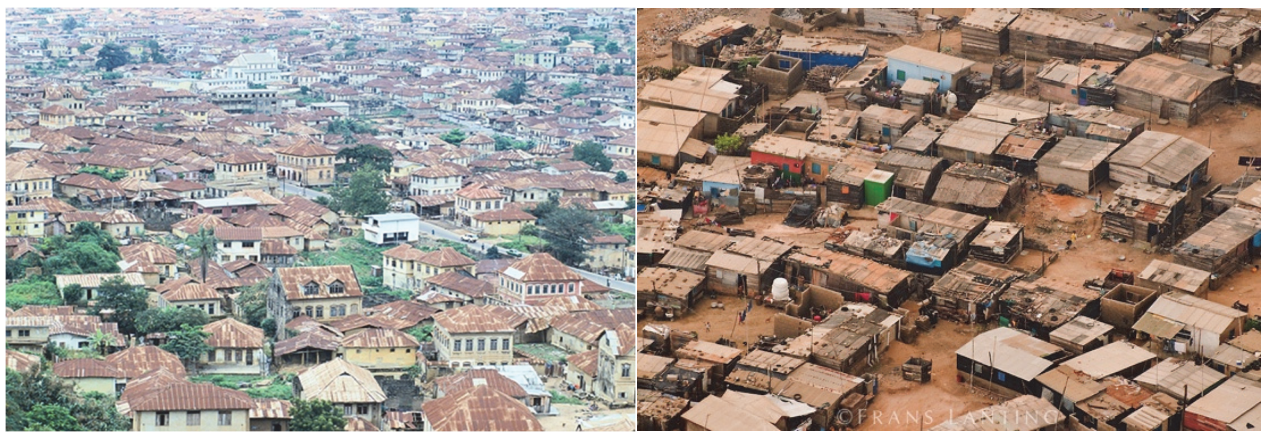




Stocktaking of the Housing Sector in Sub-Saharan Africa

Summary Report



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Stocktaking of the housing sector in Sub-Saharan Africa

Sub-Saharan Africa is experiencing rapid urbanization as well as a growing slum population.

1.2 billion
urban residents
by 2050

4.5 million new residents
In informal settlements
each year

Many households cannot afford basic formal housing or access mortgage loans.

\$1,699
GNI per capita

5% of adults took a mortgage loan
from a formal bank
in the past year

Obtaining formal housing is often costly, with cumbersome regulatory requirements and a backlog of basic infrastructure.

Registering property
costs **8.3%** of the value

162.2 days to obtain a
construction permit, on
average

50 years to reach full
infrastructure coverage

Yet a well-functioning housing market can be a vital economic sector and a potential source of job creation.

Housing investments
represent **6% of GDP**

5 jobs
per house built

Countries can expand access to adequate housing and improve the quality of existing stock by promoting incremental upgrading, extending basic infrastructure, addressing constraints for housing suppliers, and improving access to housing finance.

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Abbreviations

ACSI	Amhara Credit and Savings Institution
AICD	Africa Infrastructure Country Diagnostic
BHC	Botswana Housing Corporation
CAHF	Center for Affordable Housing Finance in Africa
CCODE	Centre for Community Organisation and Development
FAR	Floor to area
GDP	Gross domestic product
GHC	Ghanaian cedi
GNI	Gross national income
HAT	Housing affordability tools
HMF	Housing microfinance
IHDP	Integrated Housing Development Program
IMF	International Monetary Fund
MFI	Microfinance institutions
MINHDU	Ministère de l'Habitat et du Développement urbain
MIPROMALO	Local Materials Promotion Authority
NBFC	Non-banking financial companies
NGO	Non-governmental organizations
NHC	National Housing Corporation
NMRC	Nigeria Mortgage Refinance Company
OECD	Organization of Economic Cooperation and Development
PMI	Primary mortgage institutions
ROSCA	Rotating Savings and Credit Associations
SACCO	Savings and Credit Cooperative Organizations
SME	Small and medium enterprises
SNEN	National union of teachers, Niger
SSA	Sub-Saharan Africa
TCO	Total cost of occupancy
TCUL	Total cost of urban living
WB	World Bank

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1. The Link between Urbanization and Housing in Africa

