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on

URBANIZATION AND CURRENT SHELTER SECTOR TRENDS

Nigeria

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Nigeria

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SUMMARY OF URBANIZATION AND CURRENT SHELTER SECTOR TRENDS
IN NIGERIA

I. BACKGROUND AND SUMMARY

Since achieving independence in 1960, Nigeria has formulated four multi-year national development plans. Urban problems were not directly addressed under the first two Plans, and living conditions in the cities worsened as the rate of rural/urban migration grew. Due to greatly increased revenues from oil exports, the 3rd Plan (1976-1980) with a budget of N*43.3 billion dwarfed the expenditures of Plans 1 and 2 (N2.2 billion and N3.2 billion respectively).

Nigeria's roughly 30 million urban residents commonly live in overcrowded slum areas with little or no provision of water or sanitary facilities. Most families are forced to rent poorly constructed lodging, since the costs of building a home exceed their means, and long term mortgage financing is generally unavailable. These problems have progressively worsened in recent years, and no significant planning for urban development took place prior to Plan 3.

Unprecedented income from oil exports in the early seventies prompted the Nigerian government to set what proved to be unattainable goals for the 3rd Plan period. Furthermore, in attempting various projects it became apparent that Nigeria lacked the technical and institutional capacity needed to execute them. As oil revenues fell and economic problems set in, program budgeting was disrupted. Consequently, some projects were never launched, and actual achievements in some areas compare poorly to the targets set.

In 1979, Nigeria and the World Bank launched an urban project in the state of Bauchi as a pioneer program designed to prove the feasibility of lower development costs through emphasis on reduced standards, full cost recovery and project replicability, with the intention of duplicating the effort in other states. The project closing date has already been moved back 18 months and a further postponement until June, 1985 is anticipated. Roughly 30 percent of the total project budget has been disbursed as of January, 1984, thus an appraisal of the degree of success reached in the areas of cost reduction and cost recovery is not yet possible. It does appear that the weakness of key Nigerian institutions at the federal, state and local levels has hindered progress.

The Fourth Development Plan, 1981-1985, has the largest budget of any plan to date, N82 billion, and largely as a result of the failures of Plan 3 and the innovations of the Bauchi Project plan, it reflects somewhat reduced standards and more realistic physical targets. The 4th Plan has allocated more project implementation responsibility to state and local governments than its predecessors did. Major efforts in urban areas include expansion of water sources, organization of waste disposal boards and facilities at the local level, expansion and maintenance of flood drainage paths, and in the area of housing, the plan focuses on reducing bottlenecks in the areas of land acquisition, flow of mortgage funds and residential construction itself.

Given the recent economic and political difficulties in Nigeria, an eventual analysis of the outcome of Plan 4 may well prove to be as negative as that of Plan 3. In light of the apparent difficulties of developmental work in Nigeria, USAID's consideration for applying the Housing Guaranty Program should

*1 \$US = 1.3 N @ 11/83

be careful to establish modest initial goals while selecting a particular urban sector in which specific physical and technical progress can be made.

A. URBAN NIGERIA

More than 30 percent of Nigeria's roughly 95 million people live in urban areas, defined as towns with populations in excess of 20,000 residents. Approximately one-third of that urban population lives in the country's twenty largest cities. Population growth nationwide has been estimated at between 2.5 and 3 percent annually. However, the World Bank reports that Nigeria's cities have grown at a rate of between 8 and 10 percent in recent years, with rural-urban migration mainly responsible for that high rate of increase. More than 220 cities fall into the "urban" category, and while several metropolitan areas have more than 1 million people, none can be said to dominate the Nigerian urban picture.

Though growth has been particularly rapid in recent years, the trend towards urbanization began after World War I, and accelerated following World War II. Thus a fairly well established system of cities existed even prior to independence. The heavy impact of such rapid growth has been somewhat cushioned since many cities had relatively well established patterns of social and economic activity enabling them to more easily absorb large numbers of migrants. While this has helped relieve some of the social and cultural tension often brought on by a rapid influx of rural migrants, it is by no means a substitute for urban planning which has largely been absent from the first two development plans.

The sudden increase in revenues from oil exports in 1970-76 prompted a tremendous growth in public expenditures, resulting in greatly expanded employment opportunities in urban areas. Many new small scale enterprises sprang up, attracting migrants from rural areas with the prospect of higher wages. However, cities which formerly suffered from labor shortages, suddenly found themselves burdened with many unemployed residents as oil revenues declined due to a fluctuating world oil market, and government budget reductions and deficits led to serious economic difficulties in Nigeria.

