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Angola's new housing finance reforms

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The last year has seen the introduction of some long-outstanding fiscal reforms in Angola's housing economy. The new Minister of Housing and Urban Development Ms Branca do Espírito Santo has brought some new insights from her years in senior management in the nominally-private-sector real-estate company IMOGESTIN and even earlier as director of a civil-society organization. She assumed her new post, in March 2016, as Angola entered into its second year of economic crises after the collapse of the country's commodity prices. She was presented with the unenviable challenge of following through on the Government's political commitments in delivering one million housing units in the year leading up to general elections. The possibility to continue subsidizing housing has been drastically reduced. The new minister however set out to find a way to capitalize on the Angolan state's enormous assets in public housing (numbering close to two-hundred thousand units) that had been built in the post-war years. As a post-socialist country, the Angolan state laid claim to all of the country's land and had delineated one hundred thousand hectares of land as housing reserves. Capturing some of the economic value of these housing and land assets for the public good to finance urban investment has been both the challenge and the opportunity presented to the new minister.



Minister Branca do Espírito Santo

Aware of the need improve financial accountability in housing markets, a new regulation was introduced in July 2016, aiming to create the conditions so that the formerly illegal money circuits become part of the formal economic system. The reform announced at the VI Forum on the Fight against Money Laundering" stated that "when a house is sold for a value exceeding 15 thousand dollars (2.5 million of kwanzas), Real Estate companies are obliged to declare the transaction to the Financial Intelligence Unit (FIU) of the Banco Nacional de Angola". The regulation was put in place to provide greater transparency and greater legal compliance on transactions and to lay the groundwork for the collection of taxes¹.

¹ Frances de Brito (2016) VI Forum on the "Fight against money laundering" Jornal de Angola 9 July 2016

In January 2016 a new campaign to raise awareness about the civic duty to pay urban taxes was launched. Up until this last year there had been little incentive by central government to use taxation, stipulated in the 2011 taxation reform that came into force in 2015, to finance the State budget which had depended on royalties from petroleum production. The fall in world commodity prices since 2014 has forced government to adopt a new strategy. The campaign informs the public that it is with tax money that the state builds schools, hospitals, and improves the living conditions of populations. The aim is to make people aware of the need to comply voluntarily with their obligation, for which the State does not have recourse to coercive mechanisms to enforce the law. The property tax is a monetary value that every citizen must pay to the State for possession, possession, enjoyment of property or rents for buildings. All citizens and foreign residents who have an urban building, which is defined as housing, land or space provided for the purpose of housing are obliged to pay taxes².

The collection of the first installment of Property Tax (IPU), annual contribution that citizen must pay to the State for possession or occupation of a house, apartment or piece of land, runs from 1 to 31 January every year. The tax is levied on the value of the property or on the income generated by one's lease. The tax can be paid in two installments, the second one during the month of July. In order to file a tax declaration, documents must be presented that show a description of the property, a plan of the property, certificate or real-estate title, or a promissory contract of purchase and sale. The absence of such documents do not exempt the occupant from the obligation to pay tax on the property. The owners of properties valued less than five million kwanzas or US\$30,000, are not required to pay the tax. Above this value, the annual base-line tax rate, is calculated at a rate of 0.5 per cent³. The valuation of taxation levels based on the square meters of built area are adjusted taking into account issues such as the location, the condition of the property and access to basic services. The Angolan Tax Authority (AGT)⁴ estimates that it will raise approximately forty billion kwanzas US\$ 240 million on 800 thousand properties throughout the country.

The imposition of new taxes is not popular however. "I am not going to pay this tax, first because I am poor, second because I built my house with much sacrifice, had to sacrifice the education of children, for some years," explained Joaquina Miranda from 41 years of age, a maid in down town, residing near the stadium⁵. "But they (Government) want to force people to pay a tax on our residences that we have built without the aid of anyone".



