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The Evolution in Donor Policies for the Shelter Sector: Lessons Learned and a Case Study of Ghana

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1.0 INTRODUCTION

In the last 15 years, the philosophy of donor lending for housing and urban development has undergone major changes. Two types of evolution in policies have proceeded in parallel: (1) evolution in project design and in defining the appropriate roles of the public and private sectors; and, (2) evolution in understanding the importance of the housing sector and housing policies appropriate to the macro-economy. As a result of these dual evolutions, a number of important changes in approach have occurred. Costly public housing built to high standards is simply not an effective policy for most developing countries. Increasingly, projects have been designed to serve low income households at affordable costs. Facilitation of the private sector, reduction of the direct role of the public sector, and decentralization have been encouraged. Donor lending has stressed broad-based shelter policy development, framed in the context of national macro-economic and financial goals and municipal development. Not only is housing more and more viewed as a productive economic investment, but it is recognized that misguided shelter policies can have detrimental effects on savings, investment, and employment. Finally, while capital investment projects will continue to play an important role, donor lending has undergone a relative shift in emphasis toward policy formulation, institutional development, and training.

This paper briefly describes the evolution in donor policies toward the shelter sector, including the lessons learned in shelter sector project design, and recognition of the important interdependencies between the shelter sector and the macro-economy and between the urban and rural sectors. Section 2.0 summarizes the evolution in donor policies and the current issues in the agendas of the major donors. The relative decline in investment in housing in the developing world from the 1970s to the 1980s, as noted in Section 3.0, has emphasized the importance of seeking more effective policies. Lessons learned in the provision of public housing and sites and services projects are described in Section 4.0; also, the possible roles of the public and private sectors are discussed, with special attention to provision of serviced land, one of the major bottlenecks in shelter supply in many developing countries.

Finally, in Section 5.0, findings from recent reviews of the housing and urban sectors in Ghana illustrate the plight of an economy plagued until recently by faltering economic growth and currently by serious constraints in the provision of inputs to housing. The Government of Ghana has undertaken a major reorientation of policies through an economic recovery program and has recently undertaken major reforms of shelter sector policies, particularly designed to encourage the participation of the private sector and redirect public sector policy away from the direct provision of housing and toward the delivery of serviced land and support of the private sector. Major international donors are assisting in the evolution of these policy reforms as well as providing capital investment funds for urban and shelter sector programs, including upgrading, infrastructure development, and decentralization. In addition, a major shelter sector research effort is about to be launched in support of institutional development, staff training, and design of information systems to provide input for further policy development. Thus, Ghana offers a very salient example of the recent evolution in shelter policy.

2.0 AN OVERVIEW OF ISSUES IN DONOR POLICIES FOR THE SHELTER SECTOR

In the 1960s and early 1970s, shelter policies in the developing world largely mirrored those in the industrialized countries: that is, construction of massive blocks of high cost public housing and clearance of slums. The perception that housing is a form of social welfare that should be provided by the government has largely given way, however, to the harsh budgetary realities faced by most developing nations and the disappointing results of many public housing policies. Public housing has been "picayune in volume, exhorbitant in cost, and inefficient in administration."[1]

Thus, the evolution in project design has seen a marked shift from direct public investment in high-standard public housing to provision of new shelter through sites and services projects and improvement of existing low-income shelter through upgrading. An early evaluation of sites and services projects noted that policies were, indeed, beginning to change in many countries. "The most obvious manifestation of the policy changes is held to be that publicly constructed housing, the model of the 1950s and 1960s has given way to private investment through self-help, thereby reducing the role of the public sector."[2] The debate as to where to strike the balance between costs, subsidies, standards, target beneficiaries, and number of persons served has been long and difficult, however. The World Bank, USAID, the United Nations and other donors have undertaken this policy dialogue with numerous countries and continue to do so. In general, the donors have attempted to persuade borrowing nations to reduce their standards and charge participants an amount commensurate with their ability and willingness to pay, thereby reducing the level of subsidies in order to spread resources over a much wider segment of the population.[3] A great deal of progress has been made in understanding these issues and translating them into projects that are increasingly effective with regard to affordability, cost recovery and replicability.

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[1] Rodwin, Lloyd and B. Sanyal, "Shelter, Settlement and Development: An Overview," p. 8.

[2] Ayres, Robert, Banking on the Poor, p. 176-77.

[3] Tym, Roger, "Finance and Affordability."

At the same time there is growing emphasis on the macro-economic benefits of an efficient housing sector. Housing investment is the largest single form of fixed investment in most economies. It usually comprises between 15 and 30 percent of fixed capital formation. Discouragingly, however, its share in developing countries has fallen from the 1970s to the 1980s.[1]

Recent research has increasingly demonstrated that the relationships between the housing sector and housing finance, on one hand, and the marco-economy and financial markets, on the other, are extremely important.[2] If the framework for housing policy is incorrect, not only does the housing sector work improperly, it can also retard growth in employment, income, investment and savings. The link between shelter sector policies and the macro-economic environment is no where more evident than in provision of housing finance. It has been found, for example, that credit policies to support the housing sector in Columbia account for more than one-fifth of the inflation rate.[3] Certain types of subsidies to housing, particularly heavily subsidized interest rates, have often led to situations deleterious to the overall financial sector and to confidence in that sector. Resource transfers which constitute an unrecognized tax on the financial system are much less efficient than direct expenditures.

As another example, Polish housing policy has many of the characteristics of a ten percent tax on labor income. Housing market disequilibrium in Poland has led to labor market disequilibrium, including depressed mobility and higher wages.[4] Finally, the welfare of Argentina's public housing policy

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[1]Buckley, Robert and Stephen Mayo. "Housing Policy in Developing Economies: Evaluating the Macroeconomic Impacts."

[2]Renaud, Bertrand and Robert Buckley, "Housing Finance in Developing Countries;" and Buckley & Mayo.

[3]Buckley & Mayo.

[4]Mayo, Stephen and Jim Stein, "Housing and Labor Market Distortions in Poland."

may amount to six percent of GDP.[1] Thus, the payoff to housing policy reform can extend far beyond narrow sectoral impacts.

Another important issue is that the housing finance sector in many developing countries is smaller than would be expected, especially considering the positive role housing could play and the role played in the developed countries at an earlier stage.[2] There are many reasons for this, including inflation, declining and unstable income, lagging domestic resource mobilization, and negative real interest rates. In addition, excessive reliance on directed credit to priority sectors such as industry may not only be an inefficient means of credit allocation but has traditionally deprived households of access to financing. Because the supply of mortgage credit is not evolving properly, investment in the urban sector is low. Furthermore, a high proportion of domestic savings does not flow through the financial sector but remains in the informal sector. This is not only costly, but robs the economy of the role of increased intermediation and market deepening that a stronger housing finance sector could play.

While the level of urbanization in Africa is still lower than in other continents, urban growth rates are extremely high. Twenty-five percent of the population currently lives in cities and towns; the figure will be 40 percent by the year 2000, when over 200 million people will live in urban areas.[3] Also, by the year 2025 there will be at least four African cities with populations exceeding 5 million. Thus, inevitably, progress in urban and shelter management cannot rely on public funds or external assistance, but will be dependent on integration with national development strategies and enhancement of the roles played by the private and municipal sectors.

The major donors appear to share this viewpoint with equal determination. In the future, urban lending will have a higher policy content and closer link with national policy. It should be noted, however, that not all developing nations agree. During the December 1985 World Bank conference on

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[1] Buckley and Mayo.

[2] Renaud and Buckley; World Bank, Financial Intermediation Policy Paper.