While the economies and labor sectors of Nigerian cities were expanding, there was no corresponding increase in their already inadequate infrastructure capacities. Huge slum areas with no access to water, drainage, sewage, electric or road systems have resulted. Though this trend towards rural-urban migration had begun well in advance of Nigeria's oil bonanza, no policy on coping with urban growth was enunciated until the 3rd Plan. In fact, investment under the first two Plans was encouraging rural-urban migration with no preparation for its consequences. The 2nd Plan for example, devoted most of its budget to improving inter-regional transportation while neglecting social services, already inadequate in nearly all urban areas.

The standard of living in Nigerian cities has, for the most part, declined steadily since 1960 as populations have grown and the supply of services has remained basically constant, while deteriorating in quality. Nationwide, more than 25 percent of the population has no access to public water facilities, and in some urban areas, this figure is much higher. The biggest problem concerning water service has been one of equitable distribution, but supply and quality are also inadequate. Only a few towns have pipe born water systems. To date development of water systems has suffered from a lack of funds, and no policy of cost recovery on water services has been implemented. Existing systems have

consistently broken down, owing to a shortage of technically qualified supervisors and poor maintenance.

Waste disposal has been poorly organized in urban areas, and has been generally left to individual households since most local governments are inadequately equipped, or insufficiently funded to fulfill their responsibilities in this area. Few cities have adequate drainage systems which aggravates the problems arising from the lack of solid and liquid waste disposal. The 4th Plan states that, "The existing storm-water drainage systems consist of open earth or concrete lined trenches and a few covered drains along urban roads. These tend to be permanently clogged with refuse and to raise the degree of flood hazards... during the rainy season."

Few cities have had the benefit of land use planning during these rapid years of growth. As a result, transportation is very difficult on inefficient and inadequate road systems. Public transportation has been poorly managed. Well located land tracts suitable for project development have become increasingly in short supply.

B. THE NIGERIAN SHELTER SECTOR

Nigeria's 3rd Plan identifies housing as "essentially an urban problem. Rapid urban growth associated with the accelerated tempo of socio-economic development has seriously aggravated the shortage of dwelling units in Nigeria resulting in overcrowding, high rent, slum and squatter settlements which are visible features of the urban scene throughout the country." The housing problem in rural areas is not as acute as in the urban areas, and relates more to the question of quality of shelter than to supply.

For urban Nigerians of all income levels, housing has become such a scarce item that landlords are able to require cash prepayment of up to 5 years' rent. Occupancy is often granted to the highest bidder for available residential or commercial space, as rent control laws are apparently not respected or enforced.

The rate of increase in the housing stock of major Nigerian cities in the 1970's was estimated at between 4 and 6 percent, roughly half the rate of population growth. A shelter sector study conducted by the Ministry of Planning in 1980 estimated the housing stock for urban Nigeria to be 3 million units. This figure implies tremendous overcrowding relative to a total urban population of between 25 and 35 million people. In Lagos, the percentage of households occupying one room was estimated at 72.5 percent in 1982, and families often will pay up to 35 percent of their incomes for these one room accommodations.

Prior to the 3rd Plan there was practically no government activity in the housing sector, leaving this area almost entirely to private sector initiative. Residential development appears to be an attractive investment alternative in Nigeria, especially due to the attractive cash flow prospects on rentals. However, constraints in areas such as land and building materials supplies, and above all financing, have seriously restricted development.

Cost in the construction sector have escalated more rapidly than the average inflation rate, and far outpaced increases in personal income. Since most households must pay for housing from personal savings, fewer and fewer have been able to afford it. A significant portion of building materials must be imported by Nigeria, and domestically produced materials have typically suffered from production irregularities. The result has been frequent shortages and drastic price fluctuations of construction supplies.

Well located tracts of land for project development and even individual plots in urban areas have been difficult to obtain for some time in Nigeria. A Land Use Act was enacted in 1978 designed to discourage speculative investment, and promote owner occupied plots.

