households to purchase land and decent housing versus the national average housing prices that have sky rocketed to N$ 1,044,956 (FNB, Residential Property Report, December 2021) if one considers the average housing segment within the range of N$ 500,000 (FNB, Residential Property Report, December 2021). Namibia is one of the largest countries in Africa, with a population of approximately 2.5 million people with a population density of 3 people per square kilometre. This makes it one of the countries with the lowest density on the continent compared to larger countries of South Africa and Nigeria with 48 and 215 people per square kilometre (World Bank Group, 2018) and thus surely the availability of space should not be a hindrance to cater for each household to have a decent sized house.

The Namibian government has placed an elevated need for decent housing and shelter for its people, supported by national development plans and calling on the public and private sector to make a concerted effort through much discourse and dialogue leading to policy and actionable recommendations. National development plans (National Development Plan 5, Namibia National Housing Policy 2009, Ministry of Urban and Rural Development Strategic Plan 2017-2021, Harambee Prosperity Plan 1, Harambee Prosperity Plan 2 to mention a few) and policy initiatives have allowed the need for decent housing to take centre stage amongst other infrastructural development needs. The Harambee Prosperity Plan 2 for the period of 2021-2025, is one such national development plan that has five (5) pillars identified for national progression, of which the Social Progression pillar has a sub goal target of delivering 20,000 units of land and housing countrywide by the end of 2025, through public and private agents. This target translates to an average of 4,000 units annually. This may well be achieved, considering that statistics from the First National Bank for land and housing delivery in Namibia over the past years, indicate on average 3,900 units (land and housing combined) delivered annually between the period 2013-2020. It is also evident that there has been an upward trajectory of land and housing units delivered over the years as illustrated in Figure 1.1 below.

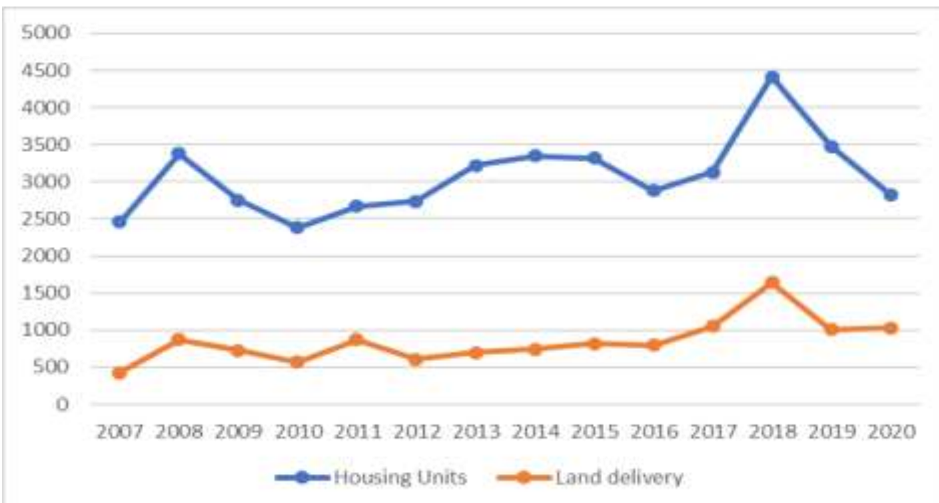

Figure 1.1: Number of land delivery and housing units (2007-2020)

Source: FNB, March 2021

The reality is that if we are to transform 230,000 shack dwellers into formal units, with an annual output, target of 4,000, it would take approximately 57 years (not taking into account population growth dynamics). Thus, a different and concerted approach is required between public and private entities to arrest this dilemma and increase the annual output of land and housing units significantly. State institutions such as local authorities and the National Housing Enterprise as delivery agents of government alone cannot address the housing pandemic, hence the need for financial players such as the

Development Bank of Namibia (DBN), as a development finance institution (DFI) to play an active and supporting role that can encourage other likeminded institutions to follow. This active and supporting role can be achieved if projects that are funded are properly packaged, managed and monitored. In addition, there should be a deep dive understanding of the challenges faced by developers or contractors as implementers of land and housing projects on the ground.

1.1.2 Key stakeholders in housing delivery in Namibia

Housing in Namibia, like many other countries involves many different stakeholders ranging from government, financial providers to the builders of houses, i.e. Developers and contractors as depicted in Figure 1.2 below.

Figure 1.2 Key stakeholders in housing delivery in Namibia

Source: Bindels, 2011

In summary, the stakeholders are government, quasi-governmental institutions, non-governmental organisations and the private sector. DBN, although not indicated, falls in the quasi-governmental category, similar to the National Housing Enterprise (NHE).

1.1.3 DBN mandate and financing approaches for land and housing delivery

The DBN's mandate and objective is to contribute to economic growth and social development of Namibia by providing financing in support of key development sectors such as land and housing, as part of infrastructure development. The DBN is an extension of government and its focal sector alignments normally follow that of the country's National Development Plans that are set out by government.

As per the DBN Act No. 8 of 2020, the main objects of the bank are as follows:

a) mobilising financial and other resources from the private and public sectors nationally and internationally;
b) appraising, planning and monitoring the implementation of development schemes, export projects and other economic programs of national importance;
c) facilitating the participation of the private sector and community organisation in development schemes, export projects and other economic programs of national importance; and
d) assisting in the development of money and capital markets.

Lending is the principal business activity of the Development Bank of Namibia (DBN) and the loan book is its largest asset and predominant source of revenue. As such, credit extension and loan portfolio management within the DBN is the single greatest source of risk to the Bank's sustainability and financial soundness.

Extending credit carries the risk of losing capital and / or income due to the failure of a counterparty to fully honour his financial or contractual obligations. Therefore, it is imperative for the DBN to ensure credit risk and losses are minimized and to ensure quality of the loan book. In light of the increasing credit compliance risks arising from complexity of applications, it is essential that the DBN establishes and maintains an effective credit risk management process for all loans that it finances. This study focuses on DBN's experience and challenges faced in financing land and housing projects - a sector which has yielded a concerning scenario, that of high non-performing loans when compared to other sectors that the bank has exposure to. It is thus necessary to share experiences of DBN as a DFI, to appreciate its involvement in the housing sector and to uncover suggested improvements and lessons learned to providing a sustainable financing approach for land and housing projects.

The DBN views availability of serviced land and affordable housing as a core requirement for social development of Namibia. To foster serviced land and affordable housing, the Bank provides direct finance to local authorities, Public Private Partnerships (PPPs), private sector Developers and Contractors most especially for developments geared towards low to middle income housing, or affordable housing as some refer to it. Throughout this report the use of the word Developers and Contractors will be used interchangeably or together as they mostly perform the close functions. Facilitating investments in land and housing thus also becomes key. Borrowers can obtain short to medium term credit facilities, usually repaid in a period of 2-3 years to install municipal infrastructure services for availing land, construction of free-standing houses, sectional title units and mixed developments. The Bank also allows for flexibility in availing a grace period aligned to the construction schedule and only expecting receipts (from erven or housing units to be sold) at the end of the construction period and also allowing a justifiable period for the sales process. The pricing is linked to the prime market lending rate, adjusted with a credit margin that depends on the risk profile of the transaction. In most instances, the Bank relies on a project finance approach, lending against the projected net cash flows as a form of repayment and with minimal recourse to shareholders, as opposed to the conventional collateral-based lending, where the facility is secured with up front cession over property mortgages and unlimited suretyships of the promoters. The Bank makes an informed judgement to lend based on the identified market, financial and technical capabilities in place of the project as presented by the Developers or Contractors entities in Despite these financial interventions, a synopsis of the land and housing portfolio indicates mixed results, that of cases of projects that are non- performing.

1.1.4 Synopsis of DBN's land delivery and the housing sector

DBN's exposure as at end December 2021, stands at N$ 8.8 Billion (Table 1 below) and this is towards 13 sectors of which the largest exposure noted is to the Transport & Logistics sector (36%), followed by the Manufacturing sector (12%) and Tourism and Hospitality sector (10%). The Housing sector follows at 7% together, sharing this spot with Electricity sector. The Land delivery sector's exposure is noted at 2%, thus combined with the housing sector the exposure to land and housing combined stands at 9%.

Table 1.1: DBN's sectoral exposure, December 2021

Sector	**Outstanding Balance (N$)**	**% Share**
Automotive,Machinery & Equipment	34,153,425.75	0%
Business services	229,129,270.34	3%
Commercial Property	308,507,242.85	3%
Construction	591,732,339.62	7%
Education	208,527,391.84	2%
Electricity	660,942,903.98	7%
Financial intermediation	98,553,261.92	1%
Fishing	9,869,708.98	0%
Health	142,775,183.68	2%
Housing	**654,743,180.08**	**7%**
Land Servicing	**202,136,404.54**	**2%**
Manufacturing	1,088,203,817.54	12%
Mining and quarrying	22,299,949.46	0%
Telecommunications	12,654,114.59	0%
Tourism & Hospitality	868,531,347.32	10%
Transport & Logistics	3,186,234,409.10	36%
Water	194,132,794.25	2%
Wholesale and Retail trade	301,380,142.31	3%
Grand Total	**8,814,506,888.15**	**100%**

Source: DBN, *December Loan Book, 2021*

1.1.5 DBN's exposure to land delivery sector (2005-2021)

Moreover, the exposure to the land delivery sector over the last 16 years (2005-2021) has experienced a growing trend and DBN has advanced in total N$ 1.14 Billion over this period. There was a significant uptick in advances during 2017 and 2020 as indicated in Figure 1.3.

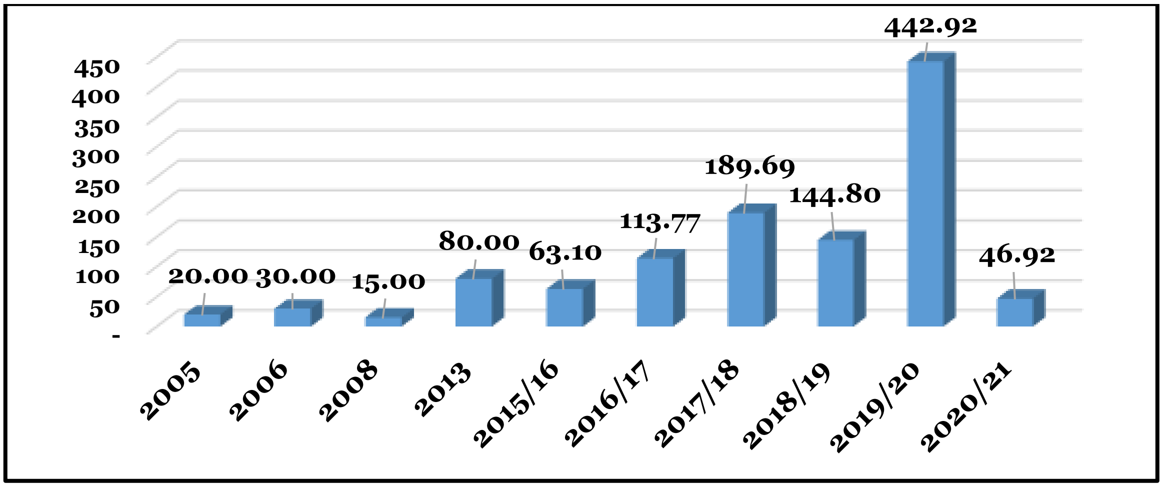

Figure 1.3: DBN's exposure to land delivery sector, million (N$), (2005-2021)

Source: DBN, 2021

Considering the exposure to public and private sectors, the most significant exposure is towards the private sector (79%) as shown in Figure 1.4, followed by the projects carried out via public private partnerships (15%) and the remaining 9% towards the public sector (9%).

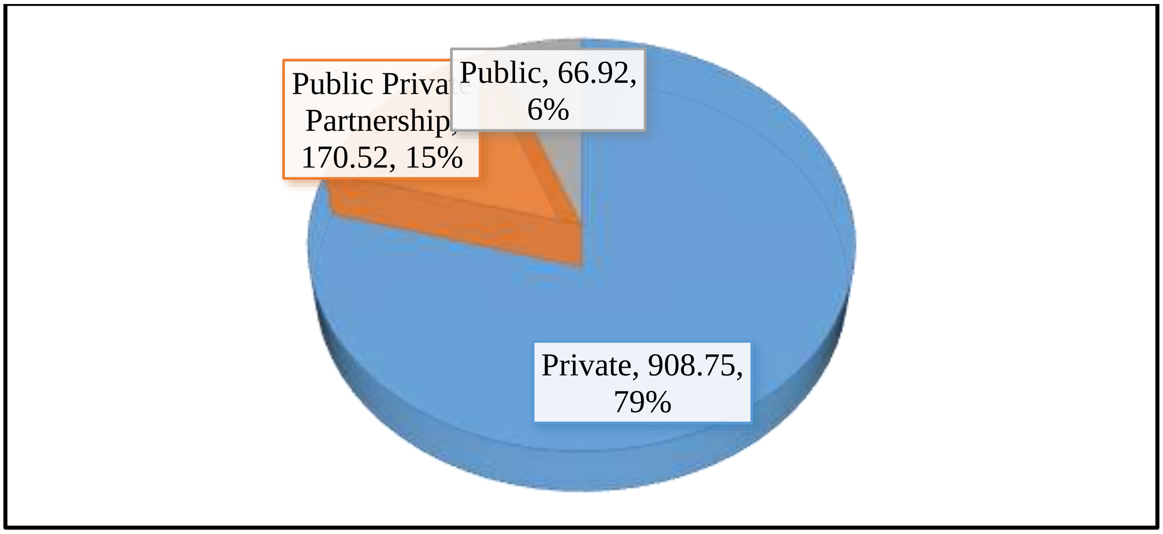

Figure 1.4: DBN's Land delivery exposure to Public verses Private Sector

Source: DBN, *2021*

1.1.6 DBN's exposure to the housing sector

The Bank has also significantly been involved in financing housing over the years, and an amount of N$ 1.05 Billion has been during the period of 2005 up to 2011. The most significant advances were made from 2016 onwards.

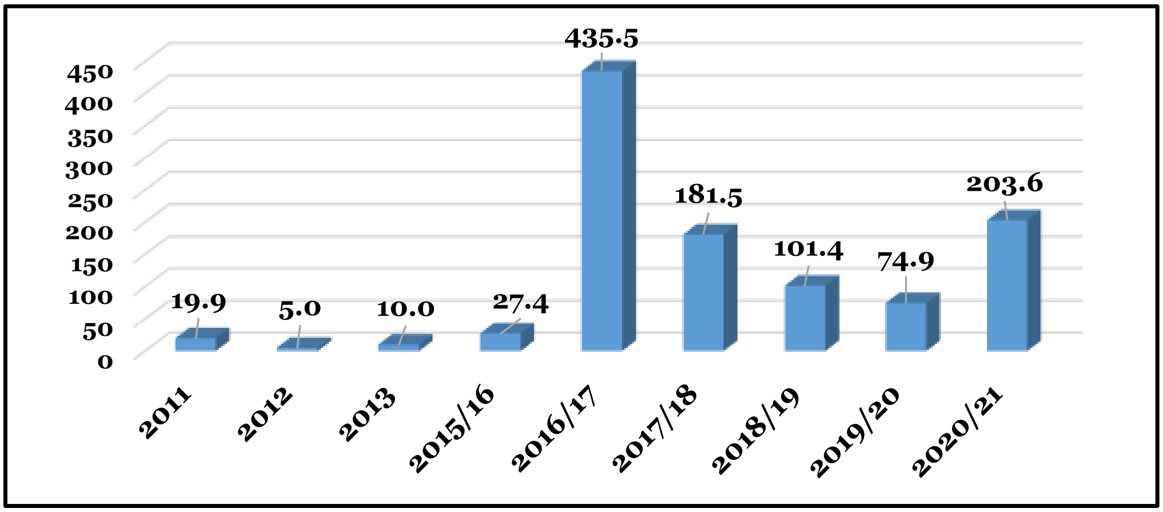

Figure 1.5: DBN's exposure to housing sector, million (N$) (2005-2021)

Source: DBN, 2021

The exposure to projects in the housing sector implemented by the private sector stands at 92% advanced over the period under review and 8% advanced to public private partnerships. Interestingly, no direct exposure to the public sector is reflected. Could this be a function of private sector having been on the forefront of housing development and not necessarily government in Namibia?