[3] Garnett, Harry; Sally Merrill and John Miller. Urbanization in Africa.

improving the effectiveness of urban assistance it became clear that while there was a strong consensus that more international assistance was required, there was not agreement as to the substance of that assistance.[1] The majority of delegates continued to view their urban projects through a traditional "hardware" perspective: more investment in specific projects. Only a minority argued for "policy-oriented" lending, in order to maximize the impact of the intervention, and for increased privitization of urban development. This finding was of great concern to World Bank staff. The conference did reveal, however, a firmer consensus on which issues were of most concern to the delegates. These were: cost recovery and subsidy policy; institutional arrangements, including the capacity of local staff to manage urban growth; and the problems posed by land acquisition and management.

The issues identified by the conference delegates are, indeed, important aspects of the agendas of the major donors. Based on a review of current statements of donor policy, the list of critical urban issues includes at least the following:[2]

- redirection of the role of the public sector from that of direct investment in shelter to that of facilitating the private sector, assisting in the provision of serviced land, reducing barriers such as excessive standards and rent control and planning overall urban policy;
- enhancement of the role of the private sector in shelter provision, housing finance, land development, and construction materials;
- decentralization of government authority and responsibility for urban management and resource generation;
- increased emphasis on municipal management and finance;
- reassessment of subsidy policies for housing, land and infrastructure to avoid dilatory effects on savings, investment, and mobility and employment;

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[1] World Bank, Conference on Improving the Effectiveness of Urban Assistance.

[2] USAID Annual Reports: 1985, 1986, 1987. Ljung, Per and Catherine Farvacque, Addressing the Urban Challenge; USAID, Present A.I.D. Urban Programming and Possible Policy and Program Strategies.

- continued attention to improving shelter project design, cost recovery, and affordability.
- increased understanding of and support for the informal sector;
- support of urban programs that enable secondary cities and towns to better support agricultural and rural development.

The international donors will continue to play a major role in solving urban problems. Although external capital funds are an important aspect of this assistance, their total amounts are insignificant when measured against the need. Thus, increasingly, donor lending will attempt to mobilize internal funds and skills and link urban needs to national planning. Mobilization of capital, whether external or internal, will be accompanied by institutional development through policy formulation, training, and technical assistance. And, at the broadest level, urban and shelter programs will be developed in the context of national economic policy reform and recognition of intersectoral dependencies.

3.0 THE CURRENT CONTEXT FOR SHELTER SECTOR LENDING IN SUB-SAHARAN AFRICA

A number of important factors have characterized the context for urban lending in Sub-Saharan Africa and in much of the developing world during the last decade. These include:

- the unprecedented rate of urbanization in most of Sub-Saharan Africa;
- the harsh economic climate created by deterioration in terms of trade, foreign debt, inflation, and low productivity, exacerbated by natural disaster for many countries;
- the rigors of structural adjustment policies, designed to increase the rate of economic growth in the medium-term, but possibly causing short-term problems for the urban poor;
- the significant reduction of investment in housing in developing countries during the 1980s as compared with the 1970s;
- the inability of housing supply to keep pace with demand, which results in middle income groups continuing to outbid the poorer households for sites originally intended for the latter;
- the limited scope of the financial sector in most Sub-Saharan countries, particularly the housing finance sector, and a halt or reversal in earlier progress toward financial deepening;
- constraints in the ability to deliver land and infrastructure which have caused severe bottlenecks in the supply of housing.

Housing is a major sector in any economy, developed or developing. As indicated above, investment in housing usually comprises from 2 to 8 percent of GDP and from 15 to 30 percent of fixed capital formation. For developing countries, housing's share of GDP rises over a broad range of income.[1] However, recent research has shown that housing investment in developing

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[1]See Buckley and Mayo; and Burns, Leland and Leo Grebler, <u>The Housing of Nations: Analysis and Policy in a Comprehensive Framework</u>.

countries has declined as a share of GDP during the 1980s as compared with the 1970s.[1]

During the 1970s, the declining economic environment faced by most developing countries led to rapid inflation and high rates of interest. Problems caused by external factors were often exacerbated by inappropriate internal policies which discouraged savings and investment. Among the outcomes of these problems was a decrease in the rate of financial deepening.[2] During the period 1965 to 1973, only six percent of a sample of developing countries experienced a reduction in financial intermediation. In contrast, more than one-half of these countries experienced a decrease in financial deepening during 1973 to 1985. Thus, savers have not found it attractive to provide funds to the financial system. While it can be argued that retreat from the financial system might cause more investment in housing, exactly the opposite occurred. Figures 1 and 2 illustrate the level of housing investment relative to GDP and capital formation in the 1980s as compared with the 1970s.[3] Although the authors state that they remain agnostic to the causes of this decline, apparently, a number of constraints has generally discouraged investment in housing in the developing world. Since housing investments are large and lumpy, lack of financing is crucial. Inability to obtain serviced plots and lack of clear title are also extremely costly. In addition, restrictions such as rent control have been shown to decrease housing supply and/or maintenance in the developing and developed world.[4]

Thus, the success of current policies designed to restore growth in per capita income, overcome inflation, and reduce constraints on inputs to housing are extremely important. Clearly, a healthy macro-economic environment is necessary for the effective development of the housing sector. <u>It is also important, however, to design shelter sector polcies that are conducive to macro-economic goals</u>. As stressed in the introduction, inappropriate poli-

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[1] Buckley and Mayo.

[2] World Bank, <u>Policy Paper on Financial Intermediation</u>. The ratio of M_2 to GDP is utilized as a measure of the importance of the monetary system in the economy.

[3] Buckley and Mayo.

[4] Malpezzi, <u>Rent Control and Housing Market Equilibrium</u>.