Housing finance institutions are still in an early stage of development. In the public sector they consist of the Federal Mortgage Bank of Nigeria (FMBN), and individual state housing corporations have recently begun to establish their own mortgage lending arms as well. The efforts of cooperative societies in this area have yielded little thus far. In the private sector commercial banks are the most active mortgage lenders, followed by insurance companies and merchant banks. There are two Nigerian building societies, but they have grown very slowly, apparently suffering from interest rate restrictions of the Central Bank on long term lending. For the period of 1972-75, 55 percent of all institutional housing finance came from commercial banks, 34 percent from the FMBN, 10 percent from insurance companies and 1 percent from merchant banks.

The amounts of money invested in residential mortgages by these institutions is a fraction of the sums needed to reduce the Nigerian housing deficit. Government measures have effectively denied housing finance institutions access to the country's private capital markets, while interest rate restrictions make the cost of international borrowing prohibitive relative to the yields on domestic mortgage lending. Consequently, these institutions have increased slowly in size and number.

II. THIRD NATIONAL DEVELOPMENT PLAN 1976-1980

The 3rd Plan reflected the first articulation of urban and regional development policies by the Federal Government of Nigeria (GON). The Plan's main strategy was to expand the urban economy by encouraging manufacturing and business establishments in cities, better enabling them to employ the jobless and absorb future growth. In a major departure from previous Plans, the Third emphasized urban infrastructure development for housing, utilities and transportation. A key element of the Plan was to establish the administrative framework to execute the development projects.

Overall responsibility for management of urban growth was given to the Federal Ministry of Works and Housing (FMWH). Supervision of the Federal Housing Authority (FHA) and the FMBN were assigned to the FMWH, as its two major operational arms.

A. WATER SUPPLY

In the area of water systems, the GON introduced a 50 percent matching grant policy for state governments executing projects within the context of the 3rd Plan. Water supply is considered primarily the responsibility of state level agencies, but a GON review of projects attempted during the 3rd Plan Period indicated that little progress was made.

B. WASTE REMOVAL

Similarly in the area of sewage, drainage and refuse disposal, results were disappointing. Out of N301.562 million budgeted among the states, only N43.693 million, or 14 percent of the total, was disbursed. The text of the 4th Plan describes the shortcomings of the projects in this area as follows: "Marginal progress was made in respect of purchase of refuse disposal vehicles and the provisions of dust bins and incinerators. In addition to these, a few states made some progress in the provision of public conveniences, although these were mainly confined to the State capitals. Significantly, no concrete achievement was recorded in the area of providing central sewerage and drainage systems. Many states have not embarked on preliminary activities such as feasibility studies on these projects and those which have done so ... do not appear to have gone beyond that stage. Also the effort to discontinue the "pail" system of human waste disposal particularly in the urban areas did not go far enough although many State Governments made some appreciable progress in this direction." This sector has been neglected as one of low priority, receiving inadequate funding and has never been equipped with sufficient institutional arrangements for delivery of services. Sewage collection appears to be the most thoroughly neglected area, where a serious lack of institutional framework for refuse collection and disposal has led to open dumping of waste in city streets.

C. HOUSING

Under the 3rd Plan the GON took a much more active role in the housing sector, with the objective of overcoming the chronic shelter shortage. Several specific steps were taken to accomplish this including a reorganization of the Federal Housing Authority, and the conversion in 1977 of the government owned Nigerian Building Society to the Federal Mortgage Bank. The GON

decided to subsidize housing costs for low income groups by directly constructing units. Three separate housing programs were prepared, with a budgeted annual investment equivalent to 3 percent of the 1975 GDP. The Plan called for construction of up to 202,000 units over the five-year period.

The FHA was seen as the housing development arm of the FMWH, handling construction and supervision of projects, the beneficiaries of which have proven to be, for the most part, public sector employees. The FHA's most significant accomplishment was the construction of some high standard units, valued from N26,000 to N126,000 for the 1977 Festival of Black Arts and Culture (FESTAC) in Lagos. Substantial cost overruns and failure to incorporate infrastructure development into the project led to strong criticism and eventual curtailment of the FHA's activities.

In order to establish a national presence in the area of housing finance, the GON recapitalized the FMBN and instructed it to establish lending and depository branches in all 19 states. The infusion of funds, increasing the institution's capital base from N21 million to N150 million was designed to free it from some of the problems inherited from the Nigerian Building Society, and enable it to embark on greatly expanded lending programs. The FMBN's broadened scope of responsibilities included financing construction and/or improvement of residential, commercial and industrial property. Eligible borrowers included individuals, public and private institutions, including state housing corporations. To facilitate this ambitious transition, an expatriate consulting firm was hired to assist FMBN management for a 3 year period. Coping with the expansion program was greatly complicated by the poor condition of records passed on from the Nigerian Building Society. At a time when the FMBN was struggling to reconcile accounting errors and identify delinquent accounts in its loan portfolio, the opening of branches seriously weakened the institution, which already lacked middle-management personnel. Many of the branch offices were unable to support their presence either in terms of mobilizing savings or effective demand for financing, thus increasing overhead without adding to resources or income.