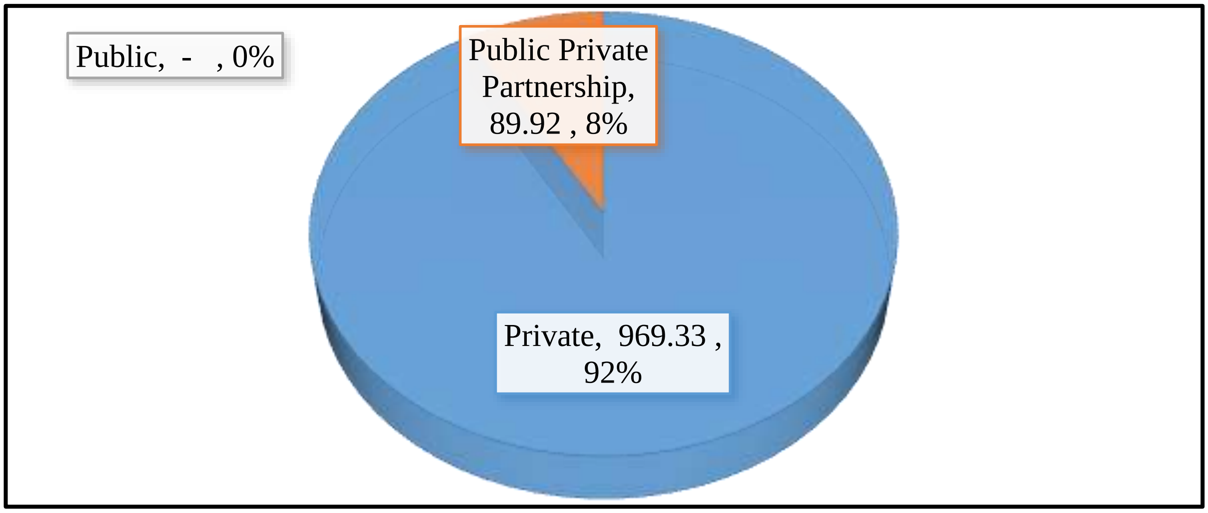

Figure 1.6: DBN's exposure to housing sector, Public verus Private Sector (2005-2021)

Source: DBN, 2021

The DBN has adopted the Honk Kong Institute of Bankers (2012)'s method of classifying loans and advances as follows:

- **Pass** –These are loans where the clients are meeting their commitments and the bank does not doubt that full repayment of interest and capital will be made, normally still within the three months' collection period.
- **Special mention** –These loans are so judged when clients are experiencing difficulties that could threaten their financial position. No ultimate loss is expected at this stage, but there is an awareness that a loss could occur. In the DBN context, these loans are between 4 and 6 months in arrears.
- **Substandard**– These loans are displaying a definite weakness that is likely to jeopardise repayments and are in arrears of 7 to 9 months.

- **Doubtful–** the repayment of loans in this category is doubtful and the potential of bankruptcy or liquidation comes into possible effect.
- **Loss** – These loans are considered uncollectable after the bank has exhausted all collection efforts.

The DBN's current housing sector portfolio is one depicting the highest arrear rates (54%), as at December 2021, when compared to other sectors on the DBN loan book. The overall non-performing loan ratio of the housing sector portfolio exceeds the Bank's desired threshold of 10%, standing at 29% as of December 2021, signifying that one in every three projects financed is not performing. A performing loan from a banker's perspective is primarily when the outstanding capital and interest payments are being met within the agreed frequency as per payment schedule. It's evident, looking at Figure 1.4 that out of the 8 land delivery projects on the DBN loan book, 50% are performing or in the pass category and the remainder, 50% requires attention. This is a cause for concern.

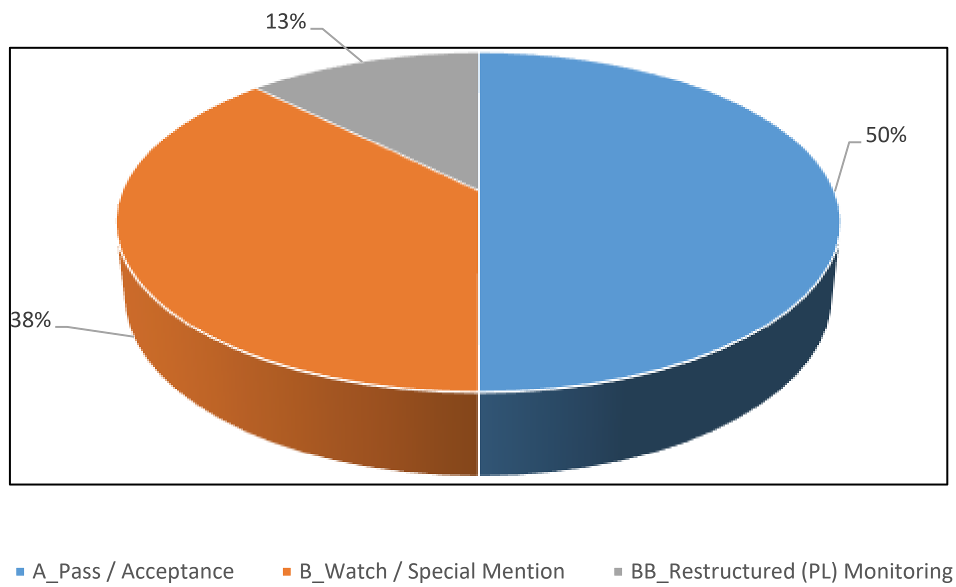

Figure 1.7: Loan classification: Land delivery sector, DBN

Source: DBN, *December Loan Book 2021*

The Housing sector portfolio, similarly also shows mixed results. The Bank currently has 16 housing projects on the loan book and only 3 projects (19%) are in the pass category, with the remainder between the special mention and loss categories. It is imperative to understand whether it is finance facilities that are not adequate, poor monitoring from the Bank's point of view or poor implementation and project management from the Developer's point of view, or a combination?

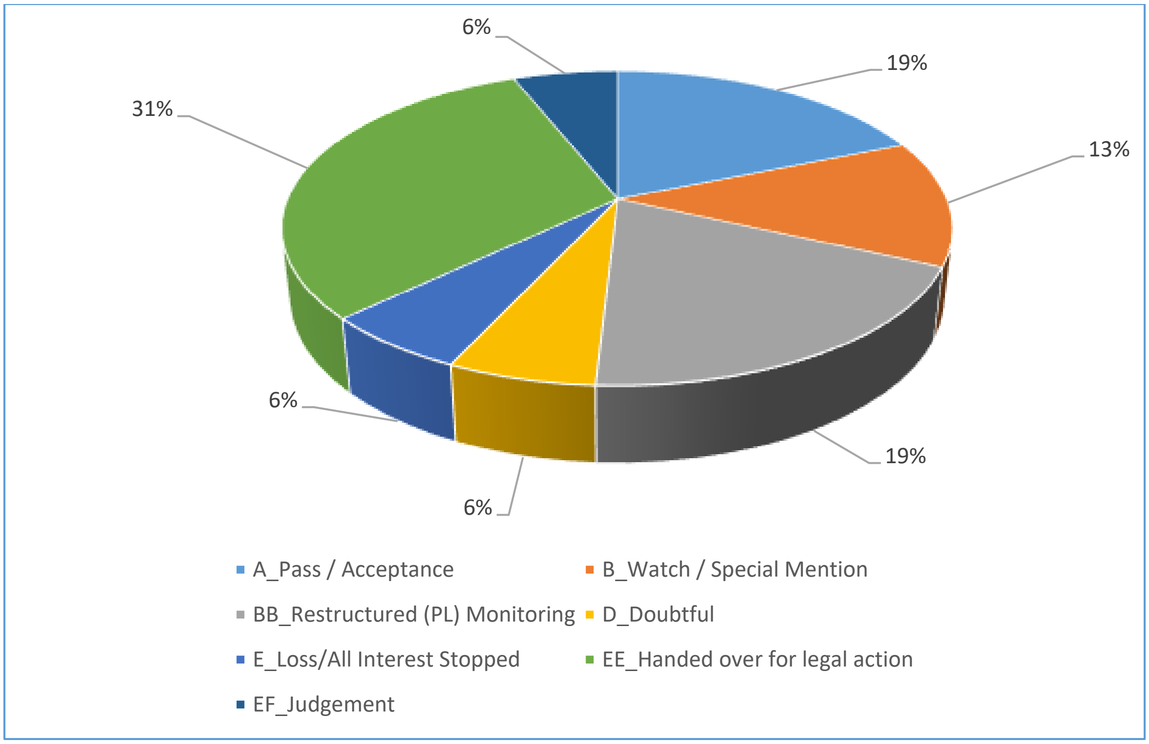

Figure 1.8: Loan classification: Housing Sector, DBN

Source: DBN, *December Loan Book 2021*

A significant number of housing projects financed by the DBN have resulted in payment default causing multiple restructurings. Given the above, there is a need to understand the non-performance of some housing projects financed. This study is therefore imperative and timely for the DBN and its findings should assist in crafting the organisation's strategy on how to structure and monitor projects to enabling a sustainable financing solution for land and housing projects going forward.

1.1.7 Comparison of NPL's for the land and housing portfolio (DBN)

DBN's land and housing portfolio has grown steady over the years. DBN has advanced close to N$ 1.15 Billion to land development projects and N$ 1.016 Billion to housing projects. Collectively, this makes up 13% out of the N$ 15 Billion advanced since inception in 2013. Despite the significant advancements, of recent, the non-performing loan (NPL) ratio of the land and housing loan portfolio has greatly exceeded DBN's sustainability threshold of 12.73% and more so it has also exceeded the Association of African Development Finance Institutions (AADFI)'s threshold of 15%. The total NPL'S follow have also in recent years exceed both thresholds.

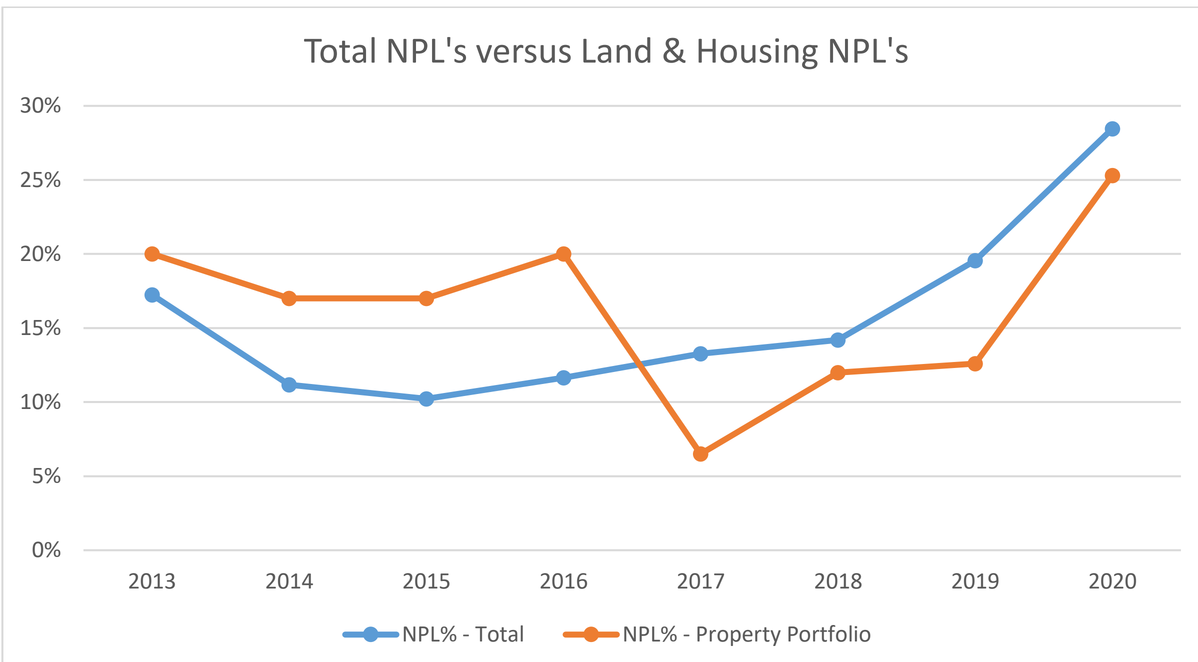

Figure 1.9: Total Loan Book NPL's versus land and housing portfolio NPL's

Source: DBN***'s Loan Book, March 2020***

A closer look at the sectoral analysis, indicates that the land and housing sector NPL ratio since 2019 has grown on an annual basis and the housing sector appears to be the most problematic, with an NPL ratio of 40% in 2020 compared to 16% the previous year. The average NPL ratio for 2020 was 20%, thus 40% greatly exceeds the average. Rising NPL's mean that the Bank's collection ratio through net interest income reduces which in turn reduces net profit and the capital growth rate, thus threating the sustainability of the Bank. Although the DBN is cognisant of the rising non-performing land and housing portfolio, the Bank has not taken any proactive measures on curbing the trend and much has been attributed to the challenge of not fully understanding what the impediments are and how they can be mitigated with concrete action plans. This study will assist the Bank in availing prudent financial solutions to Developers, and potentially restructuring the credit risk assessment tools used to avail finance.

Table 1.2 : NPL's per sector, March 2019-2021

NPL's Per Sector	**Mar-21**	**Mar-20**	**Mar-19**
Automotive, Machinery & Equipment	91.4%	100.0%	100.0%
Business services	35.5%	35.2%	38.9%
Commercial Property	69.4%	14.3%	1.6%
Construction	58.1%	32.8%	39.1%
Education	8.9%	6.7%	43.3%
Electricity	0.0%	0.0%	0.0%
Financial intermediation	0.0%	6.3%	5.9%
Fishing	78.1%	100.0%	100.0%
Health	49.2%	47.3%	48.5%
Housing	**36.7%**	**40.1%**	**13.6%**
Land Servicing	**0.0%**	**0.0%**	**3.6%**
Manufacturing	27.5%	31.5%	17.5%
Mining and quarrying	21.2%	0.0%	0.0%

Telecommunications	7.4%	3.9%	0.0%
Tourism & Hospitality	18.1%	23.3%	16.3%
Transport & Logistics	28.8%	52.7%	79.3%
Water	0.0%	0.0%	0.0%
Wholesale and Retail trade	60.1%	50.8%	47.3%
Grand Total	**28.4%**	**22.1%**	**18.4%**

Source: DBN ***Loan Book, March 2019-2021***

1.2 STATEMENT OF THE PROBLEM

Namibia's rising housing backlog has become a national pandemic, which calls for extraordinary and concerted responses from both the public and private sector. It is imperative to ensure that a response does not aggravate but alleviates the problem. DBN's experience and response to financing the housing sector, although with good intentions reflects a glaring scenario of a non-performing housing portfolio. This gives rise to the need to investigate the fundamental causes of the rising arrears or non-performance thereof. A non performing housing loan portfolio on account emanates from a number of factors which this study is bringing to the fore, however if left alone together with other sector portfolios that may be in a similar scenario will cause an avalanche of negative sustainability parameters that deteriorate the quality of the loan book. A poor quality loan book impacts the sustainability of the Bank as net interest income is subdued, capital growth reduces and the Bank is not able to earn a return that can ensure profitability and ultimately its survival as a going concern is threatened.

1.3 RESEARCH QUESTIONS

The central objective of the study it to understand DBN's experience in financing land and housing developments as well as those of the Developers financed and to in the short to medium term propose sustainable financing approaches for land and housing projects, thereby improving not only Developers' performance but also loan book portfolio performance.

The research questions centre on querying the key challenges faced by DBN financed projects that ignite the non-performing status and understanding these challenges from three distinct groups.

The specific research questions are:

- What is DBN's experience and key challenges faced in financing land and housing projects?
- What are the key challenges hampering performance of selected Developers financed by DBN in implementing land and housing projects; and
- What strategies DBN can be consider when financing Developers in land and housing projects to improve their performance?

1.4 SIGINIFICANCE OF THE STUDY

The study should assist to understand the experience and key challenges faced by DBN in financing land and housing developments. Largely, the study should also bring out developers' challenges in implementing land and housing projects in Namibia, focusing on those financed by the DBN. The banker's perspective should be understood to highlight any inherent deficiencies, support mechanisms or credit appraisal gaps and methodologies to address or implement when financing land housing developments. The greater role of DBN as a DFI needs to be understood as a lot of public interest has been on the demand side, i.e., the population that needs to be served with affordable housing and also on public agencies such as local authorities who are at the receiving end of requests for land and housing. The results of the study should allow financiers at large to potentially refine and align their financing models to achieve and maintain sustainable projects. To the researcher's knowledge, there is no study that has evaluated the DBN land and housing developments. The effective management of these functions is therefore fundamental to the DBN's financial soundness and sustainability. Further, the study can be used by other financiers to draw comparisons, learnings and to further understand their own experiences in order refine their lending strategies. Overall, preserving the sustainability of the Banks remains the ultimate goal.