Figure 1. Housing Investment and GDP

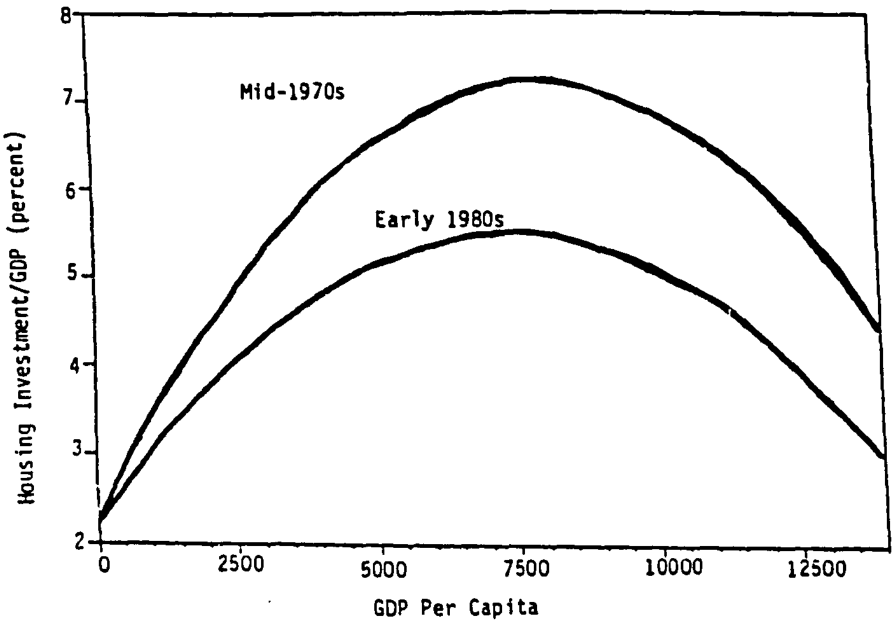
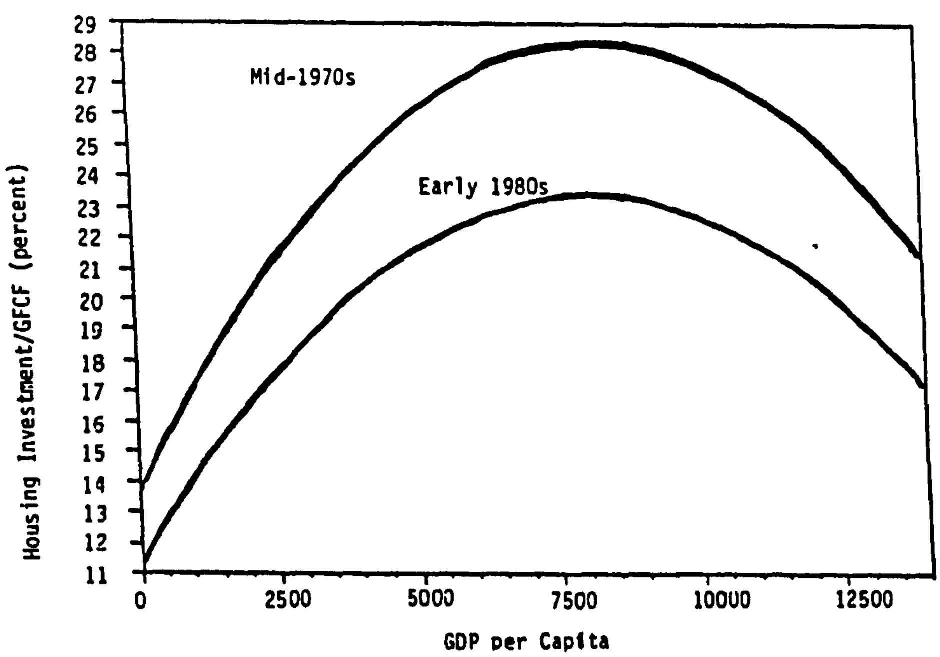


Figure 2. Housing Investment and Capital Formation



cies have been found to have adverse affects on savings, investment, and employment. The international donors will continue to be of major assistance in this process. They can help define both overall structural adjustment policies, aimed at restoring economic growth, and sectoral policies for housing.

4.0 LESSONS LEARNED IN SHELTER PROJECT DESIGN

4.1 Public Housing

As has been discussed, "public housing," that is, development of the massive housing project that mirrored the shelter "solutions" followed in the developed world, is generally no longer being funded by international donors. Objections have been raised on the grounds of social inequity, excessive budgetary pressures, competition with the private sector, and general failure to achieve cost effectiveness. Subsidies were so large that it became clear that public housing would never be available to the majority of low and moderate income households. The building and infrastructure standards and zoning regulations that gave rise to such subsidies also ensured that most units could never be developed according to these specifications. The public housing projects also were not affordable by many households. Grimes estimates that between one-third and two-thirds of the urban population could not afford housing in the countries he studied.[1] This gave rise to an immense growth in development "outside the system," now generally referred to as the informal sector. The first major study of the informal sector in Cairo estimated that 84 percent of housing built since 1970 was informal (that is, in violation of building or zoning codes or both).[2]

Studies of public housing in the United States have indicated that it is not generally cost effective. Public housing often costs more to build than it is worth. In addition, the carrying costs are high, for both operating costs and capital costs.[3] Maintenance is often inadequate even when funds are provided and in many countries funds simply are not available. Thus, as service levels fall, neither the public landlord nor the tenant performs adequate maintenance and the quality of the stock declines even further.

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[1] Grimes, Orville.

[2] Mayo, Stephen and Harry Garnettt, Informal Housing in Cairo.

[3] Merrill, Sally, Cost Models for Public Housing; Merrill et al., Study of the Modernization Needs ofthe Public and Indian Housing Stock.

4.2 Sites and Services

Sites and services and upgrading projects are now considered by many to be the only realistic way of equating limited government resources with the exent of housing demand.[1] Sites and services projects basically provide secure tenure and some level of services, which can range from a minimal level of provision of surveyed plots all the way to core housing. This approach, which enables low income households to improve their housing through self-help financing and construction, has been termed "progressive development," since improvements can take place dependent on the income and preferences of the beneficiaries.[2] Thus, the concept differs dramatically from the traditional provision of public housing because it assumes that households are the best judge of the housing they want and that they can provide some or much of it themselves. Upgrading projects complement this approach; they also capitalize on the preferences and energies of low income households, but improve existing settlements rather than raw land.

The traditional "shelter" aspects of sites and services contribute to lower costs through modifying building and land use standards, encouraging use of indigenous building materials, and lengthening the time horizon for completion (and thereby the ability for generating self-financing). Projects are designed from the standpoint of effective demand, not preconceived notions of what constitutes adequate housing.[3] In addition, negligible or modest subsidies and replication by other institutions or developers are an integral part of the paradigm. If subsidies are provided, cross-subsidization schemes could allow for internal generation of the funds.

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[1]Payne.

[2]Keare and Parris. Progressive development can be formally defined as a method of housing construction or upgrading achieved through: a) staged development in which the infrastructure and occasionally parts of the house are built by a contractor, and the rest of the shelter is completed by the household; b) flexibility in housing design, construction time, and materials used; and, c) self-help components, which can be organized in the following ways: (i) mutual help, in which families work together in groups, often with supervision from project management; (ii) self-help construction in which the household hires a contractor to build the shelter; (iii) self-help construction in which the household hires and supervises individual laborers; (iv) self-help construction in which the household uses its own labor to build its house.

[3]Wiliams. However, see Section 4.3 for a discussion of effective demand.

Sites and services and upgrading projects have been carried out in many countries for over 15 years and a considerable body of experience now exists regarding lessons learned and problems still outstanding.[1] Key findings from an early evaluation of projects in Senegal, the Philippines, El Salvador, and Zambia include a number of very positive findings:[2]

- the projects in Senegal, El Salvador, and Zambia had a significant impact on the urban stock;
- the quality of houses constructed by residents was much higher than expected;
- the self-financing by the beneficiaries was an important aspect of their success;
- the income of project beneficiaries ranged from the 70th to 20th percentile and down to the 10th percentile for upgrading projects; unexpectedly, incomes were similar for sites and services projects as for upgrading;
- house-building costs were 30 percent lower than similar units built by private developers and 60 percent lower than those built by government agencies;
- construction activities had an important impact on income and employment for residents working for contractors.

Variations in design of sites and services projects has been extensive over the years. Project designers are still tackling the need to develop comprehensive, flexible, and locally-specific responses to housing demand. This includes numerous options on plot sizes and services, cross-subsidy schemes and supplementary land uses, including shops and workshops, cost effective layouts, and provision for cheap rental housing. Also, there has been an increased emphasis on upgrading partly because the early sites were too expensive and the number of beneficiaries too small.[3]

Despite the generally positive findings and continuing evolution of project design, there are persistent problems. The most important is perhaps

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[1] See, for example, Keare and Parris; Payne; Mayo and Gross; Ayres; Tym; Learning by Doing, AID Annual Reports.

[2] Keare and Parris; Williams.

[3] Ayres; Mayo, Malpezzi, and Gross.

poor cost recovery which has serious implications for future replicability. Other problems include "benefit leakage" to higher income households, difficulties in administration and implementation, and a tendency for standards, and thereby costs, to creep upward during implementation.