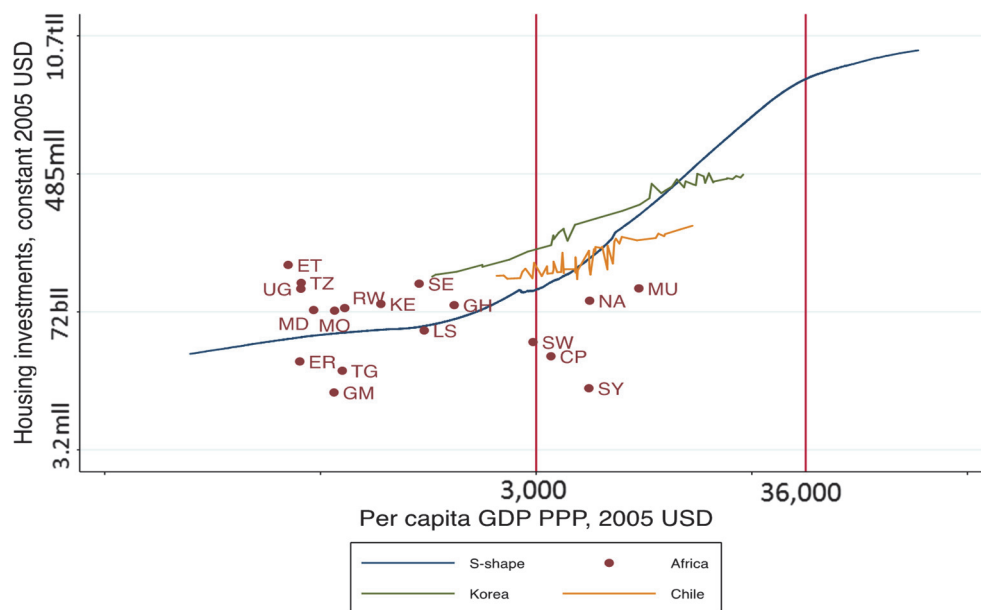
Africa is rapidly urbanizing and will lead the world's urban growth in the coming decades. Currently, Africa is the least-urbanized continent, accommodating 11.3 percent of the world's urban population, and the Sub-Saharan region is the continent's least-urbanized area. However, the region's cities are expanding rapidly—by 2050, Africa's urban population is projected to reach 1.2 billion, with an urbanization rate of 58 percent (UN-HABITAT 2014). With this rate of growth, Africa will overtake Asia as the world's most rapidly urbanizing region by 2025 (UN 2014). Although the nature and pace of urbanization varies among countries, with over a quarter of the world's fastest growing cities, Africa is undergoing a massive urban transition.

Globally, cities are major drivers of economic growth, and the quality and location of housing has long-term consequences for inclusive growth. People migrate to cities in search of economic opportunities and cities attract firms and investment because of the concentration of a diverse labor pool. With the productivity gain of agglomeration, urbanization and per capita income growth tend to happen concurrently. For most households, purchasing or building a house is the single largest expenditure they will ever make. A home is also typically the most important household asset and an investment that can appreciate in value over time, be used for collateral for borrowing and be an important component of intergenerational wealth transfer through inheritance. Where housing is located in proximity to schools, jobs and transit access, this directly impacts the quality of urban life and prospects for social mobility (World Bank 2013).

However, in Sub-Saharan Africa, urbanization is not accompanied by the level of per-capita economic growth or housing investment that is observed elsewhere in global trends. Incomes in Sub-Saharan Africa (SSA) have not kept pace with urbanization, which, in many African countries, has not necessarily been accompanied by industrial growth and the structural transformation as has occurred in other regions. For example, SSA reached 40 percent urban in 2013 with a GDP per capita of \$1,018; East Asia and the Pacific reached the same level of urbanization in 1994 at \$3,617 per capita, the Middle East and North Africa in 1968 at \$1,806 per capita, and Latin America and the Caribbean in 1950 at \$1,860 per capita. In some cases in SSA, migration from rural to urban areas has also been driven by “push” factors such as poor yields from agriculture (Barrios et al. 2006). Housing stocks, along with investment and employment in related construction and finance industries, constitute a major component of national economic wealth. The key challenge for African cities, however, has been the comparatively low growth in per-capita income, which limits the resources that households have to consume or invest in housing. At the same time across the region, the formal channels through which quality housing is produced and financed face major constraints that limit access to a large share of urban households. Hence, the formal housing sector is only a small part of the economy because the construction and finance services have very little effective demand, evidenced by the lack of formal investment in housing across the region. Recent studies have found that in Africa, formal housing investment (in national current accounts data) lags behind urbanization by nine years (Dasgupta et al. 2014). Furthermore, the capital investment in infrastructure needed to handle rapid urbanization typically happens (if at all) after housing has already been built, often in informal settlements.