1.5 LIMITATIONS OF THE STUDY

The DBN property loan portfolio has three subsectors, namely: the land portfolio, housing portfolio and commercial portfolio. This study excludes the commercial portfolio. Views and perspectives from respondents in the DBN are also limited to those that are involved in the credit appraisal process, portfolio management and collection departments. Concerning obtaining data from the respondents, at times has been inconsistent among the respondents, owing to the different experiences and some respondents provided limited responses as a result of mainly maintaining confidentially.

1.6 DELIMITATIONS OF THE STUDY

The study was restricted to the experience of DBN in financing land and housing projects. The study considered assessing the performance of land and housing projects over a specified period and not necessarily since the banks' inception as data was not available in earlier years. The focus was on selected projects where data was congruent to allow comparisons to be made.

1.7 OUTLINE OF THE STUDY

Chapter 1 presents an orientation of the study, research problem, research objectives, and significance of the study, limitation and delimitations of the study.

Chapter 2 presents the comprehensive literature review divided in appropriate headings to give a broader theoretical knowledge on the subject.

Chapter 3 presents the methodologies followed in conducting the study such as the research design, sampling methods and research instruments used to collect and analyse the data.

Chapter 4 makes a presentation of the research findings and data analysis.

Chapter 5 presents the conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter precedes with providing an institutional context regarding the land delivery models, credit risk business processes and credit risk assessment tools used by the DBN. Thereafter a review is conducted one existing literature on the experiences, practices and challenges faced by financiers, developers and selected agents in Africa and on a global context.

2.2 HOUSING DYNAMICS

The landscape of the African housing finance system is quite diverse. It involves both public and private entities offering different types of products geared toward responding to the housing finance needs. Interestingly, state owned finance institutions have dominated housing finance in many African countries.

The challenge with some state-owned banks is that since they are not deposit taking they suffer from severe asset-liability mismatches as well as laxed credit policies, poor corporate governance and weak operational teams, credit quotas and lengthy collection and foreclosure processes (Beck et al., 2011). These variables have an effect on further restricting lending towards Developers or Contractors, leaving them to be subjected to commercial lending terms that are offered by the conventional commercial banks.

The provision of affordable housing is one of the critical challenges facing policy makers in Namibia and a comprehensive study done by the Bank of Namibia in 2011, revealed that even after 21 years of independence, the vast majority of the population were still not having access to affordable housing. Rust (2011) stressed the importance of development finance in the ability to provide stock at scale rather than on a house-by-house basis. When Developers can access affordable finance, this makes their developments viable and supports the delivery of affordable housing.

Several studies have outlined a number of critical success factors of housing developments and a study done in Malaysia in 2013 outlined the top success factors for implementing housing projects as good governance, commitment from public and private sector, favourable legal framework, sound economic policy and financial market,Ismail & Ajija(2013). Similarly, Abdul-Aziz and Jahn Kasim (2011), have indicated that the success of projects in general largely also depends on a country's political, economic and cultural circumstances of which Namibia at the moment is celebrated for.

Ibem (2010) conducted a study done in Nigeria, suggests that as a success factor, governments should also realize the need to grant incentives to Developers such as tax reliefs and import duty waivers on imported building material especially to those involved in the low-income market recognizing that profit margins may be lower in that space. Housing finance markets in Africa have grown in recent years, increasing from state owned bank models to private commercial banks. The depth of mortgage finance markets across the continent is low with the exception of a few countries such as Morocco, Namibia and South Africa, El-hadj M Bah *et al.*. (2018). This means that Namibia definitely bodes potential to have a successful housing delivery penetration and financing models. Shakantu & Evans (2005) looking in South Africa, have stated that there is potential for banks to expand their role in the provision of affordable housing and a different business model and financing approach is required that balances demand and supply side factors.

Hussain, (2001), found the main risk in housing projects as the change in demand, which if it dips below expectation, it could cause additional interest and debt to Developers. Teye and Asiedu (2015), have pointed out that the interconnectedness of housing demand and supply side factors ensure a well-functioning housing finance system and that Banks have to give careful consideration to the ability of establishing credit worthiness of potential borrowers and limit information asymmetry as much as possible as well as non-performing loans. These findings provide relevance for the study to assess what credit appraisal gaps exist in the DBN's appraisal process when structuring property loan facilities to housing Developers.

El-hadj M Bah *et al.*. (2018) goes on further to indicate that the financing of housing developments by banks is challenging worldwide. Housing market is exposed to a number of risks such as the credit risk arising from the fact that borrowers may fail to pay their loans, liquidity risk (cashflow limitations) and information asymmetry risk (moral hazard, or adverse selection) among many other risks. Unpacking information asymmetry with regards to management ability and credit risk indicates that information about your borrower is key, Laffont and Martimort (2002). Thus, critically understanding your borrowers profile must ascertain their ability to turnaround a project. It will be interesting to understand to what extend DBN assess' their borrower's abilities as a means to assess potential performance and repayment ability.

Insights from Abidin *et al.*. (2013) also view government, banks and professional bodies as critical institutions to the housing industry as illustrated in Figure 2.2. Most importantly, innovation and technology are highlighted as imperative to delivering sustainable and competitive housing solutions for construction and advancement of new technology. The role of professional bodies needs to go beyond and cater for research and innovation, a practice that has not received much attention locally in Namibia. Government however has to be at the forefront of providing incentives and rebates as regulator to boost the industry to search for new technology, systems and knowledge. The outcomes of the interactions between institutions are shown depicted using a dotted line in Figure 2.2. For example, the actions by government to produce new regulations are usually supported by professional bodies, however the importance of collaborations between all these institutions becomes necessary.

DFI's have adopted internal controls and process that guide their credit decisions and the following sections reveal the processes and procedures that DBN follows.

2.3 DBN's BUSINESS PROCESS FOR CREDIT ASSESSMENTS

It is important to have a primary understanding of the how the credit process is attended to in-house at the DBN so as to understand the journey a client or project goes through from being advanced a facility right up to exit (loan termination).

The figure below illustrates the core departments involved in the credit assessment of projects.

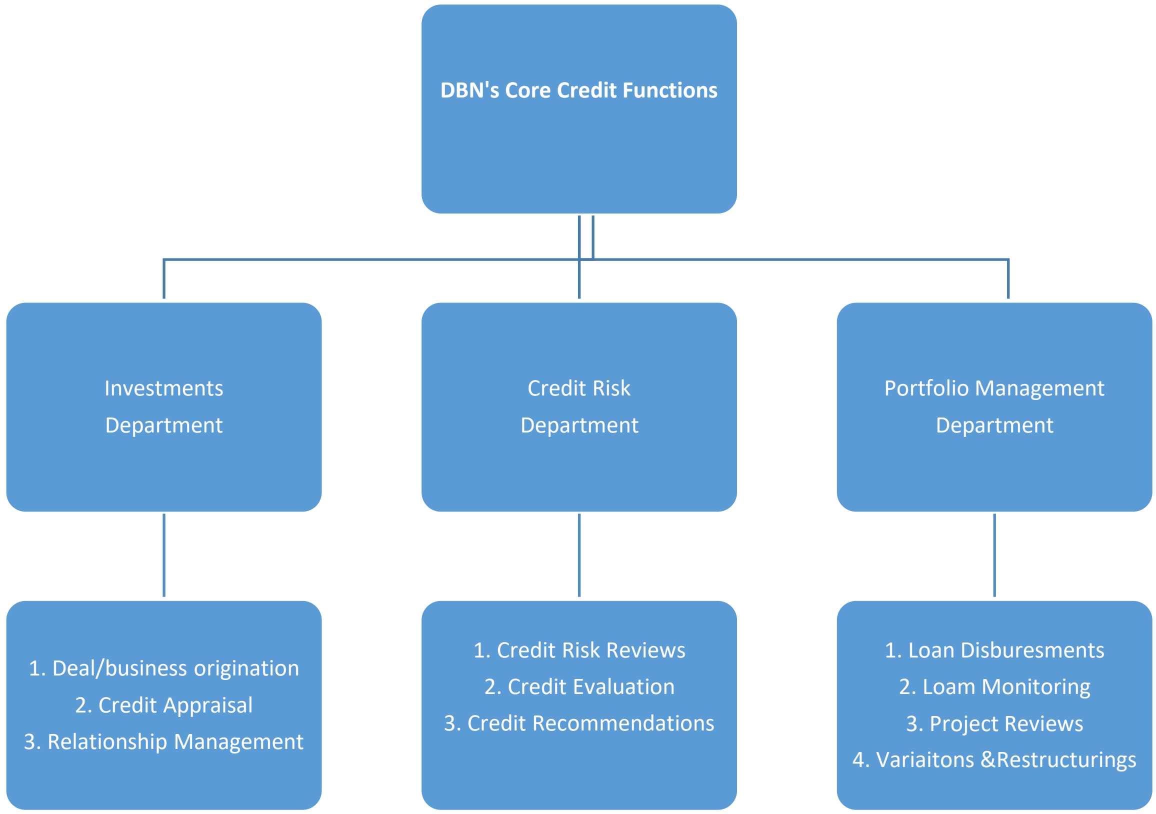

Figure 2.1: Credit Business Process, DBN

Source: DBN, 2021

2.3.1 The Investments Department

The Investments Department is one of the core functions of the Bank and its primary role is to attend to business generation activities, credit appraisals (deal structuring), and relationship management. The Investment department appraises projects that present a projected annual turnover of N$ 10 million. Projects that fall below this threshold are appraised by the Small and Medium Enterprise Finance Department. Once credit appraisals are compiled; they are routed to the Credit Risk Department.

2.3.2 The Credit Risk Department

The Credit Risk Department is responsible for ultimately safeguarding the Bank's loan book and ensuring that all checks and balances with regards to credit risk have been identified and risk mitigating factors put in place, following various appraisal methodologies, of which common is attending to the 5 "C"s, namely character, capacity, condition, capital, coverage, Karsh, *et al.*. (2018). Thereafter the appraisal report is then recommended to the relevant credit and investment committee for approval and once approved, a loan agreement is entered into with the client.

2.3.3 The Portfolio Management Department

Once a loan has been approved, it is handed over to the Portfolio Management department that is responsible for post monitoring services which include disbursements, project reviews and attending to any variations and restructurings of the project. The client's relationship now rests with portfolio management team until such time they repay their obligations or if they become non performing they are handed to a sub unit within Credit Risk Department, i.e., Workout and Collections and ultimately a legal process starts.

2.4 DBN's CREDIT ASSESSMENT FOR LAND AND HOUSING PROJECTS

The DBN as mentioned earlier finances both private and public sector housing developments. In order to assist with the credit appraisal process, the following reports or assessments form part of the appraisal; namely;

i) Appraisal report,

ii) Credit risk score card,

iii) Enterprise-Wide Risk and Compliance Report (focus on financial intelligence act and environmental and social management assessment) and

iv) Development Impact Score card (assessing the level of development impact a project can create).

DBN has a Credit Equity and Investment Policy (CEIP) that is used as a guide for making investment decisions for all its projects, both financed through debt and equity in an effort to limit credit risk to transactions. Credit risk is defined as the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt, DBN CEIP (2021).

The general CEIP guidelines are as follows:

Table 2.1: Credit Risk Rating Model

Risk Rating Model for:		**DEVELOPER**	
Date:		**1-Jan-22**	
10%	**A. Background**	**Parameters**	**Score (1-5)**
	Business Status	New business	
	Customer Type	Close Corporation	
	Business Classification	Medium	
	ITC-listing (Business)	Unlisted	
	ITC-listing (Suretyship)	Unlisted	
	Sector	Electricity	
	Product Type	Guarantees	
	Conduct: Bank account	Up to date	
	Region	Karas	
	Location	Town Council	
	Total Score		
			0.0
20%	**B. Governance risk**	**Parameters**	**Score (1-5)**
	Good standing: Receiver of revenue	Favourable	
	Management Experience in Sector (Years)	> 10	
	Business Track Record (Years)	< 3	
	Management Stability	Yes	
	Succession planning	No	
	Appropriate organisational structure	Yes	
	Financial Management	Yes	
	Presence of Policies and Procedure	No	
	Quarterly board meetings	No	
	Monthly management meetings	Yes	
	Total Score		
			0.0
25%	**C. Business risk**	**Parameters**	**Score (1-5)**
	Seasonality	No	
	Competition / Substitutes	Low	
	Price control- raw materials (Infancy protection)	No	
	Suppliers (dependency)	High	
	Unionisation	Low	
	Government regulation (Restrictive)	No	
	Dependence on imports and/or exports	Yes	
	Exchange rate (currency risk)	Yes	
	Growth of the business	Stable	
	Single Debtor Risk	Yes	
	Total Score		
			0.0
25%	**D. Financial risk**	**Parameters**	**Score (1-5)**
	Historical financial performance (Z Score)		
	Repayability (DSCR)		
	Total Score carried forward from financial model		
			0.0
20%	**E. Security**	**Parameters**	**Score (1-5)**
	Owners' contribution	<30% of loan value	
	Collateral cover (security value)	<60% of loan value	
	Total Score		
			0.0
100%			
Risk rating score			**0.0**

Source: Credit Score Card, DBN, *2021*

The heart of the credit assessment is the Credit Risk Rating of which narrative is reduced in the Appraisal Report. The Credit Risk Score card is a uniform score card applied to all projects being assessed with no discrimination on sector or industry. A scoring between 1 and 5 is applied (the latter depicting high risk) to projects against the background, governance risk, business risk, financial risk, and security/collateral risk. For instance, the technical and management ability of Developers is scored under governance risk which carries a 20% weight overall.

2.5 DBN's GUIDELINE TO FINANCING PROPERTY DEVELOPMENTS

The DBN has further adopted a guideline to the financing of properties and to provide guidance in the credit risk appraisal process in structuring of property development projects.

A closer analysis on the guidelines indicates the following sections covered for consideration:

1. **Eligibility:** detailing who is eligible for funding

2. **Scope and context:** providing an array of the type of projects that can be funded

3. **Financing criteria:** providing a matrix of gearing (debt/equity) and tenure requirements

4. **Sectoral limits:** indicating the DBN's sectoral exposure limits

Judging from the above categories, there is a potential of adverse selection, as a result of information asymmetry with respect to analysts obtaining key information required to understand the borrowers technical and management capability required for housing developments.

2.6 REVIEW OF DBN AND OTHER SELECTED LAND AND HOUSING FINANCING MODELS

2.6.1 DBN's Land development concept

The background to this concept stems from the Bank trying to secure a medium to promote and increase access to finance to local authorities. It is an initiative to support local authorities in availing land/housing delivery as that has always been seen to be the challenge. The notion is that local authorities maintain ownership of the land (it is not transferred) hence this is regarded as a risk-free concept on the part of the local authority.

DBN bears the financial risk, availing the capital required for project preparation work that entails appointing consultants to design and costing of the project as well financing the actual project once found to be feasible by the appointed consultants. In the event the project is found to be successful the intention is for it to be rolled out to other local authorities. The concept is in line with DBN, Council and national mandates as it supports social progression and economic transformation. The local authority is required to obtain Ministerial Approval and a Council Resolution prior to entering in the Development Agreement with DBN.

DBN's experience of this financing arrangement thus far is with two local authorities with the first pilot project having being done in Eenhana (Ohangwena Region) in 2015 and the second in Nkurenkuru Town Council in 2020. Reference to the models use Nkurenkuru Town Council as an example for better illustrative purposes and a brief comparative to the two projects is indicated later. The projects are executed via a tri-partite arrangement between a Developer, DBN and Local Authority bound by a Development Agreement.

The finance is advanced on a project finance basis with non-recourse to shareholders of the SPV. The project cost is costed by Engineers/consultants who are also responsible for contract administration, procurement and supervision and alienation of sales (with assistance from the local authorities and estate agents). It is a full turnkey solution that the DBN is trying to provide in the plight for land and housing delivery.

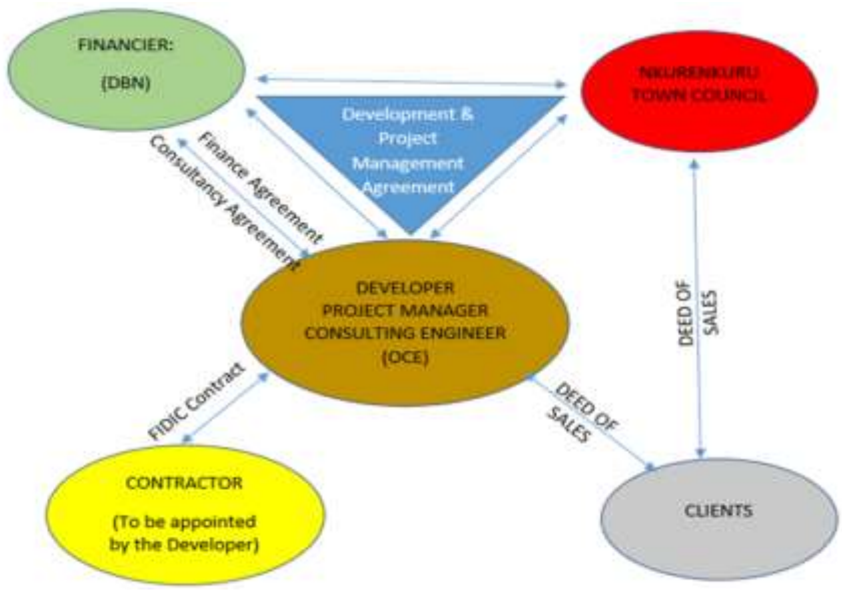

Figure 2.3: DBN's land development agreement project structure

Source: DBN, *Investments Department,2021*

The value proposition for this concept stems from the development impact that emanates from job creation, economic sector stimulation, specifically for the construction sector, skills development and access to land and housing. Economic activity will be stimulated through the provision of business, industrial and general business erven and the local authority benefits in terms of additional rates and taxes. DBN contributes to infrastructure development through the provision of land and housing, thereby fulfilling its mandate.