The obvious consequence is to imperil replicability which is, of course, the link between the sites and services paradigm and addressing long term demand. Poor cost recovery can result from poor financial administration and lack of political will to enforce collection procedures. It is also necessary, as discussed in Section 4.3 below, to consider people's willingness to pay. Assumptions that households would pay 20 to 25 percent of income towards housing is not always appropriate and many beneficiaries could not pay even if they wanted to. Another aspect of affordability is that it may have been "bought" with subsidies much larger than originally designed. Land price writedowns and interest rates subsidies are common; the fact that many subsidy elements are implicit, off-budget transfers, imperils replicability just as surely as direct government payments to beneficiaries.[1]

In addition to replicability, the leakage of project benefits to higher income households is an inevitable corollary of over-optimistic design. Hidden project costs and inadequate supply are also causes of leakage. In competition among income groups for limited units, the more affluent can always outbid the poor.[2] At Dandara in Nairobi, for example, about half the plots were rented out to non-beneficiaries and some units had been illegally sold.[3] Sites are often on peripheral or marginal land which results in hidden development and/or transportation to work costs. Again, low income households may sell out to higher income households. Also, sites and services can introduce factors into land markets that reinforce the already regressive tendencies that existed.[4] The result of these problems is that middle income groups may receive higher subsidies than the poor.

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[1] Mayo and Gross.

[2] Payne.

[3] Chana.

[4] Peattie.

Finally, institutional and administrative rivalries and rigidities can limit the range of design options and cause lengthy and thus costly delays in project implementation. Also, although success is enhanced when there is genuine involvement by community groups, considerable practical difficulties may arise in generating their participation.[1]

4.3 Affordability

Research undertaken on "affordability" has allowed a new understanding of the payment parameters used in the design of sites and services and upgrading projects.[2] The "effective demand" for housing is essentially a housing needs assessment backed up by an analysis of people's willingness and ability to pay. In contrast to normative rules of thumb (which generally assumed that all households should pay 20 to 25 percent of income on shelter) effective demand is based on the behavior of households as shown by surveys of how much they actually spend on housing and other goods.

Figure 3 summarizes some of the important results obtained from the empirical analyses undertaken by the World Bank.[3] It shows the (estimated) relationship between the rent-to-income ratio and monthly household income in four developing country cities: Bogota, Cairo, Manila and Seoul. Many economic studies have shown that the so-called income elasticity of housing demand is less than one, that is, as income increases the observed ratio declines. This is confirmed here to be the case for each of the cities. In addition, however, as the level of development rises, the average proportion of income spent on housing also rises. This is shown by the upward shift in the curves relating the rent-income ratio to income and has important implications for project design: <u>it should not be assumed that the poorest households can pay 20 to 25 percent of income on housing, especially in the poorest countries</u>.

These results have been translated into a "family of curves" useful to the design of sites and services projects. The presumption is that finding

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[1] Payne.

[2] Mayo, Malpezzi, and Gross; Keare and Jimenez; Burns and Grebler.

[3] Mayo and Gross.

Figure 3. *Rent-Income Ratios by Income for Renters*

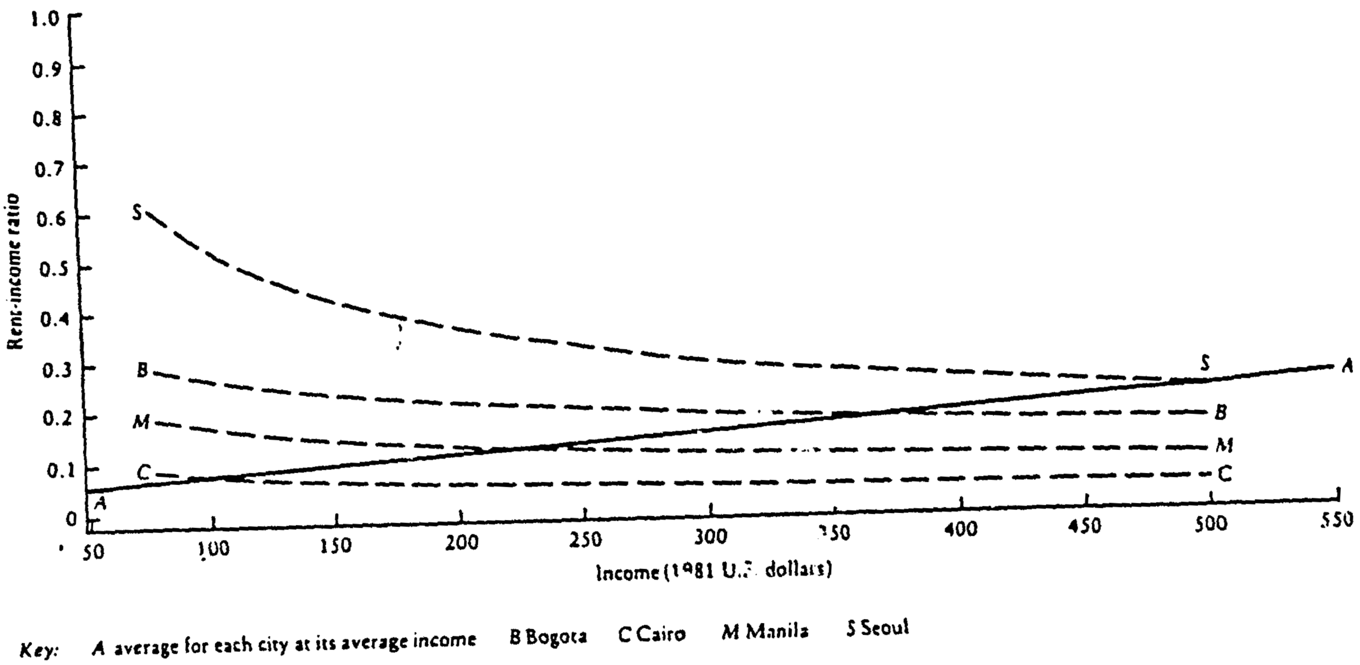
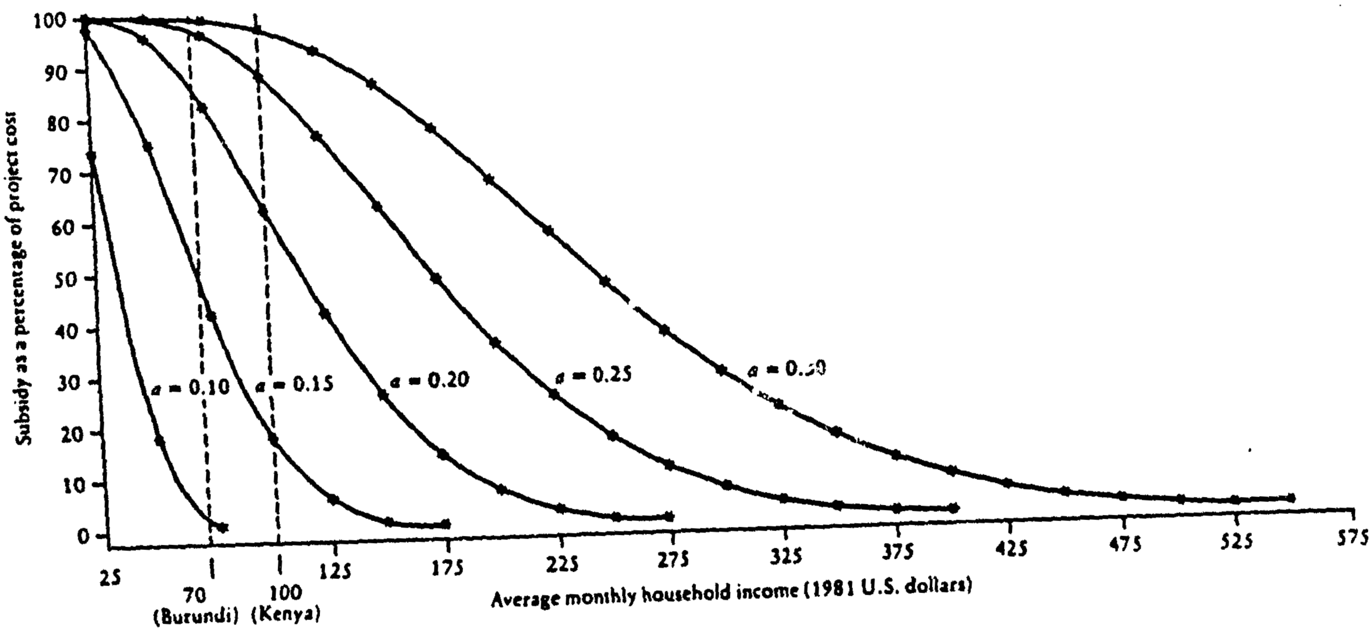