As urbanization continues, investment in formal housing is failing to keep up with increasing housing needs. Urbanization, driven both by the migration of people to cities and by natural population growth within cities, will continue to be the key demographic force shaping housing needs. Figure 1 shows that while across the world, housing investment and gross domestic product (GDP) follow an S-shaped curve, with the slope rising between income levels of US\$3,000 and US\$36,000. Most of SSA countries are below US\$3,000 per-capita GDP and as such have yet to approach the point where higher levels of investment in housing is likely to begin (Dasgupta et al., 2014). The majority of housing investment in most African countries currently comes from government investment or domestic savings rather than finance obtained through international capital markets as is the case in developed economies.

Figure 1. Housing Investment and Per-Capita Income, SSA (2011) and the World (1960-2011)



Note: The vertical lines represent points of inflection

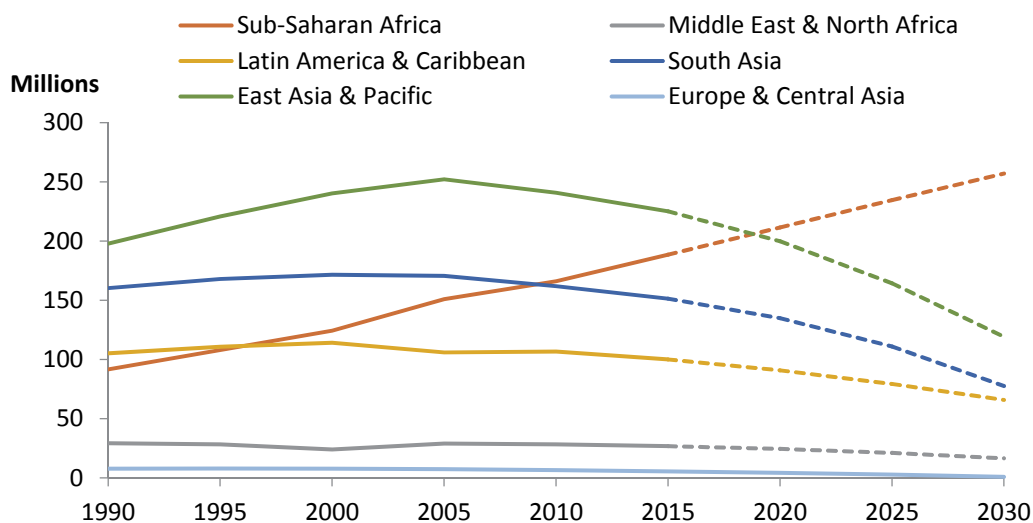
Source: Calculations from World Bank data.

Note: Curve line drawn from all available data 1960-2011.

A lack of quality housing stock is common throughout SSA. In the absence of consistent and reliable data, however, identifying the quality or quantity of housing deficits (formal and informal) is extremely difficult, and requires careful conceptual clarity about existing stock, occupancy, and household sizes. The definitions and methodologies used by governments to estimate housing deficits vary widely. In general, housing shortfalls can be calculated based on three different qualities: (i) the numerical shortfall in dwellings (deficit); (ii) the qualitative shortfall in physical conditions (obsolescence or substandard construction with non-durable building material); and (iii) the space shortfall within dwellings (overcrowding). Under this approach, total housing stock is an aggregate of different shelter types (new units and existing units) and tenure arrangements (rental vs. ownership for example). These approaches rely on estimates of new household formation and an ideal occupancy ratio per dwelling unit, which may not reflect typical conditions. They also overlook how much of the existing housing stock can be improved, rather than replaced. Further, the UN estimates that more than 200 million people in the region will live

in slums by 2020 (UN-Habitat 2014). The slum population is growing at 4.5 percent annually, a rate which will result in doubling the slum population in 15 years (Marx et al. 2013). After this period, the majority of the world's slum dwellers will live in African cities; currently all other regions are experiencing a rapid decline in the prevalence of slums (See Figure 2 below).