The aim is for DBN to recover capital and interest from sale receipts and if there is profit made, it shall be shared on an agreed ratio. Both projects are still ongoing, with ETC being ahead due to time of implementation, construction has been completed and sales are still forth coming, however delayed. NTC is nearing completion in terms of construction, however, construction and sales also delayed.

Table 2.2. Comparative analysis of ETC and NTC land development projects

Project	Nkurenkuru Land Development (NTC)	Eehnana Land Development (ETC)
No. of erven	337 (242 res)	171 (151 res)
Average size	600 sqm	480 sqm
Average price p/sqm	N$ 250 p/sqm (N$ 175)	N$ 350 p/sqm
Development approach	Phased approach	No phases
	Marketing and sale of erven to commence during construction	Marketing and sales conducted post construction
	Show houses to be built	Show houses built post construction
	Sales to include plot and plan options	Plot and plan options commenced post construction
Sensitivities (cashflow)	Yes (sales and time as a factor)	No
Development Team	Limited and focused roles	Too many parties (grey areas)
Market Dynamics	Extension is partially serviced	Various surrounding towns, fairly establish services
	Construction projects ongoing	Alternatives in the market for consumers to choose
	Nearest established town is 130km away	
	No competing projects	

2.6.2 Ministry of Finance proposed land development arrangement

If cone considers alternative models, such as one proposed by the Ministry of Finance, the salient features of their concept is such that the Ministry of Urban and Rural Development (MURD) and the local government spearhead the responsibilities of site selection, Ministry of Finance (MoF) provides support to project preparation. Further, a Special Purpose Vehicle (SPV) or (Developer) is set up to develop and manage the project which entails land servicing and construction of houses for identified beneficiaries. The SPV is selected through a procurement process of which the financial criteria aim to select the bidder who is selling houses at the lowest price to beneficiaries. At first glance of the concept, it's clear that the element of partnership is not entrenched in the project structure. The public agencies are taking lead and the private party is merely contracted to implement the project, entrusted with the burden of seeking financial capital for the project. The responsibility of seeking finance solely lies with the Developer and is well entrenched in the public private partnership agreements that DBN has financed.

A recent study done by Southern African Development Community (SADC) Development Finance Resource Institute (DFRC) availed that DFI's need to be intentional and have a significant role in the provision of land and housing. To this end, DFIs should adopt a strategy to support infrastructure development in key sectors of their countries' economies. More specifically to housing sector, the DFIs should identify land and provide on-site and off-site infrastructure as one of the key deliverables. To that end, the DFIs should work very closely with providers of infrastructure, both public and private, with a view to come up with innovative ways of overcoming the many challenges faced by providers of infrastructure services. The challenges experienced by many DFIs are range from a lack of long-term funding, a less vibrant domestic capital market preferring short-term investments to long-term investments and reduced donor funding for Developers, SADC DFRC Infrastructure Group (2021).

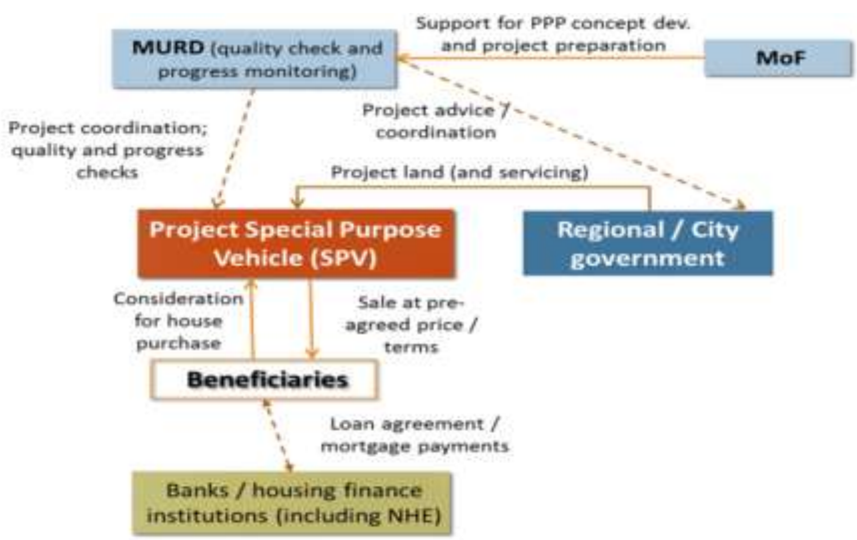

Figure 2.4: Proposed housing delivery model - MOF

Source: Ministry of Finance, PPP Unit, 2021

2.6.3 SADC DFRC Housing delivery model

Further, the SADC DFRC network group suggested that an efficient delivery model be presented as follows:

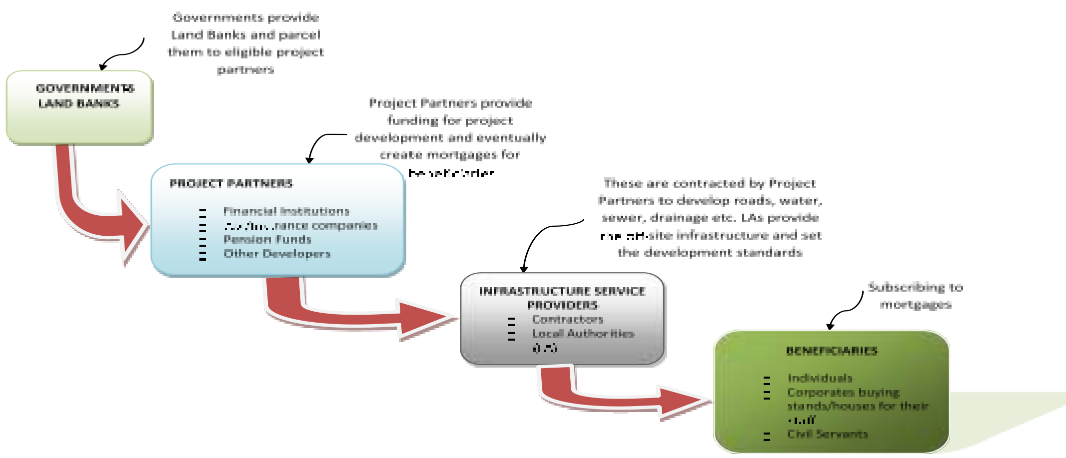

Figure 2.5: SADC DFRC Housing Delivery Model

Source: SADC DFRC Infrastructure Group, 2021

A closer look at the illustrated model shows that financiers are top of projects partners to the housing delivery model and that a concerted effort is required between various agents in the quest for housing delivery.

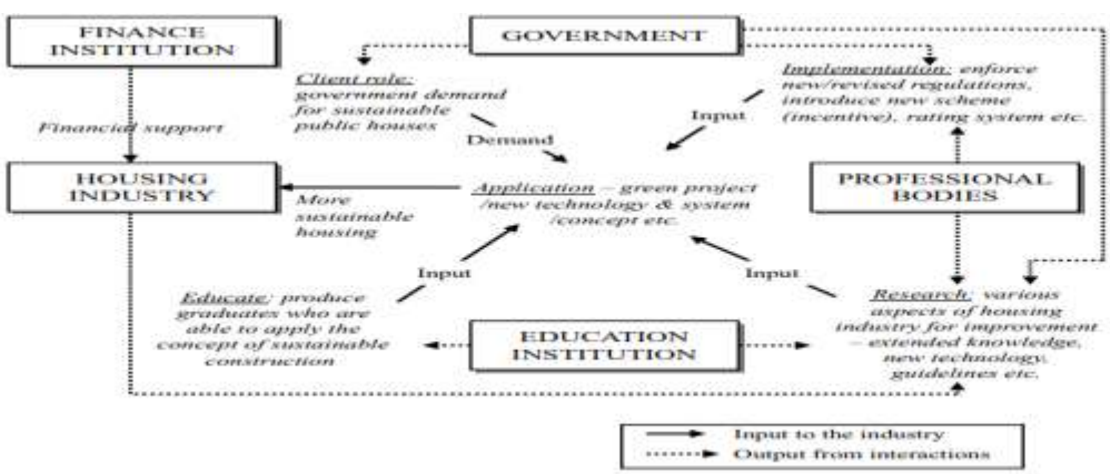

Figure 2.6: Interactions of Institutional Enablers

Source: Insights from Abidin et al. (2013)

Abidin *et al.* (2013) further argued that, a sustainable housing solution is only as effective as the demand and offtake demonstrated. Thus, the demand factors also play a role. It is expected that there needs to be sizeable demand to housing stock to enable a sustainable housing solution.

2.7 FACTORS AFFECTING PEFORMANCE OF PROPERTY DEVELOPERS

The construction industry, including that of housing is characterized by a complex supply chain and various players as indicated earlier. These players may have competing or conflicting interests. To make construction work, it requires close interaction of all stakeholders because it requires high compatibility of all domains of design, construction and user behavior (Hakkinen and Belloni, 2011). Everyone has to understand and ensure that their actions and decisions add as little as possible to the burden on the environment and the housing solution. To create a sustainable housing industry, different stakeholders must be proactive and provide supportive actions to others to ensure a collective growth in every facet of the development.

Khalid *et al.* (2018) defines the term of property developer as a role player that selects a contractor who carries out the civil, mechanical, electrical, plumbing, heating, ventilating, air-conditioning, painting, and fixing work at a construction site. Thus, simply put a developer appoints the contractor who attends to the construction work required. Having said that, a developer's performance may be hampered if a contractor in many ways is not completing project deliverables as scheduled. Khalid *et al.* (2018) continues to point out cashflow and labour shortages as a factor that can hamper a developer's performance. Property Developers most often are badly hit by non-availability of adequate funds to complete construction projects. One can also argue that financial management and expertise to manage budgets can also be a constraint to managing liquidity.

Labour shortages due to either political unrests or general skills shortage of skilled bricklayers or artisans in a country may also be an impeding factor that hampers progress. This is directly also linked to quality constraints that may not be met by contractors and this may damage the image and reputation of Developers.

Regarding finances, budget and cost constraints in light of non-availability of funds, are also supported as impediments by Jin et al. (2017). Further, Doloi (2012) states that developer's performances are negatively affected when there are discrepancies related to material, time, quality, labour and management of personal amongst others.

Developers are at the forefront of delivering projects and accountable for the construction, performance and completion risk, thus a conscious effort in understanding their challenges and impediments when executing land and housing projects needs to be done. A deeper understanding of the complexities faced by Developers in planning, building and ultimately alienating land or housing needs to be understood.

Considering the participants to a housing delivery model, we have seen that professionals or consultants also play a key role. Consultants are hired by property developers to overlook and evaluate the performances of the contractors. They are also responsible for the designs and costing the project, Nikumbh & Pimplikar (2014). A developer's performance may thus be hampered if a consultant is unable to provide timely information regarding designated construction project. Moreover, Mushtaq *et al.* (2018) confirms that if consultants are negligent in their duties, such as delaying filed visits and inspections that warrant the contractor to move and progress to the next phase, this may halt the progress onsite, affecting Developers performances.

Developers have the strategic position to incorporate sustainable concepts within construction projects. Zhang *et al.* (2011) stated that any regulatory strategies will only be effective if Developers participate in the quest. Majdalani *et al.* (2006) opined that Developers must take a leadership role in transforming the construction industry towards sustainability.

Awliya (2017), conducted a study outlining experiences of suitable Developers in housing developments in Saudi Arabia and a number of issues came afore such as the lack of financing options available to provide funding that can enable them to deliver affordable housing solutions. The lack of general skilled and Developers to ensure quality and service delivery according to the required specifications, thus resulting in delayed turnover and cost implications on the part of the Developer to attend to reworks.

Further, Boyle *et al.* (2019) also conducted a study in South Africa which revealed that there are mainly two different types of micro-developers; the ‘homeowner-developer’ and the ‘enterprise-developer’, and this distinction defines how they respond to the structure inherent to the local context. According to estimates provided by the respondents, financial performance of the projects is extremely good. However, access to affordable finance and a lack of formal construction management skills were identified as the major challenges encountered by these Developers.

2.8 PROPERTY DEVELOPERS AND RISK MANAGEMENT

It is necessary to set up a systematic framework for classifying the risks in construction projects. Taofeeq *et al.* (2019) categorized construction risk groups in a number of categories which include physical groups, labour and expert's groups, consultant groups, material and equipment groups, environmental and safety groups, political and regulation groups as well as financial groups. The most influential to contractor's performance have been highlighted as factors caused by financial and management limitations as well as a lack of sufficient technical and management on construction projects.

More interestingly Taofeeq (2019) noted that it is important to understand a contractor's risk attitude towards project management and he has classified contractors risk attitudes in two three categories, namely, risk averse, risk neutral and risk seeking contractors. A risk averse contractor is a contractor who prefers lower returns with risks that are known up front as opposed to higher returns with limited knowledge of the risks. A risk neutral contractor is indifferent, and places himself in the middle of the risk spectrum of a risk averse and risk seeking contractor. The risk seeking or taking contractor risks everything in the hope of gaining maximum return. For instance, they are willing to spend their last financial resources to achieve.

Conceptually, a contractor's risk attitude is a dependent variable, dependent on independent risk variables such as technical, logistical, management, social –political, financial and environmental risk. The contractor's behaviour and influence is determined by their ability to tolerate certain risk variables as identified in Figure 6. A risk-taking contractor adopts that attitude on account of the degree of risk their perceived or having experienced in the different risk categories as outlined.

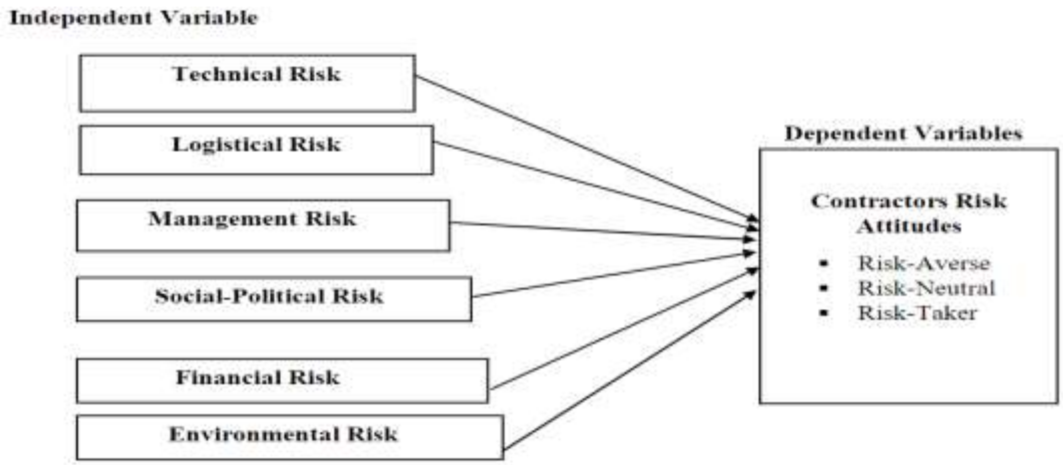

Figure 2.7: Conceptual Framework: Factors affecting contractors risk attitudes

Source: Insights from Taofeeq, 2019

Thus, in conclusion, we have seen that Developers in property are affected by a variety of factors and it will be interesting to assess if any of those factors are shared by selected property Developers financed by DBN.

2.9 PUBLIC PRIVATE PARTNERSHIPS

Having looked at different housing models, this section of the report distils the critical success factors for land and housing PPP projects in relation to Namibia.