Figure 4. *Minimum Subsidies Necessary to Induce Participation of Thirty-Fifth Percentile Households at Alternative Values of the Design Affordability Ratio (a)*



the correct design standard, based on the "willingness to pay" of poor households, will lead to projects with a far better record for cost recovery and for continuing to serve the intended target households.

Thus, Figure 4 shows the estimated subsidies needed to induce low-income households to participate in projects with different design standards.[1] In Burundi, for example, with average monthly household income of only $70 in 1981, a subsidy of 85 percent (of project costs) would be needed to induce moderate-income households[2] to participate if the design standard is based on an affordability assumption of 20 percent of income. Similarly, suppose it were assumed that in Kenya, with 1981 income of about $100 per month, households were willing to pay for a unit designed to cost 20 percent of income. Again, because the average willingness to pay is so low (as shown in Figure 3) a subsidy of 60 percent would be necessary to induce participation. In high income countries, in contrast, an assumption of 20 percent may be entirely appropriate.[3] Required subsidies are extremely sensitive to the choice of design standards. The difference between 20 and 25 percent represents a difference of 25 percentage points in monthly shelter costs to the households. This can mean the diffrence between required subsidies of between 60 and 70 percent and 20 to 25 percent. In summary, these research studies can help project planners choose design standards based on income and level of development, that are neither too high nor too low, will induce households to participate, will help assure that cost recovery is feasible, and that target households do not merely turn the unit over to a higher income group.

4.4 Public and Private Roles in Shelter, Land, and Finance

In the complex environment of shelter development, both the private and public sectors have important roles to play. World-wide experience has shown that the private sector is a more cost effective producer of housing

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[1]Mayo and Gross.

[2]Assumed in this Figure to be those in the 35th income percentile.

[3]For reference, estimated monthly household incomes in most African countries and countries on the Indian subcontinent were below $100. Some of the countries with incomes between $100 and $200 were Botswana, Cameroon, Egypt, El Salvador, Indonesia, the Philippines, and Thailand; countries between $200 and $400 included a number of Latin American and North American countries and Nigeria and Zambia; and those above $400 included Caribbean, Latin American, and East Asian countries such as the Bahamas, Brazil, Jamaica, Korea, Mexico, and Panama.

units. Thus, as has been discussed, one of the main themes of the international donors has been to reduce the direct involvement of the public sector in building public housing. In addition, selling rental housing now owned by public authorities at market rates further reduces public sector involvement. If the public sector sells houses or land at below market value, or rents public units at below market rents it is directly competing with the public sector. Both policies undermine private sector efforts by making competition more difficult and utilizing scarce resources, and may result in fewer units and higher costs than would otherwise be the case. Subsidized down payments and below market interest rates may also reduce private initiative and distort the market.[1] Civil service housing is another type of transfer, essentially an income transfer in lieu of wages. Because its occupants are unlikely to move, it reduces employment turnover and filtering of the housing stock. In general, the subsidies that are least likely to disrupt the market are those directed toward households that cannot purchase housing in the (formal) private market.[2]

Even in developed nations, however, there is a shortage of low income housing. In developing countries, especially where severe barriers to housing supply exist, even middle-income housing is not forthcoming, as formal sector developers ration their resources and choose the least risk path of providing for the top of the market. Thus, one crucial role for the public sector is to provide the necessary incentives as well as remove any existing barriers to private sector participation. Donors can offer assistance in forging an appropriate balance of responsibilities for the public and private sectors.

Major roles for the public sector that will encourage of private sector initiatives are land assembly, modification of regulatory disincentives, provision of infrastructure, strengthening of the housing finance sector, and encouragement the construction and building materials industries. In addition, the central government can strengthen the ability of local government to provide land and/or infrastructure. It has been noted that in developing countries "development neither trickles down from the top nor effervesces from

[1]USAID, Encouraging Private Initiatives.

[2]Encouraging Private Initiative; Mayo, Malpezzi, and Gross; Renaud and Buckley.

the bottom."[1] Thus, decentralization policy -- helping strike a balance between central and local initiatives and responsibilities -- is another major area of possible donor assistance.

Finally, the public sector may wish to encourage the private sector through guarantees, grants, fiscal policies, or public/private partnerships. A few suggestions are noted below regarding the special case of land. The policies are often complex, however, and their implications need to be understood. The general rule is to avoid incentives or activities the private sector would undertake in any event; this is inefficient and tends to result in subsidization of upper income households.

Public/Private Cooperation: The Special Case of Land.

In countries with generally adequately functioning land markets, land development is best left to the private sector. Most developing countries do not have adequately functioning land markets, however, and additional governmental intervention and/or public/private cooperation is required to assist in providing both an adequate supply of land and secure title.

In most countries, little land is left in city centers. Even access to peripheral land may be increasingly restricted, only partly because of a shortage of public land. Land is traditionally hoarded; peripheral land becomes a prime vehicle for storage of capital by all groups.[2]

A number of policy options have been developed, including fiscal policies, public ownership, land banking, land pooling, and utilization of already existing land more effectively. The provision of infrastructure and land registration systems are key incentives to fostering private housing investment. Donor lending can be used to finance land acquisition and infrastructure provision and/or provide technical assistance in developing public/private initiatives and the necessary land administration and information systems.[3]

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[1]Rodwin and Sanyal.

[2]Doebele.

[3]USAID, "Strategies for Intervention in Urban Land Sector."

Fiscal Policies in conjunction with zoning and financing, can be effective tools of public influence. It should be noted though that influencing the price and supply of land through taxes can have contradictory effects and it is difficult to find the balance between penalty and incentive.[1] On the positive side, while capital transfer taxes operate against low income households by bidding prices up, variable tax rates can be set with low income housing land having lower rates. Also, taxes on the capital value of land rather than the annual value of property are more likely to encourage housing.

Many countries have increased public control over land in urban areas because private markets do not supply sufficient land at an affordable price for low income households. Public ownership faces its own set of problems, however. The main issue may not be the desirability of public ownership, but how well land will be developed for housing programs. Even with public ownership, resources and procedural problems may result in a shortage of plots.[2]

Land Banking has been a frequently advocated policy. To be most effective, this requires purchasing very large amounts of land in order to essentially flood the market. As well as requiring substantial amounts of funds (and low interest rates), however, land banking also requires exceptional administrative capabilities. Thus, the uncertainties of land management, price setting, and squatter invasion make this a problematical approach.[3]

Under Land Pooling/Readjustment, the development agency, in return for creating a consortium of owners and servicing their land, expropriates a portion as payment. The Korean Land Development Agency has used this approach successfully.[4] This approach potentially offers flexiblity; for example, land appropriaton could be varied in relation to land values and development costs. Land could be released at below market rates or cross subsidies built into the scheme. Another alternative is to acquire future development rights rather

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[1]Zetter, Roger, "Land Issues in Low Income Housing."