D. URBAN PLANNING

In recognition of the fact that a lack of physical planning was compounding the impacts of rapid urbanization, efforts were intensified in this area during the 3rd Plan Period. A total of N1.1 million was budgeted by all the Nigerian governments to improve planning capacity. Projects in this area included the provision of layouts for residential, commercial and industrial development; and preparation of master plans for the major cities and urban renewal schemes.

N562 million was actually spent for these purposes, and a post 3rd Plan review of performance by the Ministry of Planning credited a number of state governments with having made considerable progress in improvement of urban roads as well as master plan development.

Major problems identified in this sector included:

1. A lack of statutory regulations and legal sanctions to induce discipline and order in the pattern of human settlements.
2. Shortage of trained planning personnel.

3. Lack of financing due to budget cutbacks prevented planned programs from ever getting off the ground.

E. PRIVATE SECTOR ROLE

A number of problems have hampered a fairly dynamic private sector in Nigeria in recent years. Among these are:

- shortage of raw materials;
- poor indigenous technological and entrepreneurial base;
- inadequate infrastructural facilities (e.g. electric, telephone and postal); and
- shortage of capital.

Private domestic investment has been concentrated in service related, low technology businesses on a small scale, at the expense of such vital areas as agriculture and manufacturing. Under the Third Plan, the GON offered a number of tax incentives designed to counter these difficulties. Although precise data is lacking in order to determine in what areas investment picked up, overall results of GON efforts in this area appear to have been quite good. For the 3rd Plan Period, private sector investment was about ₦9 billion, falling short of the 10 billion target established. A distinctly negative note in this sector has been the failure to lure foreign investment to Nigeria.

F. ACTIONS AT THE STATE LEVEL

During the 3rd Plan, responsibility for housing and urban development was increasingly turned over to state authorities such as state housing corporations and development boards. The FHA offered support in areas such as project research and planning. The state authorities were consistently hampered by a lack of skilled personnel for program planning, implementation and maintenance, as well as a lack of financial resources. The capacity of the State Governments or the FMBN to fund projects was limited, and the need to mobilize personal savings as an alternative source of financing became increasingly apparent.

G. LOCAL GOVERNMENT ROLE

In 1976, a system of Local Government Authorities (LGA's), which had existed in the colonial era, was resurrected. Their role is to provide both social (e.g. educational, medical) and physical (e.g. water and sanitation) services. In practice they achieved little due to financial constraints. State authorities were forced to act, to the extent that they were able, where LGA's failed. Their function within the 3rd Plan was not an important one, since no specific responsibilities in the overall scheme of the Plan were assigned them, but they are seen as a potentially important vehicle for future project implementation.

III. THE BAUCHI STATE PROJECT

World Bank assistance to Nigeria in the urban sector has focussed on finding low cost solutions to shelter and services problems. The Bank designed several pilot low cost urban development projects, emphasizing reduced standards, full cost recovery and replicability, in anticipation of future adaptability to different states.

The GON and the World Bank selected the state of Bauchi as the site for a project applying these criteria. Bauchi town, the state capital, had experienced extremely rapid growth, increasing from a population of about 38,000 in 1963 to roughly 140,000 in 1978. Though the success of a number of small and medium scale enterprises had provided jobs for virtually the entire work force, the town was poorly serviced, with many people unable to find housing or a supply of clean water. The Bauchi State Housing Corporation had carried out a so-called low cost project, but the units priced from a low of ₦26,000, proved affordable only to the highest ranking state government officials.

The town's growth was absorbed within its traditional walled boundary. Typically, 2 to 3 families shared a mud hut in neighborhoods lacking water, roads, drainage, sanitation and health facilities. Projects benefitting new middle income and government residential areas bypassed these neighborhoods, despite the fact that the town's configuration would have allowed for certain cost efficiencies in bringing services to contiguous neighborhoods.