From the academic research and models discussed and using Sharma (2022)'s findings, critical success factors for affordable housing PPPs can be summarized as follows within the context of Namibia;

Concessionary Financing

This is perhaps the most important success factor to the delivery of affordable housing PPPs. There are two aspects to affordable financing. The first is that the cost of funds to the private sector developer should be as low as possible. As discussed above, this involves either some form of subsidies from the government or concessionary loans from government backed financial institutions or multilateral banks. The second aspect of concessionary financing relates to the funds available to allottees to purchase the housing units. This will include the favourable loan terms and interest rates for purchasers of credit-linked housing, whether relating to personal loans or mortgages. The whole essence of this is that the financial costs associated with an allottee purchasing finished houses should not lift the cost of those houses above the threshold of affordability for low-income earners. In the Namibian context, financing would have the greatest impact on affordability in relation to credit-linked housing and rent-to-buy schemes. Inadequate support from local financial institutions and inadequate support from international financial institutions are some of the other challenges facing affordable housing PPPs.

Affordability and access to land

One of the critical success factors for the delivery of affordable housing is a streamlined land tenure system, access to land and affordability of that land. In Namibia presently there are issues to varying degrees with each of these aspects. In the urban areas where most of these issues do not arise, commonly there is high cost of serviced land. Such high costs make whatever houses built on these lands too expensive for low- and middle-income earners. There must therefore be concerted efforts to bring down the cost of serviced land.

Cost of materials and availability of alternatives

Generally, the cost of building materials contributes a high proportion of the cost of a finished house. This is therefore a very important factor to the success of affordable housing PPPs. Of course, the most sustainable solution for reducing the high cost of building materials in Namibia is to develop of local industries that produce building materials within Namibia. In the short-term resort to use of innovative methods and cheaper alternatives would greatly reduce the high construction cost in Namibia.

Moreover, most of the building materials are imported, especially semi-finished and finished products needed for the construction. This often provides a challenge to Developers the local currency is not stable and as such, it is difficult to budget

State of infrastructure

The availability of already existing infrastructure is also a critical success factor for the development of affordable housing. This is because in the absence of infrastructure such as roads, pipe-borne water, and other services, property Developers must build these by themselves and transfer the cost to end users.

Legal and policy reform

The town planning system might be a major constraint to the development of affordable housing in Namibia. There is a need to allow the stratification of the quality of infrastructure that is allowed in different districts. Every district must not have the same level of infrastructure so that the cost of providing infrastructure in these districts are cheaper thus allowing for more affordable housing. The provisions of the Namibian Procurement Act also make the construction of ultra-low-cost housing nearly impossible due to its complicated and bureaucratic system.

Sustainability

Another important critical success factor is sustainability. Sustainability itself is a broad concept that ranges from financial, through environmental and energy sustainability. However, what is most relevant in this context is financial sustainability. Where houses are provided to end users at affordable prices, but their design is such that requires high cost to maintain, these houses eventually turn out to be unaffordable and fall into disrepair and might eventually be sold off by the initial buyers.

Effective procurement and payment plans

Other noticeable factors that affect affordable housing projects are lack of transparency in procurement processes, lack of feasibility studies (government), poor communication among stakeholders, bureaucracy, lack of transparency in project monitoring, payments delays and political corruption. The procurement process determines a lot about the success of PPPs. A good procurement plan includes proper risk analysis and allocation, value for money analysis and cost recovery plan. No matter how affordable a housing project is designed to be, if the procurement plan does not ensure that the interests of other stakeholders are careered to, it will ultimately fail.

Transparency

Without transparency, corrupt practices make affordable housing inaccessible to that section of the population towards whom they are targeted. This calls for effective legal and institutional frameworks as housing projects have failed in the past as a result of such corrupt practices as hoarding of housing units for the benefit of wealthy individuals or government officials, allocation to cronies who do not pay for the houses and payment of bribes by defaulters in return for leniency or non-enforcement by officials. High-level official corruption such as bid rigging also increases the project cost for the investor, which cost is transferred to the end user forcing the price of houses out of the reach of low-income earners.

Competition

One of the determinants of the quality of a procurement process is competition. This means that where a project originates from an unsolicited bid, authorities should introduce mechanisms that would ensure that there is some competitive pressure. An example of such a mechanism is the Swiss challenge, a mechanism that entails calling for bids that parallel the original unsolicited bid. The best bid is then selected from amongst all the bids including the original one.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

This research took a descriptive approach as it allowed for an understanding of the views and experiences of DBN and Developers financed within the realm of land and housing projects, an issue which has not been studied and understood in depth within the DBN. Descriptive studies answer questions of what, where, when and how, while explanatory research usually questions why. Babbie (2010).

This type of research also allows for the soliciting of solutions from those interviewed, it allows the researcher to make suggestions where possible as well as use the results to amend (if necessary) the behaviour and processes within the DBN. The research instrument used was a structured set of questionnaires with directed questions to three groups, namely: DBN staff that are involved in the credit appraisal process, Developers and Contractors as well as consultants.

The rationale of the grouping was to achieve the following:

- **Category 1**: Financier (represented by DBN Staff) – to assist in addressing queries relating to understanding the relationship management, credit risk management as well as the portfolio management perspectives;
- **Category 2**: Developers and Contractors (DBN financed) – as implementers on the ground, assisted in addressing queries relating to experiences with DBN finance solutions granted and challenges experienced with respect to completing projects and repaying loans granted;

- **Category 3:** Consultants – these are the professional service providers such as Engineers and Quantity Surveyors that attend to project design, costing and management. They assisted in understand the challenges and experiences with managing land and housing projects.

Further, one-on-one interviews were held with the DBN's staff (senior management) who were in a position to provide insight into the bank's imminent challenges, and provide lessons that could be used to structure property finance facilities better. This research also took a quantitative approach by gathering data from the DBN's loan book and statistics from annual reports to present and support the problem.

3.2 POPULATION

T he population included subjects (personal) that were interviewed both in the DBN and external parties.

The responses or insights on projects were obtained from DBN staff members and externally by engaging the Developers, contractors and consultants on the projects. Developers and contractors were treated as one group, as implementers of projects and consultants and project managers were categorised separately as the project professionals or oversight managers on the project.

As at December 2021, the DBN was exposed to 16 housing projects. These projects lay in different loan classification categories and it was the researcher's aim to obtain insights on all projects by providing questionnaires to both the Developers or contractors and consultants on each project. There were 8 land servicing projects on the loan book and all were subjects of the study. Positively, only one was in the non-performing category, thus the views obtained from this cluster were beneficial to adopting success factors. The exposure to housing projects in value stood at N$ 654 million, representing 7% of the loan portfolio.

Table 3.1: DBN's exposure to the housing sector

Loan Classification for the Housing Sector, Dec 2021				
Loan Classification	**Balance Outstanding (N$)**	**% Share**	**Number of Projects**	**% Share**
A_Pass / Acceptance	367,681,465.35	56%	3	19%
B_Watch / Special Mention	7,714,237.87	1%	2	13%
BB_Restructured (PL) Monitoring	91,251,274.66	14%	3	19%
D_Doubtful	2,597,421.07	0%	1	6%
E_Loss/All Interest Stopped	1,346,221.00	0%	1	6%
EE_Handed over for legal action	173,666,869.21	27%	5	31%
EF_Judgement	10,485,690.92	2%	1	6%
Grand Total	**654,743,180.08**	**100%**	**16**	**100%**

Source: DBN Loan Book, December 2021

The Bank is further exposed to 8 projects on the loan book, with a combined exposure of N$ 202 million as at December 2021, representing 2% of the loan book. These projects also lay in different loan classification categories and it was also prudent to have an investigation covering those that were performing and those that were non-performing so as to have a representative view.

Table 3.2: DBN's exposure to the land delivery sector

Loan Classification for the Land Delivery Sector, Dec 2021				
Category	**Balance Outstanding (N$)**	**% Share**	**Number of Projects**	**% Share**
A_Pass / Acceptance	95,342,566.48	47%	4	50%
B_Watch / Special Mention	73,731,196.88	36%	3	38%
BB_Restructured (PL) Monitoring	33,062,641.18	16%	1	13%
Total	**202,136,404.54**	**100%**	**8**	**100%**

Source: DBN Loan Book, December 2021

3.3 SAMPLE

nd Non-probability sampling method was used where the results could be used to represent the views of the entire population. Subsequently, a stratified sampling technique was employed where the property portfolio could be deduced from the DBN loan book which currently is made up of three sub categories, namely: land portfolio, housing portfolio and commercial portfolio. This study excluded the commercial portfolio. A further stratification between land and housing projects financed was made.

DBN has a total of 110 employees of which 40 are involved in the credit appraisal and portfolio monitoring function, hence this is a stratification of departments. Thus the population eligible for the study is made up of40 employees. Purposive sampling as a method of non-probability sampling was used to sample key DBN officials as available subjects from the list of 10 that were involved or had exposure to appraising and evaluating land and housing transactions which amounted to 10 staff members coming from the Investments, Credit Risk and Portfolio Management departments.

Cognizance was also taken on selecting officials that had significant exposure in appraising housing developments, relative to others. Having considered the combined population of housing and land projects on the DBN loan book to be 24, it was practical to assess at least 50% of the projects and gauge the experience of Developers, contractors and consultants assigned to these projects as indicated in Table 3.3 below. The respondents were from internal staff at the DBN and external (Developers and consultants). DBN staff made up 33% of the respondents while the external respondents made up 67%. The response rate from DBN staff was an impressive 100% while the response rate of the external respondents was a good result of 80%. Overall, the average response rate of all respondents summed up to a satisfactory 87% and thus provided a fair representation of views and experiences.

Table 3.3 Population sample and response rate

	Category	Number	% Share	Responses	Response Rate (%)
Internal (DBN Staff)	Investments Department	6	20%	6	100%
	Credit Risk Department	2	7%	2	100%
	Portfolio Management Department	2	7%	2	100%
	Sub Total	**10**	**33%**	**10**	**100%**
External					
	Developer/Contractor	10	33%	8	80%
	Consultants/Project Manager	10	33%	8	80%
	Sub Total	**20**	**67%**	**16**	**80%**
	Grand Total	**30**	**100%**	**26**	**87%**

3.4 RESEARCH INSTRUMENT AND PROCEDURE

Secondary data was sourced through extracting data from internal DBN information systems such as the loan book, internal development impact reports, external market reports as well as the credit and investment policy supported with structured interviews held with DBN's middle and senior management involved in the credit appraisal process and portfolio management staff responsible for the land and housing portfolio. In this regard, an interview guide was developed, having closed and open-ended questions. A structured questionnaire was designed and it listed possible success factors and risk factors from which respondents could respond. Further queries regarding challenges in the successfully implementation and completion of land and housing projects faced by Developers/Contractors were put forward.

3.5 DATA ANALYSIS

Responses to the interviews and questionnaires were collated and condensed to draw content and cross case analysis to the various queries posed. Descriptive statistics was used to analyse the performance of the land and housing portfolio, using the DBN loan book data. The data was analysed over a number of years in order to draw a narrative on the performance of the portfolio over time.Further, respondents had instances where they had to choose ratings between values of one and five, where one indicated the worst and five the best or most preferred rating. This was then converted into a similar rating scale from one to five to allow for easy interpretation of the results.

3.6 ETHICAL CONSIDERATIONS

The research ensured to obtain consent from all research participants both internally within DBN and externally. The necessary approvals to conduct the research and use of data was obtained from the relevant authorities within the DBN. Participation was also voluntary and the views and opinions drawn from the different respondents were treated with a high degree of confidentiality, such that anonymity was maintained. The participants were not in any way forced to provide answers that suited the researcher.

CHAPTER 4

RESULTS AND DISCUSSIONS

4.1 INTRODUCTION

This chapter precedes with presenting a profile of the respondents of the study and is dedicated to the research findings with relation to the reviewed literature. The chapter provides an analysis and discussion of the results . The data is presented in various formats, including graphical presentations, tables and descriptive narrations. The results reveal the perceptions, satisfaction levels and recommendations put forward by three distinctive groups, namely: the selected DBN staff, Developers/Contractors and Consulting Engineers.

4.2 PROFILE OF RESPONDENTS

As discussed, the respondents were grouped into three distinct groups in order to achieve a holistic position. Internal views were drawn from three departments (Investments, Portfolio Management and Credit Risk departments). External views were drawn from Developers/Contractors as executors and Consulting Engineers as supervisors and project managers on the projects. In total, an eighty-seven (87) per cent response rate was achieved, as presented earlier in Table 3.3, under the Methodology section. Following is a narration of the profile of respondents.

4.2.1 Internal respondents: DBN staff

4.2.1.1 Gender

The majority of the respondents within DBN were female, eighty-nine (89) per cent, while only eleven (11) per cent of the respondents were male, (Figure 4.2.1).

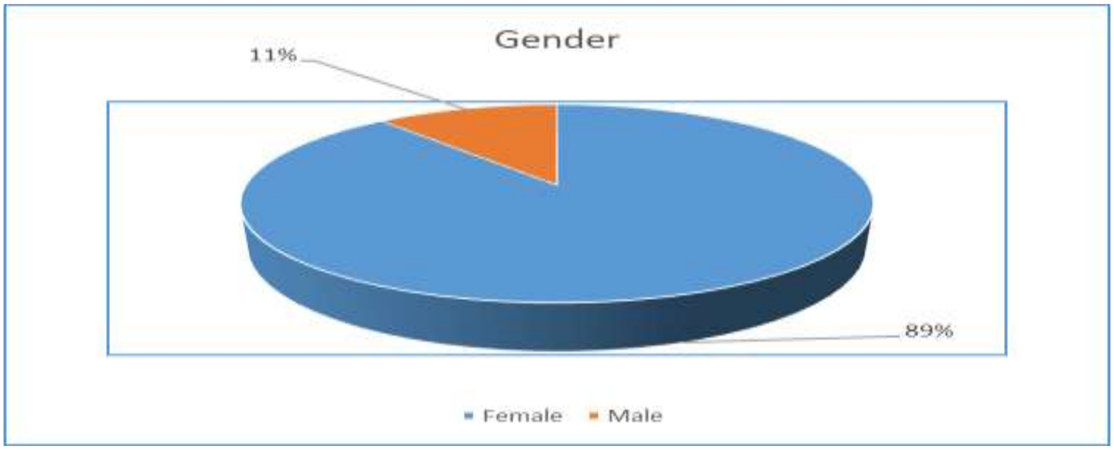

Figure: 4.2.1: Gender of respondents

4.2.1.2 Level of Position in the bank

The respondents were asked to indicate their level of position within the bank, ranked from officer, middle management and executive management. The majority, i.e., eighty-nine (89) percent were in middle management, while eleven (11) percent were at levels of officers n and executives respectively (Figure 4.2.2). This implies that the views expressed are fairly from senior staff within the bank and linking it to the gender representation, remarkably, the observation is that most of the staff involved in the credit assessment of land and housing projects in DBN maintain fairly senior positions.

Figure: 4.2.2: Level of position in the bank

4.2.1.3 Credit assessment experience

Regarding experience in credit assessments for land and housing projects, fifty-six (56) per cent of the respondents had between five- and ten-years' experience while twenty-two percent each had less than five years and more than twenty years' experience (Figure 4.2.3). This still provides a good comfort that the respondents had sufficient experience in the subject matter.

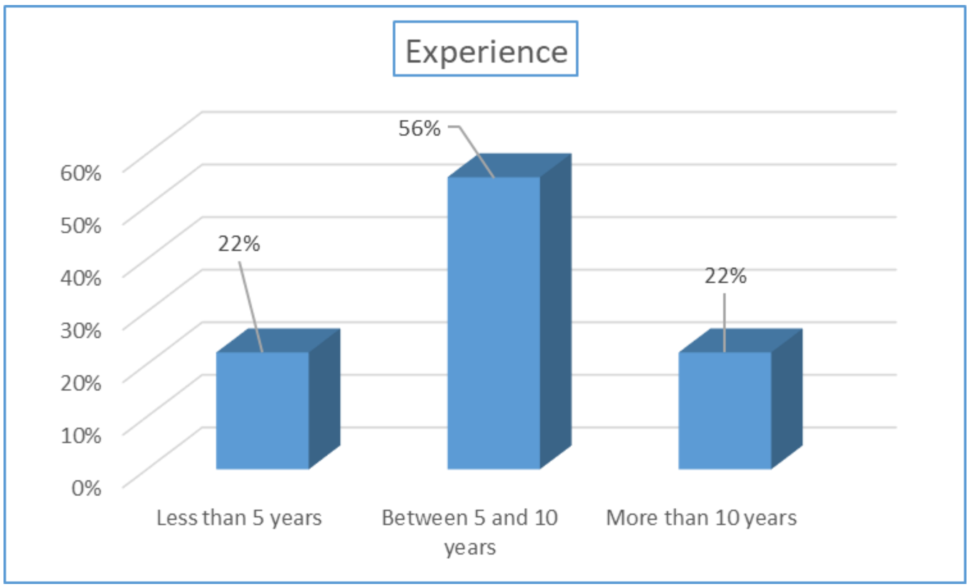

Figure: 4.2.3 Credit assessment experience

4.2.2 External Respondents: Developers, Contractors and Consultants

This section profiles the two groups of selected Developers or Contractors and Consultants that have been engaged as part of the research process.