[2]Zetter, Roger.

[3]Doebele.

[4]USAID, Encouraging Private Initiatives.

than full title immediately. Although administratively complex, this makes land less attractive for speculation.[1]

For any of these approaches, however, land acquisition policies should not be separated from those for provision of infrastructure, administration and titling and subsidization. Provision of infrastructure spurs investment in housing and the rates of return are high.[2] However, costs should be recovered with effective user charges or taxes; policymakers may underestimate the amounts people are actually willing to pay for water and sanitation. If governments provide infrastructure at prices too low to recover costs, the result may be rationing and chronic problems in maintenance. Households are also willing to pay a premium for secure title, estimated to be 15 to 20 percent for renters and 25 to 60 percent for owners. Households then invest more in their dwellings, including more space for rent.[3]

Finally, issues of subsidization in land assembly for low income housing projects adds additional complexity. As indicated above, the general rule is to find subsidy policies that do not greatly disrupt the market. These include transfers directly aimed at households that cannot purchase in the private market. While lower land prices clearly enhance affordability, hiding the costs is ultimately detrimental to replicability. Also, as plots turn over, land may be sold at market price, raising issues of affordability for future beneficiaries, foregone revenues, and windfall profits.[4]

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[1] Zetter.

[2] Mayo, Malpezzi, and Gross.

[3] Mayo, Malpezzi and Gross; USAID, Encouraging Private Initiative.

[4] Miller, John; Merrill, Sally and Richard Beardmare, Final Evaluation: Zimbabwe Low-Cost Shelter Program.

5.0 THE SHELTER SECTOR AND CURRENT DONOR POLICIES IN GHANA

As indicated in the introduction, Ghana offers a very salient example of the current evolution in shelter policy. Following decades of direct support to public housing agencies charged with producing housing for sale or rent, the Government is now developing policies designed to enhance the effectiveness of the private sector, and focus the public sector on the provision of serviced land and the development of institutional and financial capacity. In conjunction with these reforms, international donors have been providing capital investment funds for infrastructure and upgrading. More importantly, however, several donors and the Government are about to launch a major program of shelter sector research, technical assistance and training. This program, which has benefitted from major efforts on the part of UNDP and the World Bank in conjunction with the Government of Ghana, is primarily designed to strengthen the personnel and information systems of the Ministry of Works and Housing. After a brief review of current economic and housing conditions in Ghana, the research efforts are described below.

5.1 The Economic Background

After a period of relative prosperity in the 1960s, Ghana suffered from an economic malaise until the early 1980s marked by shrinking output, high and accelerating inflation, and growing external imbalances. By 1983, foreign exchange reserves were nearly depleted and the country had incurred large external payments arrears. With a population growth of about three percent a year, per capita income declined by almost half during this period. The productive base of the economy was eroded rapidly as a result of the emigration of skilled labor, lack of capital formation, and a deterioration of infrastructure. These ills reflected a combination of exogenous factors and inappropriate economic policy signals.[1] The external factors included the oil price stocks, increased world interest rates, and the collapse in primary commodity prices. In addition, inadequate internal policies discouraged production, exports, savings, and investment, while encouraging consumption, imports, and various corrupt practices, including a burgeoning underground economy.

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[1]Chand and Van Til, "Ghana: Toward Successful Stabilization and Recovery."

5.2 The Housing Problem

During this period, the share of housing investment in GDP fell from an average of 5.2 percent during the early 1970s to a recent average of 3.1 percent.[1] The shortage of housing grew considerably worse. Given the deteriorating performance of the economy and constraints in the provision of inputs to housing, gains in persons per dwelling unit made during the 1960-70 decade were nearly eliminated by 1984. Thus, for the nation as a whole, persons per dwelling unit fell from 10.57 to 9.05 from 1960 to 1970, but by 1984 had climbed again to 10.11. Figure 5 illustrates these trends for the nation, greater Accra, and each region. Indeed, in some regions, the situation in 1984 was actually worse than in 1960: this is the case in the Ashanti, Northern, and combined Upper West and Upper East regions.

Increased overcrowding, declining quality, and declining access to services characterize much of the housing stock. Also, partially finished structures, some apparently abandoned, are a common sight in urban areas.

The aggregate statistics on persons per dwelling unit, while indicative of the relative decline in the housing stock, can be misleading as descriptors of overcrowding. The urban housing stock is dominated by compound housing which is typically 10-15 rooms but which can be much larger or smaller. The distribution of structure size varies by region and by urban and rural areas. Table 1 illustrates the distribution of persons per house in urban and rural areas for Ghana as a whole and for three quite different regions: Greater Accra, Ashanti, and the Northern Region. Many urban structures are presumably quite large: in Ashanti for example, 34 percent of the houses have 20 or more people. This compares with 19 percent having this many persons in the nation as a whole. In contrast, rural housing in the Northern region has significantly more persons per dwelling unit than the average for the nation and particularly in comparison with Accra.

Other data indicate that crowding is extreme even by African standards. Accra, where 70 percent of the households lived in one room in 1980, was second only to Lagos in crowding, where 72 percent lived in one room.

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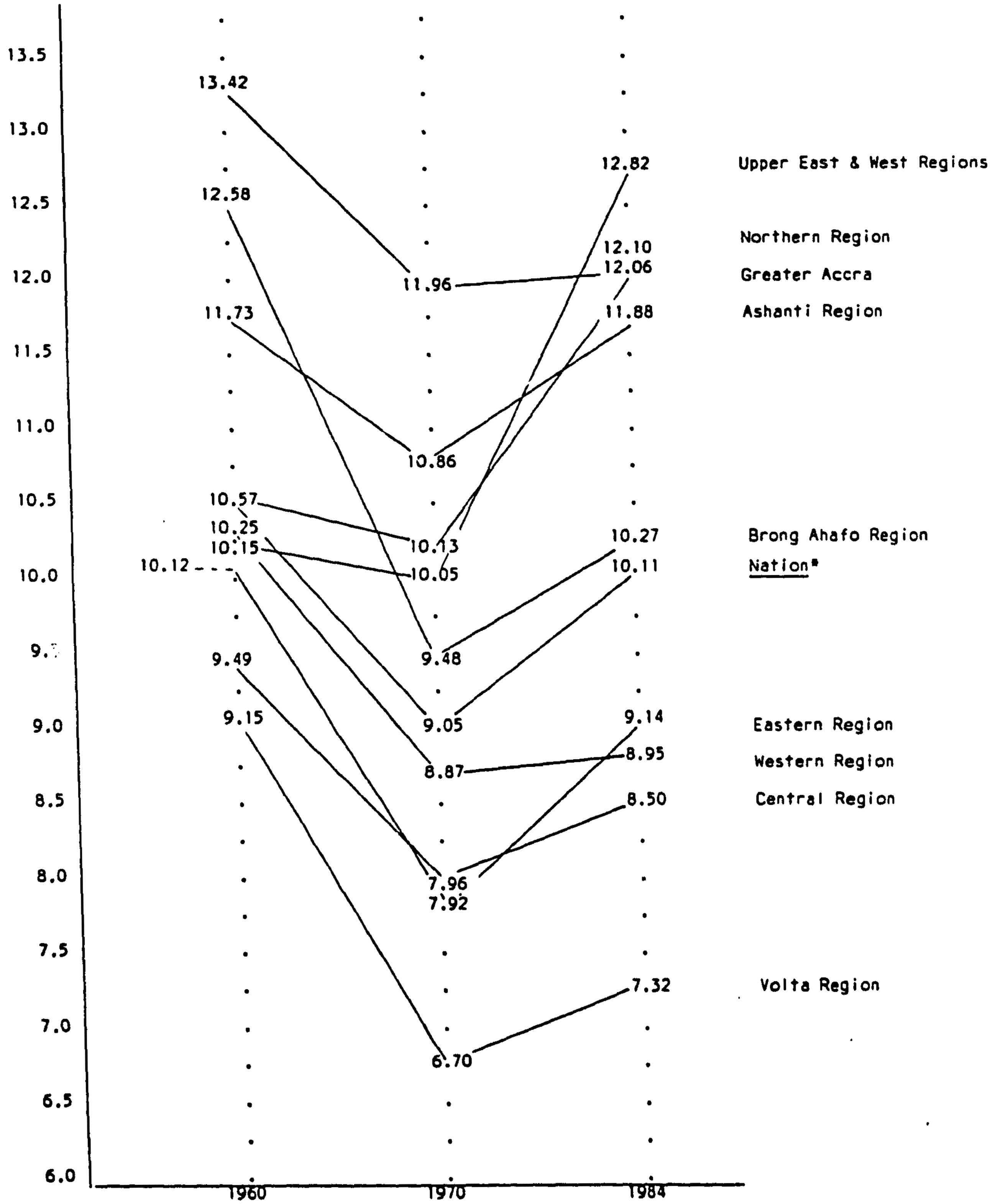
[1] Much of the material on housing in Ghana is drawn from memoranda produced during the World Bank Urban and Housing Sector Missions to Ghana in the Spring of 1988.