The principal goal of the Bauchi project was to establish a precedent in low cost housing and lay the foundation for a national program, incorporating the institutional framework for a housing finance system. In this regard a national low cost housing policy would be formulated, focussing on the construction of housing and related infrastructure services affordable to low income households. The Bauchi project itself was to demonstrate the feasibility of sites and services and upgrading programs in Nigeria, creating the prospect of future expansion of the program on a larger scale.

The IBRD Bauchi Project Appraisal offers some insight into the possibility of making housing affordable to greater numbers of low income Nigerians. The project's housing component called for "self help" construction of 2,100 units, 18m² in size. Loans of ₦1,100 or ₦1,350 would be made available through the FMBN to beneficiaries falling between the 20th and 53rd income percentile. The loan amount plus the minimum 10 percent downpayment would cover all on-site infrastructure and plot development costs, as well as actual costs of shelter construction.

The financing plan allowed households to pay up to 20 percent of their monthly income for housing debt service. In actual payments this would be between ₦10 and ₦25. This involved some cross subsidization, with wealthier households paying more for larger, better located plots. The interest rate was to be 11 percent for all borrowers.

At present, most of the project's housing component remained to be carried out, but world bank personnel feel that the households originally targeted as beneficiaries would still be reached.

In order to assure the presence of a financial institution which can manage both the financing and cost recovery of housing and urban development programs in Nigeria, the key element in the project has been the reenforcement of the FMBN. Despite the efforts of numerous expatriate financial experts,

the hoped for progress at the FMBN has not occurred, hampering not only execution of certain facets of the Bauchi project, but retarding the launching of projects planned for other states in which the Federal Mortgage Bank was to have been a principal actor.

IV. FOURTH NATIONAL DEVELOPMENT PLAN 1981-1985

The Fourth Plan distinguishes itself as the first development plan formulated by a democratically elected government in Nigeria. It is also the first in which the LGA's were to participate as official, constitutionally mandated government entities.

The Federal Ministry of National Planning states that "The Plan is intended to further the process of establishing a solid base for the long run development of Nigeria. It therefore emphasizes key sectors such as agriculture, particularly food production, manufacturing, education and manpower development and infrastructure facilities. Social services, particularly housing, water supply and health are emphasized as a means of effecting immediate improvement in the quality of life of our urban and rural areas."

The Fourth Plan acknowledges that the results of Plan 3 fell short of what appear in retrospect to have been overly optimistic expectations, brought on largely by the euphoria of unprecedented income from oil exports. While the 3rd Plan resulted in some very real accomplishments, the targets set in the areas of urban infrastructure and housing were not met. The volatile international oil markets and cost overruns undermined program budgeting. In addition to these financial constraints, the implementing agencies often proved inadequate in terms of their technical capacity to execute projects. Less than 20 percent of the targeted 202,000 housing units were completed, and the FHA and State Corporations were severely criticized for their failure.

In formulating the Fourth Plan, the National Planning Office has allowed for somewhat reduced standards in order to lower costs. The Plan also reflects an understanding that urban infrastructure and residential development must be tied together.

A. WATER SUPPLY

At the start of the Fourth Development Plan, only an average of 38 percent of all households in Nigeria's urban areas had ready access to water, either in the house or compound, (see Table 1). To remedy this situation, the GON established a goal for all households to be within 200 meters of a stand-pipe. This is to be accomplished by:

- strengthening of State Water Boards with better staff and adequate funds to implement projects. Cost recovery based on user charges is strongly emphasized;
- developing additional raw water sources through damming, sinking of borewells and de-salinization projects; and
- educating the population as to the importance of water quality relative to health.

At the federal level the GON plans a development of underground water resources, drilling 1,500 borewells throughout the country, for which ₦104 million has been budgeted. An additional ₦35 million is allocated for the design and construction of 5 storage reservoirs per state.