4.2.2.1 Gender

Coincidentally, the respondents represented an overwhelming result of hundred (100) per cent as males (Figure 4.2.4). This can be an indication that the sector is still dominated by males.

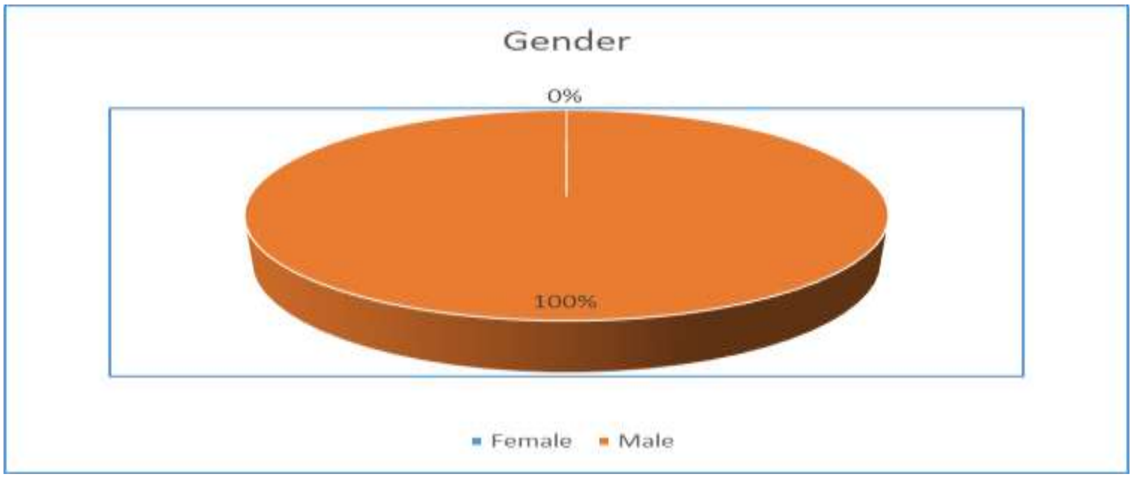

Figure: 4.2.4: Gender

4.2.2.2 Position in the company

The respondents were asked to indicate whether they were owners, managers or employees of the company. All of the respondents were owners of their respective companies (Figure 4.2.5), thus putting them in a position of authority to represent their companies.

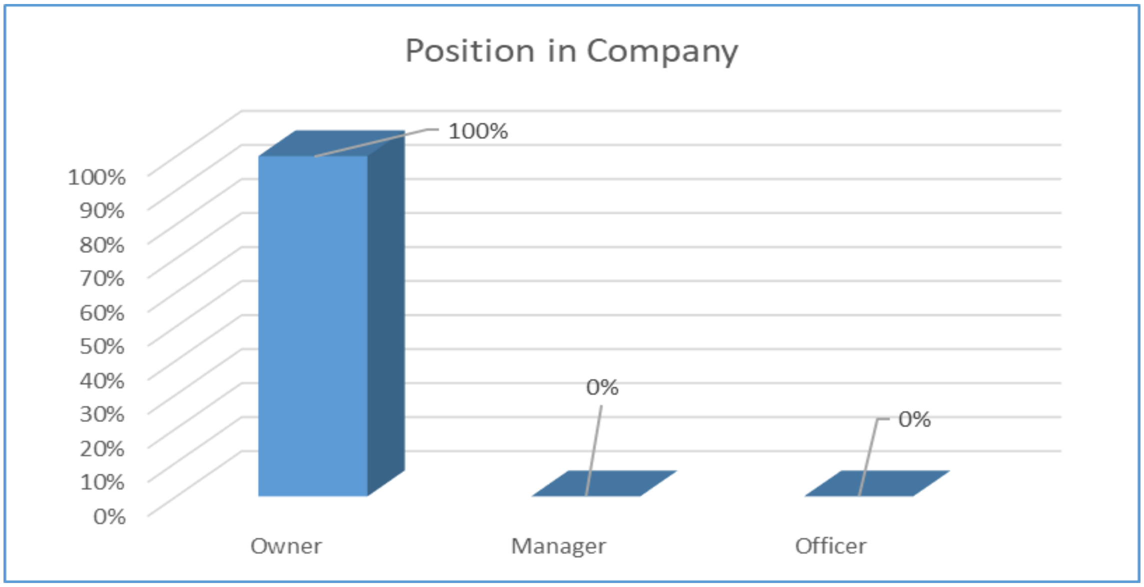

Figure:4.2.5 Position in the company

4.2.2.3 Experience in implementing land and housing developments

It was necessary to determine the length of experience in land and housing development. . Coincidentally, respondents were evenly distributed in terms of the number of experiences in land and housing development which was thirty-three (33) percent for both categories, five, ten and more than ten years' experience respectively (Figure 4.2.6).

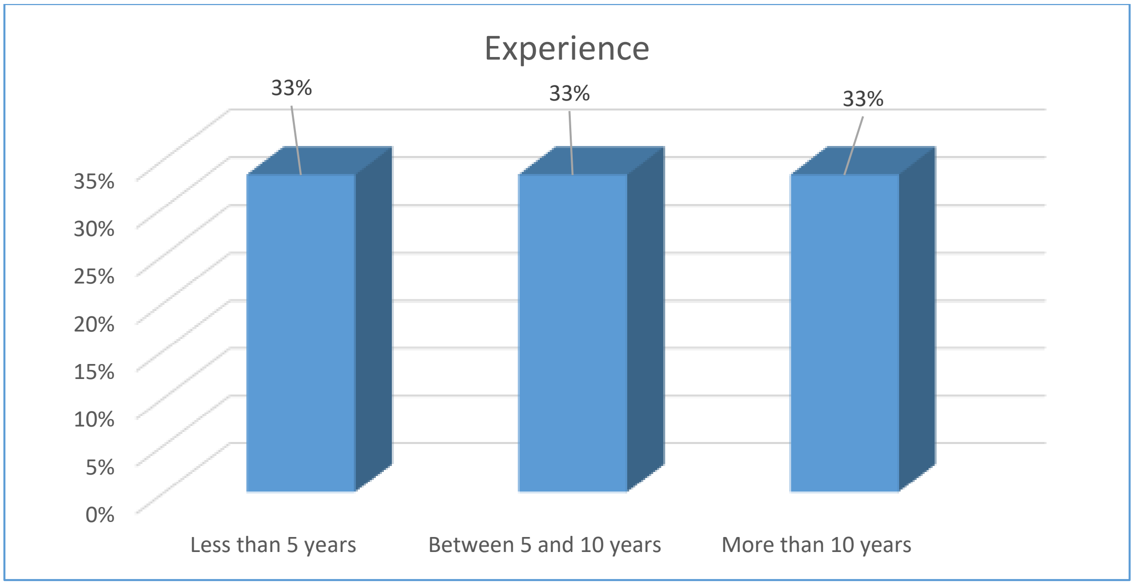

Figure: 4.2.6: Experience in implementing land and housing developments

4.3 PRESENTATION AND ANALYSIS OF DATA

4.3.1 Responses from selected DBN Staff addressing DBN's experience and key challenges faced in financing land and housing projects

This section covers the internal responses from the DBN staff members that are involved in appraising land and housing projects. The section provides their responses with regards to the following; determination of their level of skill capacity in appraising land and housing projects, their views on the causes of the NPLS's and mitigating measures suggested. Furthermore, this section points out the top credit risks as well as considers portfolio management, workout and collection strategies that should be made adopted and concludes with policy suggestions to Developers/Contractors on how to enhance the implementation of their projects.

4.3.1.1 Level of skills

The DBN staff were asked to indicate if they felt that they had adequate level of skills, knowledge and training to assess land and housing projects and sixty-seven (67) percent felt they had adequate training, while 33% felt they still lacked skills and training in the appraising land and housing transactions or projects (Figure 4.3.1).

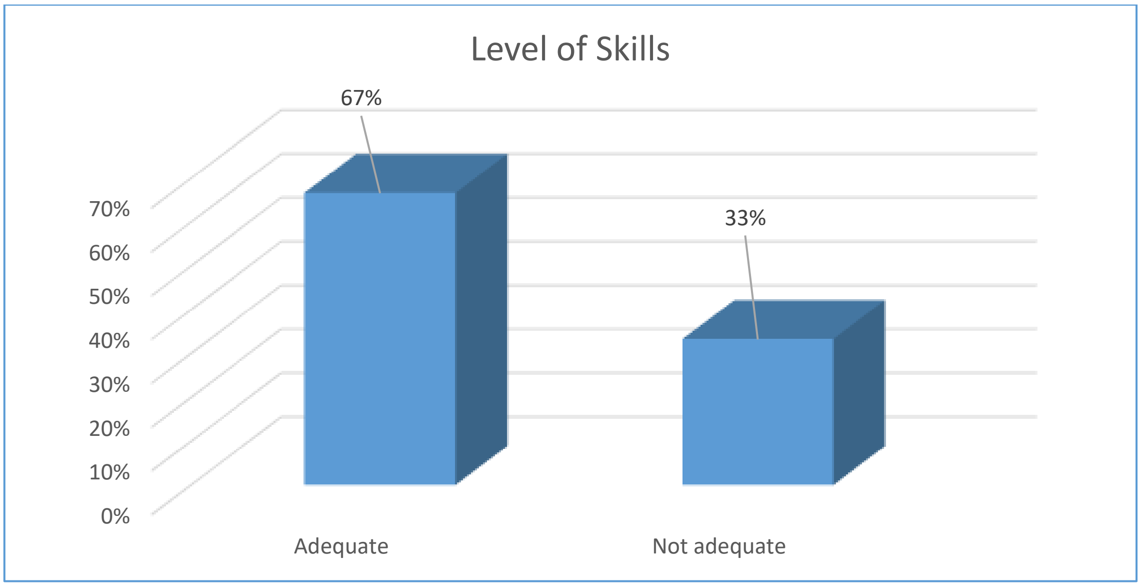

Figure 4.3.1: Level of skills

The respondents were also asked to indicate areas of further training and those that indicated stated that technical skills relating to assessing the bills of quantities of project costs needs to be strengthened. This is normally a specialization area of Quantity Surveyors and Engineers.

4.3.1.2 Causes of high non-performing loan ratios (NPLs)

The respondents within the three distinct departments were asked the question pertaining to what causes the high NPL's they observe on the DBN loan book. The question was open ended. Interestingly there were common views and most synonymous was that the high NPL’s were caused by poor deal structuring, high gearing levels on the part of the borrowers, lack of adequate portfolio management, external macro-economic factors, demand factors such as affordability levels of the target market. Lack of comprehensive due diligence on projects risks and how to mitigate them was also found to be key.

The management of projects on the part of borrowers was also found to be a significant factor in the rising NPL’s, such as the lack of proper financial management and cross subsidization of monies between multiple projects they are handling or between business and personal expenses.

4.3.1.3. Mitigation of NPLs

There was also a deliberate question asked to understand what mitigation measures should be employed to avoid the rising NPL’s, both from a deal structuring and credit risk management point of view. Profoundly, 80% of the respondents placed heavy emphasis on risk allocation such that they believe that risks should be given to the party that’s best able to handle it. These views are consistent with the theory of public private partnerships. Making sure that projects include the right management and technical capacity to deliver (both during construction phase and during offtake phase). The employment of stringent credit risk measures or thresholds such as equity contribution and collateral requirements were also some of the views expressed by 60% of the respondents. The importance of having an independent project manager was also accentuated, so as to provide the bank additional oversight in project management. The market assessment role was also emphasized as key in ensuring that the project is fit for the market it is intended for, thereby ensuring houses built have a ready market, thus warranting that offtake risk is managed.

4.3.1.4 Top Credit risk factors affecting the quality of the land and housing Loan portfolio

Respondents were asked what they considered where the top five credit risk factors to consider when financing a land delivery or housing project. The majority of respondents considered the capital structure and market risks as the most top critical risk factors to consider. The remaining risks were noted to be construction risk, macro-economic factors and management capacity (Figure 4.3.2).

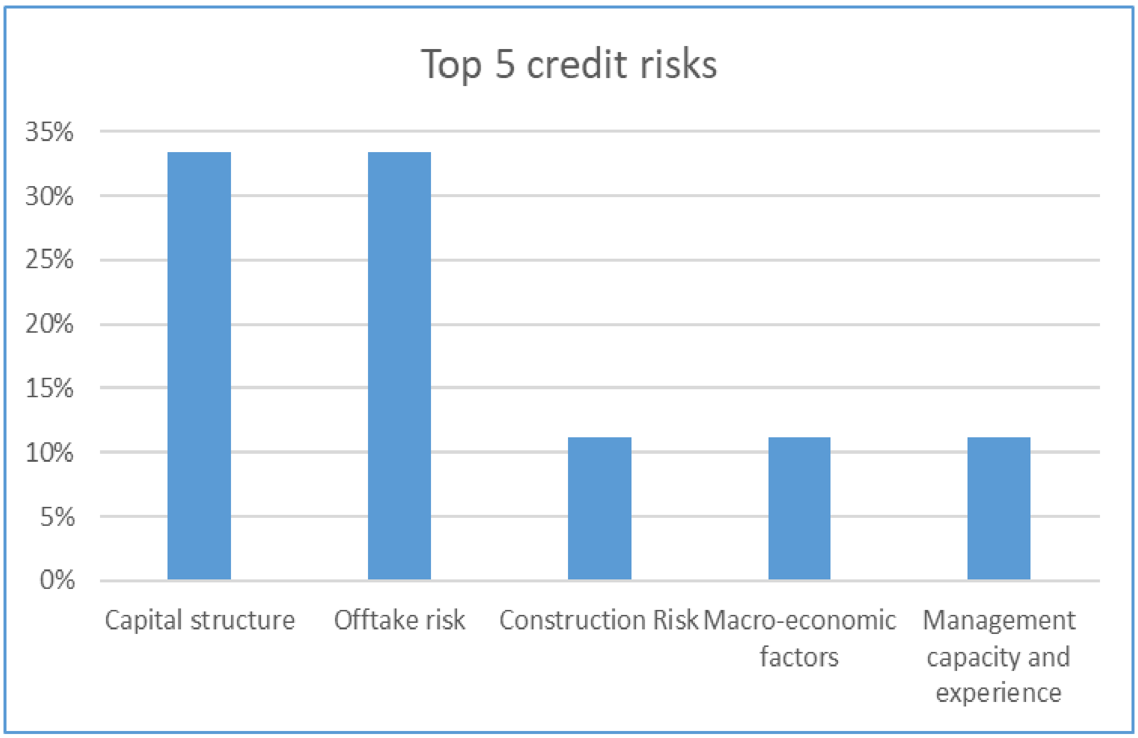

Figure: 4.3.2: Top 5 Credit risks

4.3.1.5 Early Warning Signs

This question was specifically asked to staff involved in credit risk management and portfolio management as custodians of monitoring and evaluating the loan portfolio, thus excluding the investments department. Early warning signs are said to be detected when conducting periodical portfolio reviews on projects financed by the Bank which should be conducted on a monthly basis. Respondents indicated that these signs include delayed construction work, normally evident from progress reports that are submitted on a monthly basis and detected during site meetings when DBN staff attend. Respondents stated further that these concerns are firstly discussed with borrowers to formulate a factual position before a formal report is tabled to the relevant credit and investment committee within the bank. Moreover, when progress is delayed, this translates to either minimal or subdued loan repayments to the DBN which then gives rise to loan arrears in most instances. This is normally the trigger for a rescheduling or restructuring of loan facilities, respondents stated.

4.3.1.6 Portfolio Management

Specific to respondents in the portfolio management department, a question was posed to regarding the common challenges the department experience when managing the land housing portfolio. Respondents stated that the slow recovery of loan repayments was caused by slow sales of housing units from projects financed, which then causes a rise in the interest rate on the principal amount borrowed, thereby slowly eroding the profit margins of the project. This situation is detrimental to projects as it causes projects to become financially unviable. Furthermore, respondents identified that cost overruns during the construction phase, in which developers/contractors prioritize profit maximization rather than committing to project costs that needs to be incurred to ensure successful completion of projects. Moreover, respondents cited external factors such as the rising construction material costs and rising interest rates which collectively impact the financial viability of a project.