Figure 5
Persons per Dwelling Unit by Region:
1960, 1970, 1984



Source: 1970 and 1984 Census.

Table 1

1984 Urban and Rural Population and Distribution of Residences by Number of Persons in Residence Nationwide and Selected Regions

	TOTAL COUNTRY	GREATER ACCRA	ASHANTI REGION	NORTHERN REGION
1984 Population	12,296,081	1,431,099	2,090,100	1,164,583
Urban	3,934,796 (32.0%)	1,188,278 (83.0%)	679,750 (33.0%)	293,462 (25.0%)
Rural	8,361,285 (68.0%)	242,8221 (17.0%)	1,410,350 (67.0%)	871,121 (75.0%)
1984 Occupied Residences	1,216,677	118,705	175,912	96,776
Urban	290,900 (24.9%)	86,472 (73.0%)	36,743 (21.0%)	22,881 (24.0%)
Rural	925,777 (76.0%)	32,233 (27.0%)	139,169 (79.0%)	73,895 (76.0%)
1984 # persons per Residence: Total	10.1	12.9	11.88	12.03
1984 # persons per Residence: Urban	13.53	13.7	18.75	12.83
1984 # persons per Residence: Rural	9.03	7.5	10.13	11.79
Urban: Persons Per House, Residences which have:				
1-4 persons	58,279 (20.1%)	18,776 (22.3%)	5,384 (15.1%)	3,685 (16.5%)
5-9 persons	82,567 (29.2%)	24,452 (29.0%)	7,689 (21.6%)	7,067 (31.7%)
10-19 persons	81,779 (28.9%)	22,114 (26.2%)	10,164 (28.5%)	7,193 (32.3%)
20-49 persons	53,839 (19.0%)	16,499 (23.1%)	10,286 (28.9%)	4,098 (18.4%)
50+ persons	6,533 (0.2%)	2,451 (2.9%)	2,088 (5.9%)	257 (1.2%)
Rural: Persons Per House, Residences which have:				
1-4 persons	262,723 (28.5%)	12,708 (39.8%)	31,663 (22.9%)	12,118 (16.4%)
5-9 persons	343,395 (37.3%)	10,875 (34.1%)	49,078 (35.5%)	26,406 (35.7%)
10-19 persons	241,047 (26.2%)	6,606 (20.1%)	42,666 (30.1%)	24,878 (33.6%)
20-49 persons	70,630 (7.7%)	1,658 (5.2%)	14,617 (10.6%)	9,534 (12.9%)
50+ persons	3,603 (0.4%)	72 (0.2%)	334 (0.2%)	854 (1.2%)

This compares with 46 percent in Freetown, 43 percent in Uyo and 40 percent in Harare. By 1986, 73 percent of the households in Accra had only one room. Similarly, in 1980 Kumasi was second only to Lagos in persons per room, which stood at 4.1 in Lagos and 3.3 in Kumasi, as compared with 1.8 in Harare. The situation remained the same in Kumasi in 1986.

For information on access to services, data exist only for Kumasi. Most Kumasi households have electricity. With regard to other services, table 2 indicates a mixed picture regarding change in access between 1980 and 1986. Fewer households now have kitchens and toilets, while somewhat more have access to water. Also, fewer households now have exclusive access to any service. Not unexpectedly, owners have far better access than any other tenure group; access to toilets is a particular problem for family housers and subrenters. Interestingly, the correlation between access to services and household income is lower than expected.[1]

Conversations with officials and direct observation suggests that other areas of the country, particularly more rural areas, have fewer services. Power and water are not widely available in Tamale, for example. Finally, housing quality is considered to be deteriorating for large portions of the stock. Lack of maintenance of rental units subject to rent control and or those in the public housing stock is widespread.

Extremely wide variation exists in affordability and in access to reasonably priced housing. Rapidly increasing building costs, falling real income, and lack of housing finance have clearly made affordability of owned housing a serious problem. Costs now facing would-be homebuyers in the formal sector place housing out of reach for all but a tiny minority. Even the smallest house constructed by the State Housing Corporation (1 bedroom, 1 bath) at an asking price of ₵2 million, could be afforded only by the top 5 percent of the income distribution. Table 3 illustrates the incomes required to purchase alternative SHC houses.

On the other hand, rent control and housing subsidies provided by the public sector or through employers have made rental housing affordable for large segments of the population. Rent-to-income ratios for those under rent

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[1] Tipple and Willis, 1987.

Table 2
Utilities and Services in Kumansi[1]
Households without Access/Households with Exclusive Access
By Tenure
(Percent)

Tenure	Service (without access/exclusive access)							
	Kitchen		Bathroom		Toilet		Water	
Owner	11.1	49.3	2.7	49.0	14.2	46.1	17.5	41.4
Family Houser	23.6	12.4	3.1	7.9	42.7	6.3	33.9	6.1
Renter	24.0	11.8	1.6	8.3	25.8	8.3	24.5	7.8
Subrenter	14.0	22.2	0.0	27.3	50.0	25.7	2.0	27.3
Total 1986	28.3	15.8	2.0	12.7	29.8	12.0	25.6	11.2
Total 1980	15.3	16.3	2.5	14.6	22.3	13.0	32.9	12.4

1. Almost all households in Kumasi have electricity so the tabulations are not presented here.

Table 3
State Housing Corporation Estimated
Prices and Monthly Financing Requirements
(cedis)

SHC House Type	Asking Price (1987)	Financing: 15% interest, 20 year mortgage, 30% Downpayment		Financing: 26% interest, 20 year mortgage, 30% Downpayment	
		Monthly Charge	Required Monthly Income a)	Monthly Change	Required Monthly Income a)
• 1 bedroom, 1 bath	¢2 million	14,280	47,600	21,760	72,533
• 2 bedroom, 1 bath	¢2.5 million	17,880	59,600	27,210	90,700
• 3 bedroom, 2 bath, terrayo flooring	¢4.5 million	32,170	107,233	48,960	81,600
• 4 bedroom, 2 bath, terrayo flooring, garage	¢7.0 million	50,040	166,800	76,170	253,900

a) Assumes that 30 percent of income is spent on the mortgage payment.

control have historically been extremely low. Households in public housing or with civil service allowances have also paid low rents while employer-owned and university housing has subsidized upper and middle management and professionals.