TABLE 1

Infrastructure Services to Selected Urban Areas

State	City (Location)	In house or In compound Water Supply	Percentages of Dwellings <u>with Infrastructure Services</u>		
			<u>Sewerage Disposal</u> Pit Latrine	Flush Toilet	Power
Lagos	Lagos Metropolis	66.0	30.0	30.0	94.0
Oyo	Ibadan	33.4	66.9	25.2	56.1
Ondo	Akure	23.8	57.1	1.6	37.7
Ogun	Abeokuta	25.3	25.4	9.3	47.4
Bendel	Benin City	24.9	95.0	4.0	59.3
Rivers	Port Harcourt	73.0	0.4	18.6	79.0
Imo	Owerri	63.3	3.1	3.6	70.8
Anambra	Enugu	49.9	5.6	26.4	68.7
Cross River	Calabar	11.3	51.6	3.5	26.2
Benue	Makurdi	21.9	18.2	-	23.1
Kwara	Ilorin	30.7	33.4	10.3	28.4
Niger	Minna	44.8	89.0	1.2	30.5
Sokoto	Sokoto	25.4	95.1	0.6	14.2
Kaduna	Kaduna	73.0	77.7	14.1	53.3
Kano	Kano	26.1	76.9	1.3	69.3
Bauchi	Bauchi	5.0	-	5.0	25.0
Plateau	Jos	73.0	48.8	4.8	61.8
Borno	Maiduguri	14.0			
Gongola	Yola (Jimeta)	38.9			

Source: National Planning Office, Ministry of National Planning; Lagos, Nigeria
Fourth National Development Plan 1981-1985

Likewise at the State Government level, project focus is on the expansion of water supply. Total provisions in this sector by all governments are ₦3.116 billion.

B. WASTE REMOVAL

Following little progress in this sector under Plan 3 the GON has outlined the following objectives for the Fourth Plan:

- establishment of waste disposal boards by the LGA's, which are responsible for environmental sanitation within their jurisdictions. The Boards are to undertake projects relating to sewerage, drainage, refuse disposal systems, and maintenance of all facilities in this area; and
- establishment and expansion of water-borne sewer systems in all major towns. Secondly, comfort stations are to be established in urban areas as part of the effort to phase out the "pail" system of waste disposal.

In order to sustain a source of finance for services in this area, a cost recovery system involving licence fees for industrial waste disposal and service charges for residential customers would be implemented.

Drainage improvement would focus on reducing risk of flooding by:

- removing obstruction to existing paths;
- making maximum use of natural gorges and rivers by deepening and lining them with concrete; and
- providing effective drains where none exist.

Refuse disposal is to be enhanced by the acquisition of needed machinery and equipment to be used in disposal centers. Each LGA is expected to set up a sanitary inspectors department to enforce sanitation laws.

At the federal level, the GON has planned the development of a Central Sewerage and Drainage System at the new capital city of Abuja. The system for which ₦6.5 million was budgeted, is expected to have the capacity to serve 3 million people.

State Governments have budgeted a total of ₦492.6 million for this sector. In the area of sewerage, emphasis is on feasibility studies for actual systems, while projects to improve drainage focus on storm water control. Refuse programs highlighted purchase of trash bins, building incinerators and other equipment for this purpose.

A Total of ₦630 million was budgeted by state and local governments in the area of sewerage, drainage and waste removal.

C. HOUSING

The Fourth Plan identifies 3 main problems to be dealt with in this sector:

1. Low Housing Production: The grossly inadequate housing stock in urban areas, has been increasing at too slow a rate.
2. Shortage of Housing Finance: Nigeria has too few mortgage lending institutions with funds that do not begin to approach the level of demand.
3. Land Acquisition: The Land Use Act enacted during Plan 3 has not adequately facilitated the process of acquiring land for housing construction.

Plan 4 states that, "If there are any lessons learnt during the past years in the housing sector, it is that expensive and over designed housing patterns cannot meet the needs of the majority of the people. In order to make an impact on the housing sector in the years ahead, the center-piece of policy must be the adoption of a housing delivery strategy that facilitates the provision of housing units in sufficient numbers and at reasonable cost."

A National Housing Programme (NHP) was formulated by the GON and primary responsibility for its implementation was assigned to the Federal Ministry of Housing and Environment (FMHE, successor to FMWH). Largely accepting the conclusions of a study produced in 1980 by the Planning Research Company, the NHP set a goal of producing 440,000 dwelling units annually, 115,000 of which should be low and medium priced, in the N4,000 to N7,000 range. Potential for reducing costs was identified through the introduction of expandable or core housing.

In the area of housing finance, the following proposals were made:

- furnish the FMBN with additional capital, and undertake savings mobilization programs;
- establish a system of mortgage insurance, reducing down payment requirements, and thus allowing greater numbers of low income households to qualify for home loans;
- establish a nationwide system of secondary mortgage institutions;
- intensify efforts to mobilize savings through the creation of National Savings Organizations and Cooperative Housing Societies for investment in housing;
- grant FHA and State Housing Corporations access to the capital markets in order to raise further resources; and
- improve the institutional framework of the housing finance system, emphasizing the principle of cost recovery.