4.3.1.7 Workout and Collections

When Banks grant loans, the expectation is that they are repaid within the agreed time. In some instances, this doesn't happen and multiple restructuring can warrant a project to be handed over to Work out and Collections Unit. DBN's workout and recovery process relative to other commercial banks has been regarded as one that requires improvement in terms of efficiency and turnaround time in the collection and recovery process of loans as well as enforcing the relevant legal measures. A question was asked to the Workout and Collection Unit to indicate what remedial actions can be suggested to improve the situation. Respondents in the section citing that the Unit is not well-staffed, given the fact that currently only three employees are employed in that unit. Thus, they suggested that more employees be hired to assist with the day-to-day collection process.

Moreover, the current staff lack specialised legal expertise normally beneficial in understanding the legal collection process. Moreover, the respondents suggested that DBN should institute an automated debit order system – which currently is not present to ensure timely repayments of facilities and this will ensure an improvement of the collection rate. It was also suggested that the Bank further be more actively involved in the marketing and sales of property units as a means to improve recovery of sales of housing units.

4.3.1.8 Improvements suggested to Developers and Contractors

A final question was asked to all staff within the three distinct departments to provide suggestions that could enhance the implementers of projects, by Developers and Contractors and also to curb the NPL's. Most of the respondents (90 percent) suggested that Developers must be advised to take a phased approach when implementing projects, thereby de-risking their exposure at any given point in time. Developers need to ensure more judicious management during the construction and offtake phases of the project, thus employing the right labour skills throughout. Again, 90 percent of respondents suggested that developers need implement prudent financial management in order to avoid cross cash subsidizations between projects, overtrading and ensure that to promptly communicate delays in projects to the DBN.

Regarding sales of housing units, it was suggested for developers to over sell their units over and above 100 percent. Hence the 60-70 percent pre-sale requirement set by the Bank currently as the threshold should be revised. Moreover, it was recommended for developers or contractors to build show houses as a means to attract clientele. Human beings are known to be visual beings and seeing an actual product encourages sales. Moreover, Developers need to ensure that they commit to some form of equity contribution to share in the level of project risk to ensure an acceptable gearing.

There is also a need for DBN to play a closer role by appointing independent project managers to strengthen the oversight function to the bank – this will support the portfolio management team or function of the bank, it was suggested.

4.3.2 Responses from the selected Developers and Contractors addressing key challenges hampering performance of projects financed by DBN in implementing land and housing projects

This section covers the responses from Developers and Contractors in relation to factors affecting the implementation of projects with regard to funding, risk factors and suggestion of remedial measures to mitigate these risks with a close out on recommendations suggested to DBN to consider when financing them.

4.3.2.1 Adequate funding

A specific question was posed to Developers as recipients of DBN loan facilities in so far as if they deem the funding received was adequate for the land or housing project. From Figure 4.3.2 below, it is clear that the majority of respondents, sixty-three (63) per cent as loan recipients deem not to have received adequate funding for their respective projects while thirty-seven (37) per cent deem that their funding was adequate.

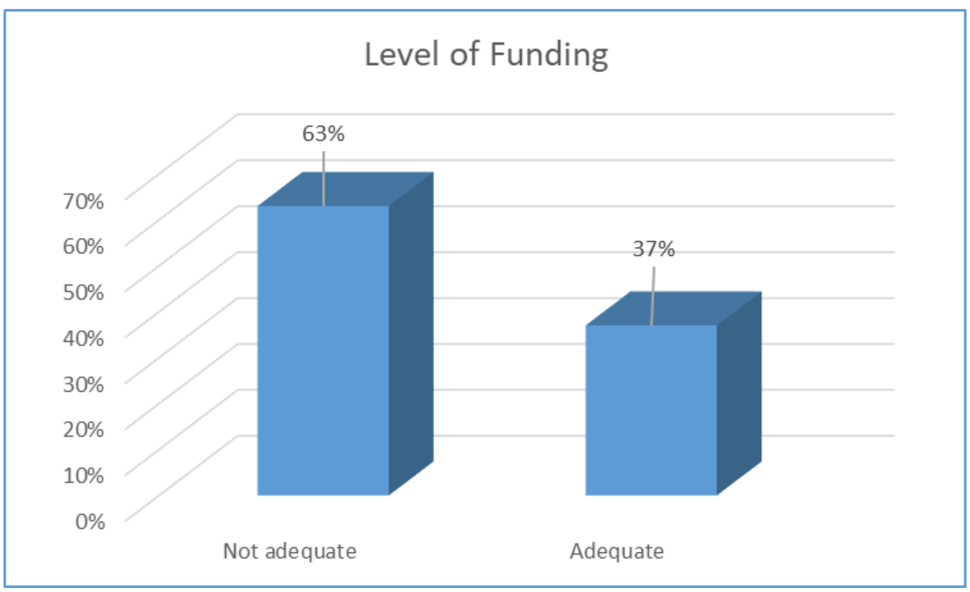

Figure 4.3.2: Level of adequate funding

Further, for those that deemed their funding not adequate, stated that they sought additional capital through additional credit lines from other banks, mainly commercial banks, as well as credit lines from suppliers of building material and a minor portion as additional own contribution or equity.

4.3.2.2 Risk factors experienced in selected land and housing projects

The contractors were asked to indicate common risk factors experienced when they implement land and housing projects. The respondents stated the following in no particular ranking or order;

Request for pre sales

In most cases smaller urban towns do not have the population masses and buying power that normally exist in larger towns, thus request for presales becomes a challenge. Thus, a contractor is required to build at least up to 35 percent or more to attract clientele. In some instances, clients that has previously signed up deed of sale agreements end up cancelling for various reasons prior to commence of the project, thus delaying the process of fulfilling the pre-sale requirement that banks normally would insist on.

Land acquisition

It was explicitly stated that the process of acquiring land takes too long. This is in the case of a private development that need to rely on purchase of land from local authorities or other private owners.

Interest rate risk

The longer a project takes the more capitalized interest will be charged on the project. Thus, financiers are urged to review interest rate during construction and offtake phase. The level of interest rate also erodes profit over the long run.

Construction risk

It is important that reputable contractors are appointed to ensure quality and diligent work on projects.

Capital raising

Contractors also pointed to the inability of raising capital, thus stating that banking requirements are at times too stringent such as the requirement of raising equity or own contribution.

Cost overruns

Thus, may happen when material prices increase in an unforeseen manner or when fuel costs increase. While this can also be a result of poor planning, there are also external factors such as force majeure (Covid-19) that can halt construction works and have detrimental effects to project continuity.

Regulation

This aspect was related to interfered by local authorities in the case of public private partnership projects or politics in general. Political and governance related issues pose challenges to affordable housing projects particularly, those that relate to partisanship politics. They include opposition parties' resistance, lack of government commitment to project, lack of project continuity by successive governments, inappropriate, political leadership, political interference in projects.

4.3.2.3 Remedies to mitigate risk factors

Contractors were then asked to suggest remedies to the risk factors they have identified. Unfortunately, not all risk factors were addressed however these are some of the remedies suggested by contractors.

Equity contribution requirement

The DBN currently has an equity contribution requirement ranging from 10 percent to 30 percent in relation to the total project cost. This means borrowers are expected to raise between seventy and ninety percent. Contractors suggested that they too need to develop a culture of saving and contributing capital to their projects as a means of raising commitment to maintaining the project margins.

Phased construction

In order to de-risk financial exposure and the quantum of work, contractors also noted that it is important to phase out the project in order to avoid the turnaround time risks usually associated with larger projects. It was also suggested that project cycles be realistic so that the Banks can much an appropriate schedule that the project can meet.

Pre-sale requirements

A certain percentage of pre-sales is normally set as a covenant that must be met prior drawdown. The DBN to consider and reviewing its pre-sale requirements for development projects, thereby to unlocking projects to commence to yield market confidence and uptake of units. Buyers are sensitive to seeing progress on the ground, thus they are more likely to sign up deed of sale agreements if they see construction on site.

Quality of contractors

The profile of contractors that re given capital was judged to be not consistent with regards to experienced contractors. DBN is advised to only consider lending to experienced contractors, however no indication was given as to what constitutes the number of experiences required.

Contingency plans

The provision of sufficient contingency budgeting and making provision for unforeseen expenses, to absorb changes in prices was deemed critical. Prudent cash flow projections and forecasts should also be employed.

Explicit development contracts

Development contracts between parties should be clear in outlining the roles and responsibilities of all parties and risks assigned appropriately to all parties.

Alternative financing model

An alternative financing model was suggested, although not pointers provided, however this is enough to provide room for though in improving DBN's current financing model for land and housing projects.

4.3.2.4 Recommendations for DBN to consider when financing Developers and Contractors

The contractors were asked to provide their recommendations to the DBN that they need to consider when financing contractors for land delivery or housing projects. The question was meant to gauge their views and opinions on what best financing solutions they can provide considering the fact that they are recipients of DBN loans and are best to provide recommendations based on their experiences and in summary there are as follows:

Equity contribution requirement

The contractors recommended that the DBN to consider financing projects wholly, 100 percent debt financing to make it easier for projects to commence. The view is that equity providers that are in the market are seen to be costly, charging above market interest rates on account of their own return hurdles that they need to meet and thus making projects financially unviable due to the high interest charges, over and above the debt financing charges that are still payable.

Furthermore, it was also recommended that DBN have a longer investment horizon in the sector such that they consider partaking in actual equity investments in the project and not only debt financing as they currently do.

Payment arrangements with material suppliers

In order to bulk up stock and afford discounts on building material, it was recommended that the DBN consider disbursing significantly upfront to afford material discounts that can create better margins for the project and thereby allowing reduction of material input costs.

Margin of preference to reliable contractors

A margin of preference was suggested to be afforded to contractors or Developers that have a positive track record with the DBN and those that are said to be reliable in terms of project execution. The preference was with regard to affording competitive interest rates to contractors that have a good repayment record with the Bank. It is unclear what the actual matrix should be in terms of track record, whether one, two or three projects that were repaid in time should suffice, nevertheless, it is still a suggestion for thought.

4.3.3 Responses from the selected Consultants addressing key challenges hampering performance of projects financed by DBN in implementing land and housing projects

This section covers the responses from the Engineering Consultants who normally are the Project designers, managers and supervisors to Developers and Contractors. They were asked to provide insight to project management, risk management and similarly remedial factors to risk's identified in an effort of management projects better.

4.3.3.1 Support required during Project Management

Consultants and or Project Managers are critical agents in ensuring that the projects are managed well, within time, cost and according to the desired quality and standards. It is imperative that these agents are also afforded support and capacitated to assist them to conduct their responsibilities fairly. They are normally professionals (Engineers, Architects etc.) and as such are not expected to any shortcomings with regards to their know how, skills and capacity in undertaking their work – an unjust requirement in the researchers view. It was suggested furthermore that these professionals indicate the assistance they would require at least from a Bank or other parties to ensure they manage projects better (if any).

The suggestions mainly centre around finance and payments as follows:

Project Preparation Fund

It was stated that in some cases the Consultants have little or no property development experience and the general perception is that there is a lot of money to be made by developing land when in fact with the current downturned market, the feasible projects (that will have an acceptable margin for the project owners and the financiers) are few and far between. In most cases the project owners do not have the money to pay for the associated town planning, land surveying and engineering services required to get the project to a bankable status. These professionals are pulled into the projects to provide equity with promises which in most cases do not materialise. Once the project owner has all the information and prepares a project feasibility, they realize that the project is not feasible, or they cannot get financing and then the professionals are left with unpaid accounts.

It was thus recommended to set up a project preparation fund that could assist projects to get the statutory processes completed together with a preliminary design and detailed cost estimate.

Timely payments

Timeous payment for professional work done is key as well as constant reporting on milestones demanded by the bank motivates the project manager to ensure all involved in the project deliver their activities timely. The timeous payment of invoices is precarious as it facilitates the smooth running of a project.

4.3.3.2. Risk factors experienced when managing projects

The professionals were asked to relate what risk factors they experience when managing land delivery and housing projects and below are the risk factors they stated.

Land cost and transfer/ownership

The high cost of land was identified by several developers as one of the major reasons constraining the financially viability of projects. The cost of serviced land from the local authorities is very high, contributing to as much as 40 percent of the entire cost of a housing unit.

Moreover, there is a need to ensure that the land is transferred to the owners as soon as possible after the land has been serviced and taken over by the local authority, given that any delay puts the project finances under pressure. The process of acquiring land was also found to be cumbersome, especially from public agencies such as local authorities, taking into account the various selling methods they use.

Market Risk

Ensuring that there are sufficient sales and a pre-sale quota that needs to be achieved for the development to start. On paper the development might look good but there are always some erven that are difficult to sell and that is usually where the profit lies, such as the general and business erven as opposed to single residential erven. In some instances, sales can also be affected by regulatory processes that need to be adhered to such as local authorities that require to consent to the list of beneficiaries of erven or houses prior to the sales process progressing. The local authorities do this to ensure that the intended target market becomes the ultimate beneficiary of the erven or houses being developed.

Technical Risk/ Quality of workmanship

It is important to have an experienced professional team and a reputable main contractor with relevant experience. If these are absent, then the project will be jeopardized. Most of the failures can be contributed to one of these two aspect which includes poor estimates by the Engineer, poor contract documents, financial constraints of the contractor and late completion (or no completion).

Availability of material

The availability of resources such as material supplies was also seen as a critical risk factor as most supplies such as steel are imported and any shortage of supply nationwide causes a delay in projects being completed in time.

Cost overruns

An example was provided towards rising materials costs over the project lifecycle to levels not even covered by contingencies, which effect project's financial viability and thereby eroding profit and ability to repay debt in the long run.

Time overruns

A number of factors can cause project delays and some are caused by external service providers such as the utility agents providing electricity that may take time to granting the necessary approvals, thereby causing project delays.

4.3.3.2 Remedies to Mitigate Risk Factors

The consultants suggested the following as remedies for the challenges and risk factors identified:

Appointment of reputable teams

The project structure should ensure that a reputable team is appointed and where there are queries, a reputable Engineer need to be appointed to conduct due diligence and assist with contract administration and project management to identify problems early on.

Sufficient capital for projects

Project structures to ensure that there is sufficient capital for projects to accommodate cost overruns. Ensure contractors and developers are aware of this risk and identify potential increase in project financial resources at early stages of the project to fast-track implementations of tasks in order to avert price increases.

Timely requests for external services

There is a need to raise awareness to contractors and developers to ensure they submit timely requests to external parties such as the utility agents for any required approval or inspections.

Project management

Contractors and developers need to ensure that they have an aptitude and understanding for project management to ensure comprehensive quality control.

Coordination between parties

The parties involved in projects to have better co-ordination and partnership arrangements in executing the project.

Upfront purchases of material

Bulk purchases for material upfront can be one way of affording cash discounts to aid in preserving affordability.

4.3.3.4 Recommendations to Public and Private Sector

These recommendations were made by the consulting engineers who normally have an oversight over managing the land and housing projects. They role interacts often with both public and private sector and hence would be best placed to provide recommendations to the public and private sector from experiences in the sector.

Improved planning of township extensions

Local authorities as agents of development and establishments of townships are usually the custodian of this exercise. Township extensions are known to take a lengthy process and thus it is required to improve the pre-planning of township extensions to minimize the time required to register extensions with the Township Board. Further, the local authorities as responsible agents for the statutory processes for land development must ensure that land is ready for development as soon as possible. The local authority must then make the land available for sale with a requirement that the land be developed within a certain timeframe or else it will be returned to council.

Inclusive budgeting

Developers need to have a budget that caters for all ancillary costs such as project preparation for marketing and feasibility market studies, land compensation costs and others. Consideration should also not be made to ensure that projects are executed on the lowest cost possible as many at times, this may also jeopardies the quality of projects, as some components may be forgone.

Partnerships

The Banks should make it a strategic imperative to be more engaging with the professional teams for land and housing developments and not only place reliance on the project owners or contractors that are the recipient s of loans. There needs to be a participatory process from all agents to ensure that projects executed are feasible.

4.4 SUMMARY OF KEY FINDINGS

The summary of findings gathers the key findings from the DBN staff, Developers and Consultants as well as strategies DBN can consider when financing Developers in land and housing projects to improve their performance.

4.4.1 DBN's experience in financing land and housing delivery

The experiences of DBN in financing the land and housing sector can be clustered into three areas of experience, from the investments department, responsible for deal origination, credit risk management department and portfolio management department.

Investments and credit risk management experiences

From an investments perspective, risk allocation and ensuring that projects are encompassing the right management and technical capacity to deliver are maintained. Equity or owner's contribution was a key factor deemed critical to managing gearing levels and credit risk exposure of the Bank. Independent project management, market and offtake risks are also other critical components that ensure the success of projects which coincides with the top 5 credit risk factors identified.