The Draft National Housing Plan presents an estimate of annual housing needs between 1985 and 2005 required to keep pace with urban and rural growth rates (estimated to be 4.0 percent and 2.56 percent, respectively) and provide shelter at no more than seven persons per unit (a standard that was achieved in some regions by 1970, but only applies to Volta now). Thus, 70,000 units were needed in 1985 just to keep pace; this annual requirement increases to over 90,000 in 1990 and 110,000 in 1995. If decrowding of existing units is also included in the estimate, the housing stock would need to nearly double. The magnitude of this estimate is similar to one for the urban housing stock based on Kumasi data, and also assuming substantial decrowding.[1]

Such estimates are, of course, highly dependent on the assumptions utilized. For example, seven persons per unit may be an overoptimistic target for the immediate future. Nevertheless, considering that the nationwide housing stock grew by an average of 19,000 units per year between 1970 and 1984 according to Census data, the "gap" between desired and actual production is clearly enormous. The gap remains large even if the Draft National Housing Plan's production estimate of 28,000 units is assumed.

Beginning in 1983, a major reorientation of economic policies took place with the adoption of the economic recovery program launched in April. Since then, Ghana's economy has steadily recovered. Beginning in 1984, real GDP growth has averaged more than five percent a year, inflation has been reduced significantly, and the growth levels of exports and imports have been satisfactory.[2]

A surge in real income, however, will not quickly lead to the expected increase in housing supply if major constraints remain in the provision of inputs to housing. Housing finance, for example, is available only to a handful of the highest income households. Provision of credit farther down the

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[1]Tipple and Willis, Costs and Benefits of Rent Control in Kumasi, Ghana.

[2]Chand and Von Til.

income distribution would likely have an important impact. Also, a great deal of capital is now stored in partially completed structures and the availability of credit should unleash new investment by these households.

The provision of serviced land may be the most serious bottleneck. Although land is generally available, cumbersome land titling and administrative procedures cause lengthy delays. Land prices are rising and high initial costs are not able to be financed. Also, land use planning procedures are outmoded; thus, development frequently occurs in the absence of infrastructure or even infrastructure planning, leading to low densities, uncoordinated plot development, and ultimately to higher infrastructure costs.

Finally, rent control, restrictive building and land use relations, and constraints in the supply of building materials contribute to distortions in pricing and affordability. Rent control has indeed suppressed building activity and led to a deterioration in quality.[1] Building materials costs have skyrocketed, rising nearly twice as fast as overall prices;[2] although devaluation has had a major impact on the price increase, government regulations regarding prices and distribution may also be problems. Lastly, building regulations should be modified to encourage use of traditional materials thereby increasing both affordability and import substitution.

5.3 New Directions in Housing Policy

Better housing is now a high priority of the Ghanaian Government. In his January 1988 budget speech, the PNDC Secretary for Finance and Economic Planning stated that the availability of housing, particularly low income housing, had not kept pace with urbanization, that the existing stock is inadequately maintained, and that numerous structures have been left uncompleted.

The Ministry of Work and Housing has firmly established new directions in housing policy and targeted investment and planning toward these goals. Recognizing that the public sector cannot assume major responsibility for the direct provision of housing, the National Housing Plan has announced policies

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[1] Tipple and Willis.

[2] Amoa-Mensah, K., Housing Cost Trends.

designed to stimulate private sector investment in shelter and facilitate the provision of private sector financing.[1] The government, in contrast, will focus on the provision of infrastructure, the creation of a broadly-based planning body to help coordinate policies regarding land, planning, and infrastructure and the development of a National Housing Fund to enhance credit availability. Thus, consistent with the economic recovery program, policies are being introduced that will increase the efficiency of government expenditure, increase savings and investment, and improve financial intermediation.

This new policy agenda is all the more important since it represents a reversal of past policies that had relied on the public sector to supply most housing needs. However, the provision of public housing was not "commercially oriented"[2] -- large elements of subsidy were present in units for both sale and rent -- and the consequence has been large demands on public funds and poorly maintained public rental stock. In addition, many of the public units are also only partially completed, and an assessment of their potential for completion and sale is a major item in the donor research program.

At the current time, numerous donors are providing capital funds for infrastructure development, slum upgrading, urban planning, and decentralization of urban functions.[3] In addition, a program of institutional support for the housing is being designed by the Ministry of Works and Housing, UNDP, the World Bank and UNCHS. The objectives are to improve the capacity of the Ministry to develop and evaluate policy options and to prepare, monitor and supervise the implementation of shelter programs; and to lay the groundwork

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[1]Private sector incentives include the following: the corporate tax for real estate companies is to be reduced to 45 percent from the current level of 55 percent; companies and persons who invest part of their profits in real estate will be allowed to offset 50 percent of such investments against the following year's tax liability; real estate developers will be granted a five-year tax holding and any loss incurred during the holding can be carried forward for two years; purchases of houses from real estate companies are exempted from payment of stamp duty (as is currently the case with SHC and TDC); and sales taxes on locally produced building materials have been reduced from 20 percent to 10 percent. In addition, there will be a tax holiday for newly established large scale building materials factories and revision of the Rent Law and Property rates is to be undertaken.

[2]Osafo-Maafo, "Keynote Address on Housing Finance."

[3]The donors include at least the World Bank, United Nations Development Fund (UNDP), United Nations Center for Human Settlements (UNCHS), Great Britain, East Germany, West Germany, and Canada.

for building delivery capacity in the sector as a whole. It has been proposed that UNDP and the World Bank fund a 3-year program, part of which would be an input into the World Bank's Urban II project, due for implementation in 1990. The program, which is still under discussion, will consist of setting up a Policy Preparation and Evaluation Unit (PPEU) and carrying out a number of housing sector studies.

The PPEU would be responsible for revising the Draft National Housing Policy and for coordinating the proposed studies. The revised policy would be an important input into Urban II, integrate the results of the studies, and provide a basis for future MOWH budgeting.

The studies can be summarized as follows:

a) Housing Finance: the reforms needed to increase the flow of savings to the sector, introduce appropriate instruments and mechanisms, and build institutional capacity need to be identified and feasible proposals prepared.

b) Housing Market Analysis and Rural Housing: Analysis of the data from the Ghana Living Standards Survey (GLSS) supplemented with sample surveys of low-income settlements; preparation of databases.

c) Suspended Housing Projects: Detailed Engineering, costing and contract documentation.

d) Land Market Survey: Survey of a few hundred transactions in a number of locations.

e) Land Titling and Registration: Examine ways in which the tribal and state systems can be made to work together and speed up the transaction process. (One reason why progress on land is important for project preparation is that there may eventually be land acquisition programs.) Extending Accra property valuation to other towns.

f) Building and Planning Codes: Revisions of codes to make them more flexible and appropriate for low income groups.

g) Building Materials: Policy constraints (e.g. foreign exchange and price controls) and longer term reforms (e.g. encouraging the use of local materials; improving industry capacity utilization) to be studied.

h) Building Settlement Design: Detailed design, engineering, costing and contract documentation for upgrading and sites and service subprojects to be incorporated in Urban II.

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