The coordination of the provision of infrastructure services with shelter development is highlighted by the Plan. Here again the importance of cost recovery is addressed. "In order to ensure the availability of capital for continued provision of infrastructural facilities, Government will introduce appropriate user charges and property rates to recover costs." An estimated 4,000 to 8,000 hectares of developable land will be needed yearly to meet the goals of the NHP. The GON intends to use provisions of the Land Use Act to make large land tracts available for housing construction. Additionally, steps will be taken to improve the operations of the land registry offices nationwide.

Housing programs to be executed by the federal government under Plan 4 include:

- FMHE management of the construction of 2,000 units annually in each state for which N600 million has been budgeted;
- a 143,000 unit low cost housing project to be handled by the FHA;
- cooperation of FMHE and FHA on a nationwide sites and services scheme; and
- completion of the World Bank Bauchi State Project, and preparation for extension of the concept to other states.

Total federal government budget for the housing sector under Plan 4 is N1.6 billion. At the state level, N1.033 billion has been budgeted for programs including:

- direct construction of housing by State Corporations;
- home lending programs for civil servants;
- sites and services schemes; and
- organization by four states of their own mortgage lending arms.

D. BUILDING MATERIALS

Plan 4 includes measures to increase the capacity of this sector and reduce dependence on imports. According to research done by the World Bank for core unit housing projects in Bauchi and Imo States, roughly 30 to 35 percent of total costs in furnishing on site infrastructure and actual construction are related to imported materials. This figure might be lower for less remote regions, but could easily increase for larger, higher quality homes.

E. URBAN PLANNING

In this sector, the GON has allocated responsibility for urban areas to state agencies, restricting itself to planning for the new capital at Abuja, as well as the provision of maps and aerial photos for use in master plans. Development of Abuja has been a top priority of the GON, prompted by the need to relieve Lagos from the pressures of serving as both a national and state capital, while making the federal government more logistically accessible to the whole country. In this area, State governments have budgeted over N2 billion for road and land use planning.

F. PRIVATE SECTOR ROLE

It is hoped that the private sector will furnish a minimum of N11.5 billion out of a total projected investment of N82 billion for the Nigerian economy in the 4th Plan Period. Despite a more active government role in the provision of housing, according to the 4th Plan document, "it is clear that the bulk of the housing needs of the country will still have to be provided by the private sector."

While the GON has taken steps to develop housing finance institutions in the public sector, it appears that little has been done to encourage creation and growth of such entities privately. Nigeria clearly needs more savings and lending outlets dedicating their resources to the housing sector in order to make important progress in meeting existing and future residential needs. The proliferation of private building societies for example, would largely relieve the FMBN of the need to act as a primary lender. Potentially, if the FMBN as a secondary institution were to guarantee the purchase of loans originated by any retail lender meeting the criteria of its low cost/low income program, the resultant increased rate of investment could greatly stimulate the housing and construction sectors. With the Central Bank having granted the FMBN access to the private capital markets, it could in turn sell those mortgages or mortgage backed securities, thus maintaining its own liquidity.

This type of role for the FMBN is recognized by Nigerian and World Bank officials as preferable to the current situation under which as both primary and secondary lenders, the institution is functionally overextended. More primary lenders are needed in both the public and private sectors to relieve the FMBN of this responsibility.

V. POTENTIAL FOR APPLICATION OF THE
HOUSING GUARANTY (HG) PROGRAM IN NIGERIA

The AID Housing Guaranty (HG) Program permits a country to borrow long term (up to 30 years) funds in the US capital market with repayment being guaranteed by the full faith and credit of the US government. The loan must go to finance a project or program mutually agreed to by AID and the borrowing country which will reach families below the median urban income level.

To the extent that the costs associated with the project being financed are local costs, the borrowing government may use the dollars for any purpose it wants to. Thus HG loans have the added attraction of making foreign exchange available to the borrowing country on a long term basis (a substantial grace period for resources of principle of up to 10 years can be coupled with the 30 year duration of the loan).

In addition to the long term nature of the loan the interest rate to the borrower is only slightly above what it costs the US Treasury to borrow. Loans can be either on a fixed variable rate basis tied to some index such as short term US Treasury bills. There is a charge for the US Government guaranty of 1/2 percent p.a. on the outstanding principal plus a one time charge of 1 percent of the amount borrowed.