The DBN's Land Development Concept is one such avenue that can further unlock, the provision of land and housing in municipalities country wide. The significance of the model centres on partnerships similar to other models reviewed, as a means to create housing solutions. The limitation lies in the fact that the model is still fairly infant, only two local authorities have benefited thus far and the results are yet to be achieved, monitored and evaluated to create a positive story that can be rolled out to further local authorities. The other area to explore lies on the treasury side, where concessional funding opportunities need to be further explored to enable the Bank to offer more competitive solutions to Developers and Contractors.

Portfolio management experiences

A synopsis of the DBN's land and housing sector was provided which clearly showed concerning results regarding the rate of non-performing loans. The exposure has grown steadily over the years and is expected to continue, given the rising demand of land and housing units country-wide. It has been made clear that the staff is deemed to be adequately skilled, however, there remains improvements that can be adopted to enforce a more rigorous portfolio management function so that early warning signs can be detected as a means to raise red flags as soon as possible. What is worth noting is that the exposure is more dominant towards the private sector, which is consistent with government's drive to see private sector-led growth in key infrastructure sectors in the country. On the contrary, this also amplifies the need for government to get involved in the equation to support the provision of land and housing, either directly or indirectly through agencies.

4.4.2 Developer and Contractor experiences in implementing land and housing projects

Factors affecting the performance of property Developers were found to be multiple and they are both intrinsic and extrinsic. Most of them align with the theories as raised by Taofeeg (2019). Several issues were identified as being constraints to contractors and Developers financed by the DBN effectively implementing their projects and these can broadly be divided into five major subheadings: Finance, Land cost and acquisition, Market Risks, Management and Operational efficiencies, Regulatory environment.

Finance

Common extrinsic and intrinsic factors hampering Developers and Contractors' performance, were found to be, consenting, Khalid (2018) and Jin *et al.* (2017) findings of cash flow and liquidity challenges pointing towards access to capital coupled with financial mismanagement. The study found that the majority of DBN financed Developers or Contractors deemed their funding not adequate to deliver on the assigned projects.

Cost overruns and rises in interest rates were other factors found to be impeding financial margins of projects. Moreover, the high cost of building materials was found to be a major driver of the construction cost of houses. This is due to the fact that most of the building materials used for housing construction in Namibia are imported from South Africa by middlemen who then on-sell the materials to Developers at a higher cost. Therefore, it is evident that if middlemen are eliminated from the construction value chain, it would significantly reduce the construction costs.

On a national level, even though the housing sector has been identified as one of Namibia's development priorities, the volume of funding that comes into the sector from the government is grossly inadequate. Over the years, governments investment in the area has continued to decline with regards to most of the programmes, except funding that has gone to the Shack Dwellers Federation. The Financing that comes from the private sector is also very expensive and not suitable for affordable housing.

Land cost and acquisition

Land cost was identified by several developers as a key reason that makes up for the lack of affordability of houses in Namibia and in maintaining viable projects. The cost of serviced land from the local authorities contributes a significant portion of the development cost and thus this aspect should be looked at closely. Understandably, the view from the local authorities and municipalities is that they see land as their major source of revenue and therefore try to monetise it as much as possible. It was explicitly stated that the process of acquiring land takes too long, i.e., in the case of private developments that need to rely on purchase of land from local authorities or other private owners, thus improved service delivery from municipalities is crucial.

Market risks

In most cases, smaller urban towns do not have the population masses and buying power that normally exist in larger towns, thus requesting for presales becomes a challenge. Thus, a contractor is required to build at least up to 35 percent or more to attract clientele. In some instances, clients that had previously signed up deeds of sale agreements end up cancelling prior to commence of the project for various reasons, thus delaying the process of fulfilling the pre-sale requirement that banks normally would insist on.

Management and operating efficiencies

The way the housing sector in Namibia is presently designed through the entire value chain does not allow for efficiency gains. Through the use of technology, better management, and construction practices, the private sector can be expected to contribute to efficiency gains in the construction, operations and maintenance for affordable housing. Furthermore, the private sector should be encouraged to ensure economies of scale through large projects and a larger number of private partners. Construction risk: It is important that reputable contractors are appointed to ensure quality and diligent work on projects.

Regulatory factors

This aspect relates to interference by local authorities in the case of public private partnership projects or politics in general. Local community involvement in the project delivery processes is very essential to affordable housing PPPs. Where these important stakeholders are left out, the possibility that local authorities may attempt to stifle the PPP delivery processes is very high.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarises the main findings of the study, identifies the implications and provides recommendations with respect to the research questions. The researcher made an attempt to ensure that all the findings addressed the research questions.

The study addressed three main areas and the specific research questions were:

- What is DBN’s experience and key challenges faced in financing land and housing projects?
- What are the key challenges hampering performance of selected Developers financed by DBN in implementing land and housing projects? and
- What strategies DBN can consider when financing Developers in land and housing projects to improve their performance?

5.2 SUMMARY OF THE STUDY AND CONCLUSIONS

The study has attempted to answer the main questions and has endeavoured to address the main objective of diagnosing the DBN’s experiences and key challenges faced in financing land and housing projects as well as the understating of the key challenges hampering performance of Developers financed by DBN in implementing land and housing projects, supported by a review of various housing models. To a great extent, the findings coincide with the reviewed literature, more specifically the issues of the adequacy of cash flow and liquidity required, the importance of ensuring there is skilled and capacitated labour to ensure projects are completed, thus performance risk should be managed. The risk attitude of contractors and developers to projects is of critical importance as it allows one to assess the risk tolerance level which can be a factor of performance. Risk averse contractors are more likely to take on less risk, be more prudent with managing projects cash flow than risk seeking contractors that may want to invest all savings in a venture with no alternative capital for variation that may occur. Furthermore, tri-partite views were obtained: those of the Developers, Contractors as one category, Consultants as well as selected key DBN senior staff members and all have proven that a concerted effort is required to enable a contractor to perform. The DBN needs to develop and foster alternative funding solutions, implement robust credit decision-making processes as well as develop a culture of proactive portfolio management as tools to ensure a quality loan portfolio. The recommendations are not only exclusive to DBN, but can be employed by any developmental partner. The most important aspect of any research is to implement the findings.

In summary:

Chapter 1 has provided the background of the study as wel as brought afore the glaring challenge of the non performing housing loan portfolio.

Chapter 2 presented the institutional context of the business process of DBN and a review of a number of housing models in the region as well as a review of factors affecting the performance of projects

Chapter 3 presented the methodology used for the study, which mainly is a form of descriptive study of which subjects were underpinned by non-probability sampling of which data was mainly analysed using descriptive statistics and narrative analysis.

Chapter 4 presented the findings of the study mainly drawing from the experiences of the Bank, the developers and professional assigned to manage the projects. Similar experiences and recommendations have been put forth which have been portrayed under section 5.3 of this chapter.

Chapter 5 concluded with a summary of the study a well as recommendations that can be considered to improve performance of the housing projects.

5.3 SUMMARY OF RECOMMENDATIONS

The summary of recommendations gathers the recommendations from DBN staff, Developers and Consultants of which the main goal is in ensuring tailored and meticulous credit assessment, enhanced arrear management and proactive portfolio management to maintain a quality loan portfolio that will enhance, interest collections from payments due and ultimately a sustainable loan book.

5.3.1 Recommendations for the Bank

As a result of the findings the researcher can conclude that in an effort to improve on the implementation of land and housing projects, there is a need to ensure that projects are subjected to a modular approach such that they are phased out to allow for easier implementation and management. The need for employing the right technical, operational and management skills can be underscored as a key success factor. Credit risk requirements should thus place significant emphasis on ensuring that projects encompass the right management skills and capacity. A critical observation is that the DBN staff fall short of specialised knowledge, or rather have limited skills such as, understanding the key elements of project evaluation, monitoring and management, assessing bill of quantities and it would be beneficial if staff obtain in-depth exposure to these sets of skills.

Market and offtake factors are also crucial to ensuring that projects are successful. It is of no use if the housing units constructed are not fit for the market or not taken up by way of sales as, ultimately, sales ensure that investments are recovered to repay the debt obligation. The credit appraisal process should also maintain that market factors are well analysed, and risks are mitigated by ensuring minimum agreed offtake requirements are met and strictly adhered to. The portfolio management function cannot be overemphasised and thus continuous and regular monitoring and evaluation of projects should be enforced by the relevant department. There is a need to adopt an evaluation and monitoring tool that can be adopted in the activity plan of portfolio management staff. This avoids a laissez faire approach and inconsistencies in the portfolio management process. Borrowers should be taken through an intensive tailored induction program that allows them to appreciate the terms and conditions of approved facilities, the conduct required and the expectations from them regarding project management issues such as technical capacity, financial management and any other key requirements regarded from the Bank.

5.3.2 Recommendations for Developers, Contractors and Consultants

Recommendations for improving performance of projects from a technical perspective, can be summed up in four areas, i.e. Project Management, Project Preparation, Market Risks and Equity Contribution:

Project Management

Project Management should be an inclusive approach from different parties and it is recommended that Banks such as DBN should make it intentional to be more collaborative, consultative and engaging with the professional teams for land and housing developments as part of the entire project management ecosystem. No reliance should be placed on any party to ensure the success of a project and political interference in projects should be minimised as far as possible. Project management also cover areas of prudent financial management that Developers and Contractors must be sensitised on. Thus, a tailored induction program for Developers and Contractors should be introduced as part of initiatives that they undergo when becoming loan recipients.

Project preparation

Project preparation is becoming a topical area of development in the development financing arena in Africa and more so in the DBN. There is a need to further capacitate resources (labour and capital) elevate its reach to participants or beneficiaries.

Pre-sale requirements

The DBN to reconsider its pre-sale requirements so as to allow projects to commence and have access to their capital without presales. This may vary for towns with lower uptake. However, the general consideration is that it is an impeding factor to development.

5.4 FURTHER RESEARCH

Many studies have been conducted on u the plight of affordable housing, more efforts put in diagnosing the problems and challenges than actually dedicating the same effort in understanding the experiences of the financial institutions as development partners.

Further research can propose appropriate funding models that financing institutions can employ as partners to the delivery affordable land and housing.

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APPENDIX A: PERMISISON TO CONDUCT RESEARCH

Development
Bank of Namibia
Expect more.

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20/04/2022

Hellen Amupolo
Head: Investments
Development Bank of Namibia
Email: hamupolo@dbn.com.na

Dear Ms Amupolo

GRANTING OF INSTITUTIONAL PERMISSION FOR RESEARCH

I herewith grant you the permission to collect data at the Development Bank of Namibia's (DBN/ the Bank) Credit Risk Department for your research project themed "*Development Financier's Perspective in Financing Land and Housing*" as per the Bank's guidelines on research and surveys done at the DBN.

I grant this permission as the authorized person to do so in the Bank and am aware of the following:

1. The study is conducted as a UNAM researcher and remains the property of UNAM
2. You can use the name of the Bank in your research project
3. All data and information collected will be solely in the possession of the researcher
4. I will require feedback of the research
5. The research may be published in the public domain under the supervision of the supervisor.

I wish you the best and success in this research endeavour.

....

Jerome Mutumba
Head: Marketing & Corporate Communications
Tel: 061-290 8101

APPENDIX B: QUESTIONNAIRE FOR DBN MANAGEMENT

CREDENTIALS

1. Name:
2. Department:
3. Gender: *(Please circle) Male*/Female
4. Position: (*Please tick below)*

Position: Job Level	**Please tick**
Executive	
Senior/Middle Management	
Officer	

INVESTMENTS DEPARTMENT

Question 1

DBN has been financing a number of land and housing developments in the past years, however the housing sector displays the highest Non-Performing Loan (NPL) ratios relative to other sectors.

In your view what is causing the high NPL's?

Question 2

(a) In your view, is DBN staff adequately skilled to appraise and assess land and housing developments?

Answer	**Please tick**
Yes	
No	

(b) If not, kindly state which areas do they need upskilling or further improvement?

Question 3

What can DBN do to mitigate the high NPL's from a deal structuring perspective (Investments)?

Question 4

In your view, what are the most important risk factors that you consider most relevant when financing a land delivery or housing development? **Please motivate)**

Question 5

How can the risks cited above be mitigated?

Question 6

What improvements can you suggest for the **Investment department** to consider in improving the financing and structuring of housing developments?

PORTFOLIO & CREDIT RISK MANAGEMENT DEPARTMENTS

Question 1

(a) How often do you review the land delivery and housing portfolio?

(b) What corrective action(s) do you normally take in rectifying the above??

Question 2

Usually, restructurings for land and housing developments financed by DBN either allow for additional time (extension of grace period, tenure or additional capital).

(a) From your experience what are the common reasons that warrant additional time?

(b) From your experience what are the common reasons that warrant additional capital?

(c) From a deal structuring perspective, what recommendations can you put forward to mitigate risk areas identified above?

Question 3

List the top 5 risk factors (in no particular order) that affect the quality of the land and housing portfolio.

Question 4

What improvements can you suggest for the **Credit Risk Department** to consider in improving the structuring of Credit Risks associated with financing housing developments?

Question 5

What improvements can you suggest for the **Portfolio Management Department** to consider in improving the monitoring the of housing developments?

Question 6

What can you suggest to Developers /Contractors that develop land and housing development financed by DBN to reduce the high NPL's?

APPENDIX C: QUESTIONNAIRE FOR DEVELOPERS/CONTRACTORS

CREDENTIALS

1. Name:
2. Organisation:
3. Gender: *(Please tick)*

Gender	**Indicate**
Male	
Female	
Other	

4. Number of years' experience in land delivery and /or housing development construction

Number of years	**Please tick**
Less than 5 years	
Between 5 and 10 years	
More than 10 years	

Question 1

Have you received adequate funding from the Development Bank of Namibia for your project either as a developer or as a contractor for working capital?

Answer	**Please tick**
Yes	
No	

Question 2

If not, how did you make up for the additional capital?

Answer	Please tick
Own contribution	
Loans from other Banks	
Loans from other parties (not banks)	
Credit lines from suppliers	
Other	

Question 3

Have you contributed equity/capital to the start of your development?

Answer	Please tick
Yes	
No	

Question 4

What are the common risk factors you experience in implementing land and housing developments?

Question 5

What remedies do you institute to mitigate the risk factors identified earlier?

Question 6

What recommendations can you provide to DBN to improve how they finance Contractors/Developer's for land delivery and housing projects?

APPENDIX D: QUESTIONNAIRE FOR CONSULTANTS/ENGINEERS

CREDENTIALS

1. Name:
2. Organisation:
3. Gender: *(Please tick)*

Gender	**Indicate**
Male	
Female	
Other	

4. Number of experience in supervising land delivery and /or housing developments

Number of years	**Please tick**
Less than 5 years	
Between 5 and 10 years	
More than 10 years	

Question 1

When managing projects financed by DBN, what assistance would you need from DBN or other agents to ensure you manage projects better (if any)?

Question 2

In your view what are the common challenges/ risk factors experienced when managing land and housing developments?

Question 3

What remedies can you suggest for the challenges/risk factors identified above?

Question 4

What recommendations can you provide in general (both to public and or private sector in Namibia) to accelerate land and housing delivery?

Thank you!

APPENDIX E: LANGUAGE EDITING CERTIFICATE

S.B

Mr. Shonhiwa Bakare

MBA, BSc Hons Soc | shonhiwabakare@gmail.com

CONTACT

PO Box 4244,
Vinetta, Swakopmund
Namibia

LANGUAGE & COPY-EDITING CERTIFICATE

18th August 2022

RE: LANGUAGE, COPYEDITING AND PROOFREADING OF HELLEN AMUPOLO's THESIS FOR THE MASTER OF BUSINESS ADMINISTRATION DEGREE OF THE NAMIBIA BUSINESS SCHOOL OF THE UNIVERSITY OF NAMIBIA

This certificate serves to confirm that I copyedited and proofread **HELLEN AMUPOLO's** Thesis for the **MASTER OF BUSINESS ADMINISTRATION DEGREE** entitled: **A DEVELOPMENT FINANCIERS' EXPERIENCE IN FINANCING LAND AND HOUSING DEVELOPMENTS WITH REFERENCE TO THE DEVELOPMENT BANK OF NAMIBIA**

I declare that I professionally copyedited and proofread the thesis and removed mistakes and errors in spelling, grammar, and punctuation. In some cases, I improved sentence construction without changing the content provided by the student. I also removed some typographical errors from the thesis and formatted the thesis so that it complies with the University of Namibia's guidelines.

I have edited many Postgraduate Diploma, and Masters' Thesis, Dissertations for students studying with universities in Namibia and elsewhere. I have also copy-edited company documents and publications for Non-Governmental Organisations (NGOs) around the Southern African region.

Please feel free to contact me should the need arise.
Yours Sincerely,

Mr. Shonhiwa Bakare

SKM Bakare

@shonhiwabakare

+264816495143

Shonhiwa Bakare