Figure 2. Number of People Living in Slums—by Region



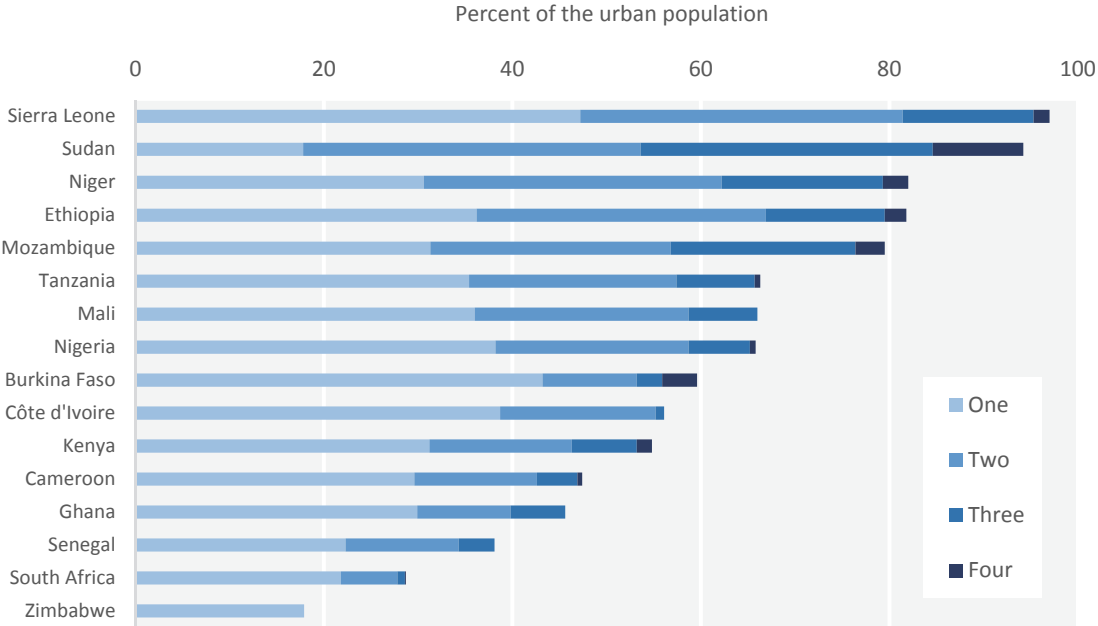
Source: UN 2014.

Assessing the quality of current housing stock reveals broad differences in the nature of housing challenges faced by different countries in the region. A 2005 (UN-Habitat 2008) survey of housing quality in Africa classified housing quality in terms of deprivations associated with slums (lack of: durable housing, improved water and sanitation, tenure security and adequate living space). Figure 3 below shows the portion of total housing stock for select countries in the region divided according to deprivation type. It shows, for example, that nearly half of the housing stock of Sierra Leone (47.2 percent) has just one deprivation, while by contrast in Sudan, about 67 percent of housing units have *at least* two or three deprivations, resulting in a large share of the housing stock reflecting characteristics of slums. By contrast, in Ghana, 96.7 percent of households have access to a durable shelter, 83 percent have access to improved water and 76 percent have improved sanitation (UN-Habitat 2008). Such data show that housing conditions reflect a spectrum of quality deficiencies, with most housing stocks lacking at least two basic standards. The findings suggest that the quality of the existing housing stock in a number of countries can be improved rapidly with targeted interventions to improve particular areas of deficiency.¹

Institutional, regulatory, and technical weaknesses across the housing sector impede the delivery of quality housing at the scale needed to accommodate anticipated urban growth, let alone tackling the existing stock's deficiencies. Due to this, the majority of housing remains informal. Although the housing sector in Africa is highly heterogeneous with substantial differences between countries, some consistent patterns emerge as a function of low income levels limiting demand for formal housing, and of overall poorly functioning housing markets (including land markets, infrastructure and services, access to housing finance and the construction and development industries). Due to these constraints to the housing production and consumption systems, in many countries, housing produced through formal channels is far too expensive for most people. Instead, informal channels have become the dominant housing delivery

system across the region, known to contribute around three quarters of the total housing stock (although data on the informal housing sector in Africa is scarce).

Figure 3. Distribution of Urban Population by Shelter Deprivation, sample countries (2005)



Source: UN-Habitat 2008.