Self-help owner builders in Luanda

José Chilundulo, a university lecturer and economist, argues that the new real-estate taxation is complicated, time consuming and inefficient. He claims that the tax, in its current form, because of the high level of bureaucracy and complexity, will discourage foreign direct investment that Angola needs at this time of economic crisis. He notes that the 2016 World

² Yara Simon (2016) Jornal de Angola, 1 February 2016

³ Jornal de Angola (2016) *Property Tax to be paid in January*, Jornal de Angola 29 December 2016

⁴ Administração Geral Tributária, <http://www.agt.minfin.gv.ao/>

⁵ Antunes Zongo (2016) Folio 8, 30 January 2016

Bank Doing Business Report on Angola shows that a mid-sized company would spend 287 hours per year in following through procedures, just to pay its taxes and that the country ranks 157 out of 190 in the difficulty to meet taxation requirements⁶.

The civic rights activist Diogenes de Oliveira and president of the Association of Angola of Consumer Rights (AADIC), has actually spoken positively about this real-estate taxation law, since he feels that “it provides for the safeguarding of assets of the owners of their homes”⁷. The payment of the tax officially does not formally confer ownership rights to the property occupied. However registration of the property and the record of tax payments is a step towards improving tenure by having the occupation on-file in the archives of the local taxation office.

In addition to the obligation to pay property taxes, the Angolan Government plans on the introduction of mandatory housing insurance. Minister of Urban Affairs and Housing, Branca do Espírito Santo, announced in 27 October 2016⁸ that residents of the new housing complexes “centralities” of the country may soon, be required to subscribe to mandatory multi-risk housing insurance. The insurance will cover, among other things, ensure the repair of damage associated with the occurrence of risks of fires, floods, electrical hazards and compensation for theft or robbery. In the view of Branca Espirito de Santo this step will encourage the commercial banks to grant mortgage loans, in addition to increasing the tax revenue in the country. The reforms to the real-estate economy are designed to ensure the sustainability of housing projects and the need to adapt the plan to build new housing to the current situation of shortage of foreign exchange that the country faces. The minister also made a proposal for the updating of monthly installments paid by residents of the *centralities* in the context of rent-for-purchase using a fair rate not applying the update exchange rate, nor a reference to the Consumer Price Index (CPI). The policy introduces the possibility of the State to sell to ordinary citizens and allowing them to become property owners. Previously it was only public officials who were allowed to buy into the rent-to-purchase scheme⁹.



New housing Centralidade Sequele – Luanda 2016

⁶ Josué Chilundulo (2017) *Uma Reforma Tributaria para maximizacao da producto nacional*, O PAIS 06 January 2017, <http://opais.co.ao/planada-centrismo-uma-reforma-tributaria-mais-visionaria-para-uma-maior-maximizacao-da-producao-nacional>.

⁷ Neusa Salgado (2016) *Multi-risk Housing insurance required in Centralities*, Jornal Expansao, 4 November 2016.

⁸ Branca Espirito de Santo (2016) *Home insurance mandatory*, Economia & Financas 28 October 2016

⁹ Faustino Diogo (2016) *Benefits with new modalities*, in Novo Jornal, 04 November 2016.

The financial reforms promoted by the new Minister of Urban Development and Housing in 2016 have taken the first steps in transforming Angola's highly subsidized housing economy into a more sustainable self-financing one. Even if the State is successful with its very ambitious Urban Housing Tax and is able to recover the almost a quarter billion US Dollars they hoped for, this amount represents only a fraction of the annual amount invested in subsidized housing construction in the post-war years. The return on the value of those housing assets must be earned either through rental or sale of that housing. The Minister's strategy appears to be towards this end. The requirement of home occupants to insure their properties will provide commercial banks with more security when housing loans are sought for the purchase of those properties.

One of the major reforms however, that remain to be implemented, is the Mortgage Law which, when in place, will allow the State to recover the value of its assets much more quickly by selling off a portion of their housing stock and passing the responsibility of financing housing to the banks and private sector. Introducing housing-insurance was a step in that direction.

Author Bio: Allan Cain is an architect and specialist in project planning, urban development and is the director of Development Workshop Angola. He has a degree in Environmental Studies, did his graduate studies at the Architectural Association (London, UK) and further specialist studies at Harvard Business School and Bolder, Colorado (in Microfinance and Housing Finance). He has worked as a consultant and lead research projects for the World Bank, UN Habitat the European Union and is a member of the boards of several development institutions. He has lectured at universities in China, Angola, Norway, USA, South Africa, UK and Canada where he is a visiting professor at the University of Ottawa. His articles and papers have been published widely in international journals. He is co-founder of Angola's first non-bank microfinance institution and has pioneered housing micro-finance in Angola.