Repayment to the US lender must be in dollars and must be guaranteed by the government of the borrowing country.

A number of policy objectives are generally pursued by AID's Office of Housing and Urban Programs in connection with the implementation of a HG project.

1. Formulation by the borrowing country of a nationwide urban and shelter sector development strategy.
2. Development of the institutional capacity to plan and execute development projects.
3. Target households below the median income level as beneficiaries of these projects.
4. Achieve full cost recovery on projects through the application of realistic construction standards to minimize costs, while establishing the organizational capacity to handle collections.

Nigeria has placed strong emphasis on import substitution to help alleviate its foreign exchange problem. An example of application of the HG Program for this purpose would be the development of Nigeria's local building materials industry, an area in which the country has traditionally depended heavily on foreign sources. Increased domestic production would not only reduce imports, but improve the regularity of materials supply, freeing the construction sector of abrupt price changes caused by periodic shortages.

Broad potential application for the HG program can be identified in urban Nigeria in the development of both institutional and physical infrastructure.

In the area of institutional development, the HG Program has been extensively applied in the creation and expansion of housing finance systems in Latin America, Africa and Asia. The GON's considerable efforts to broaden the operations of the FMBN and the launching of housing finance subsidiaries by

several state housing corporations demonstrate a recognition of the need to develop a nationwide framework to mobilize savings for investment in residential mortgages.

Since the World Bank has been heavily involved in providing technical assistance to the FMBN, AID might consider focussing its public sector efforts to strengthen housing finance institutions on the state housing corporations. It is not clear from information available in Washington just what progress has been made in this area, but it is safe to say that the development of state level mortgage entities, to the extent that it has occurred at all, is in its early stages. Private sector housing finance institutions have apparently enjoyed little success in Nigeria due to artificial interest rate restrictions. The 4th Plan indicates that these restrictions will be liberalized to create greater incentives for savers and institutional investors. The Plan refers to granting public institutions access to the capital markets, but does not indicate that private entities will have this advantage. In view of the tremendous financial resources that will be required to fund Nigeria's shelter needs, more concrete steps need to be taken to increase private sector activity in this regard. Section IV-F discusses further the potential benefits of expanding the activity of private sector housing finance institutions. Development of Nigeria's housing finance system, in both the public sector and private sector, is an area in which the HG program can provide important assistance.

In the area of building physical systems for urban Nigeria, the HG program could be applied in any of the following ways:

- development of public water facilities;
- expansion of the building materials industries;
- sites and services and core housing projects;
- construction of solid waste removal facilities; and
- development of drainage systems.

As in the area of housing finance, Nigeria lacks the institutional capacity to put such systems in place and maintain them. Any effort by USAID along these lines could have to be accompanied by substantial technical assistance. The principle of recovering costs for the provision of these services is a novel one in Nigeria, and public entities need to be reoriented to function on this basis.

The World Bank's Urban Projects Division anticipates the execution of a number of schemes as a follow up to a pilot effort in Bauchi. A great deal of project preparation has been completed, and a coordination of USAID's own efforts with those of the Bank could help improve results of future application of the innovations introduced in Bauchi. With the World Bank addressing to some degree all of the country's major urban problems, perhaps the greatest impact of a HG Program in Nigeria could be achieved through focusing on one facet of urban development with a goal of thoroughly improving physical and institutional facilities in that area.

The need for infrastructure services and shelter in the county's urban areas is acute and will not be met without international technical and financial assistance, and the HG Program can be productively applied in any number of ways to help meet this need.

Memorandum of phone conversation

To: Nigeria File; RFS 189

From: Dan Chilson

January 18, 1983

George Gattoni - IBRD Architect; worked up cost figures for Bauchi and Imo Projects

- o I called Gattoni to get some figures on the import component of housing construction in Nigeria (diZitti referred me to him)
- o for the Bauchi Project, including on site infrastructure costs and the actual building costs, he calculated that 40.7% of costs are import items; this includes indirect cost items; figures were done in August, 1979; Gattoni says they are probably somewhat lower in less remote urban areas such as Lagos;
- o for the expansion of core units, that is, purely building materials and no infrastructure costs, the import component was 27.8% of costs;
- o for the IMO Project, calculated as of September, 1980, the import component including construction and on-site infrastructure was
 - 36.9% in the town of Avari
 - 37.7% (I did not catch the name of the town)
- o for building costs only the import component was 30% of costs;