Future urbanization poses unique and urgent challenges for the provision of adequate housing. Access to a diverse, quality and affordable housing stock will set a foundation for inclusive growth in rapidly urbanizing cities. The housing sector, including housing finance, construction and development activities, can contribute to a substantial portion of the domestic economy. It can catalyze employment across these industries, which will further enhance growth. Urbanization also shapes the supply and demand for housing beyond cities; as rural residents typically leave behind self-built homes and migrate to cities in search of a better life and future, they find that they cannot build or afford urban housing. The key challenge is to resolve a spatial mismatch in which the concentration of population and employment exists within the city, but housing costs tend to be lower on the urban periphery or in rural areas because such locations are farther away from jobs and services and these units largely do not have infrastructure connections. Due to lower land costs, peripheral urban areas attract migrants and settlers despite the lack of government capacity to extend roads, water and sewer pipes, and electricity grids into these new expansion areas. While housing options in these areas may be affordable to the urban poor, the additional burdens imposed by long commute times, public health problems from inadequate water and sanitation and the lack of education and health services represent substantial indirect costs to the households and the economy.

2. Understanding Housing Delivery in Africa: Value Chains

Formal housing is the product of specialized supply and demand-side value chains. Housing ‘formality’ typically means a home that (i) has valid legal title, (ii) is structurally sound and complies with local planning standards and building codes, and (iii) can be pledged as collateral for a long-term mortgage loan. Formal housing units with such qualifications are the product of coordination between public and private sector activities, involving land, infrastructure, design and construction on the supply side, and a corresponding set of demand side inputs related to housing finance.

The value chains that support the production and consumption of formal housing in Sub-Saharan Africa are weak and oriented toward high-income groups. Specific conditions for formal housing provision, such as sources of private capital and deep public sector attention to infrastructure-appropriate regulations and standards, have emerged in developed economies over a long time but do not hold well in the housing sector in developing countries. This is particularly the case in Sub-Saharan Africa, where formal housing accounts for only a very small segment. The SSA context is rather characterized by low per capita incomes and barriers that raise the cost of building and consuming housing. These barriers include weak land and property titling systems, unreliable and incomplete infrastructure grids, and limits to capital markets for providing sources of consumer and developer finance. Table 1 compares a formal housing delivery system typically found in developed economies with common conditions found across SSA to identify systemic gaps or blockages in value chains, develop cross-country comparisons, and to illuminate important functional processes within the housing value chains that are often overlooked, especially within the informal system.

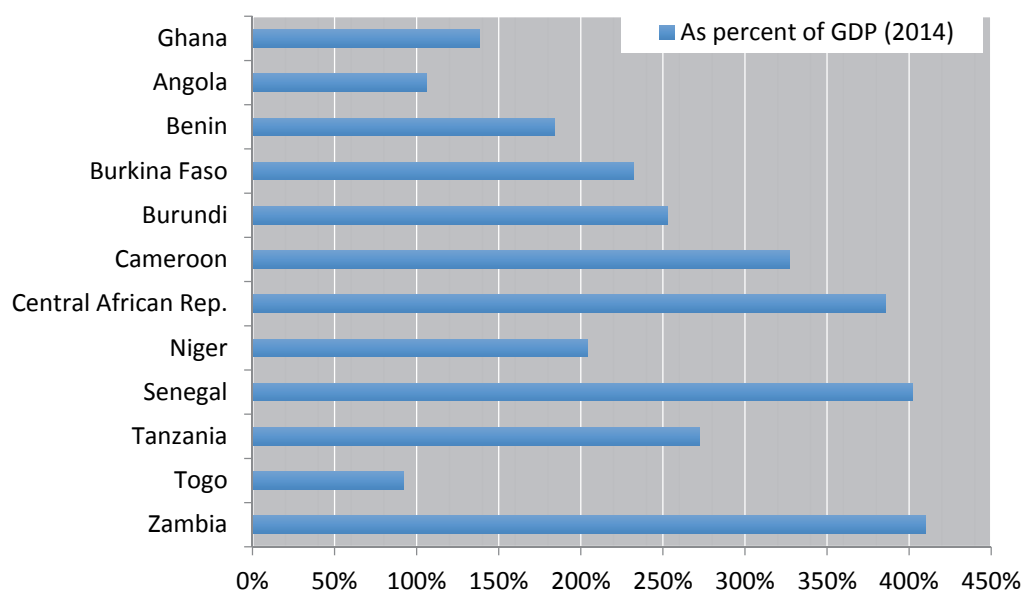
The cost for providing formal housing, whether through private developers or through the government is prohibitively high. Furthermore, given the prevalence of low household incomes and lack of access to credit, very few people could afford to purchase these houses. Figure 4 below demonstrates the challenge of provision of low-cost formal housing from now through 2030. The figure provides a simple estimate based on forecast urban population growth, assuming an annual household formation rate of 3.5 percent across the region and a housing unit cost based on the lowest priced formal unit available on the market. It demonstrates that providing only *additional* housing (apart from upgrading the existing stock, for example) would be very costly and address only part of housing need.

As a result, the informal delivery of housing as a less expensive alternative has been the norm in SSA, while formality is the exception. Informal housing is defined by deviations from the laws and regulatory frameworks that govern formal access and use of land and buildings (UN-Habitat 2003). Since informal economic and social systems operate with indifference to, and in non-compliance with, the formal regulatory and administrative structures, informal housing delivery networks are not well-studied and quantitative information about the scale and depth is scarce and non-standardized.² Nonetheless, informal housing in SSA shares one or more of the following characteristics:

Table 1. Comparative Summary of Housing Delivery Conditions in SSA

	Housing Delivery Component	Formal	Common SSA condition
Supply	<i>Land Tenure and Administration</i>	Freehold or leasehold title; title or deed registry	Competing tenure systems and or absence of title: Squatting, land invasions, illicit subdivision and sales
	<i>Planning Standards and Regulations</i>	Compliance with floor area ratio (FAR), plot coverage, site setbacks, heights, building codes	Variation in site density, design and lot coverage
	<i>Construction sector</i>	Sector with professional, licensed contractors/workers	Self-built, or use of informal unlicensed laborers
	<i>Building Materials</i>	Mass produced materials with standardized quality	Variation in type and quality of materials: Scavenged items, traditional manufacturing techniques, some use of manufactured materials where they can be obtained
	<i>Infrastructure</i>	Trunk lines and utility connections	No trunk lines: Illegal wiring, pit latrines, household cisterns
Demand	<i>Formal savings accounts</i>	Savings account deposits used for mortgage lending	Little formal savings: Reduces capital available for lending to consumers or developers
	<i>Underwriting and verification</i>	Assessment of income and creditworthiness to create mortgage terms	Lack of formal income and land or property title for collateral: Reduces eligibility for housing subsidy programs, raises risks profile for commercial mortgage lending
	<i>Mortgage loans</i>	Long term loan for obtaining complete, titled house	Few mortgages: Most households use personal savings, microcredit, savings groups and/or other non-commercial sources

Figure 4. Simulated Cost to Provide Formal Housing Units for Selected Countries, 2015-2030 as percent of GDP (2014)

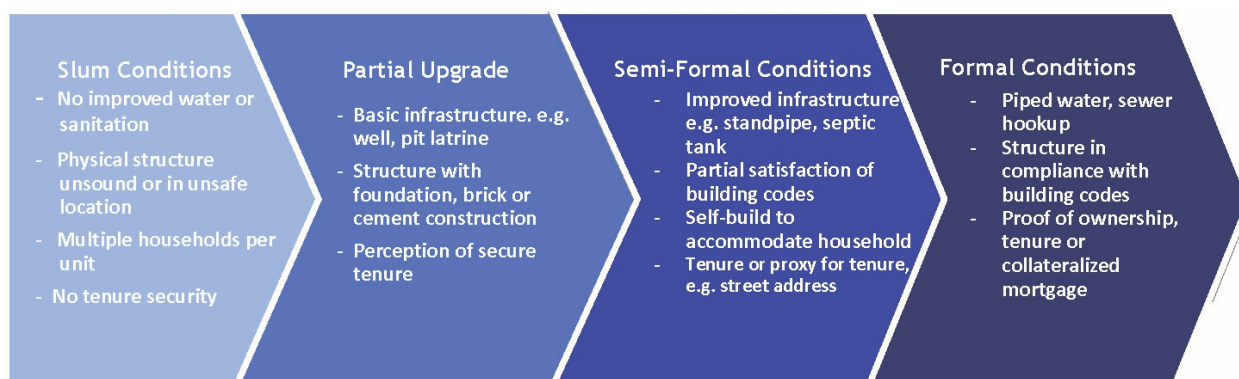


Source: Calculations based on population data from UN 2014, GDP data from World Bank 2014c.

- Located at the urban periphery or within the interstices of the formal city (e.g. non buildable or risk areas).
- Self-designed and self-built with local materials.
- Does not fully conform to building and land use standards.
- Poorly serviced by infrastructure networks and public services.
- Financed out of family/group savings and/or loans from informal lenders.
- Incrementally improved by the occupant over a long period of time.
- Lacks legal title and often subject to insecurity of tenure

Informal housing represents a spectrum of different shelter locations, conditions, and tenure status. Informal housing is not necessarily equal to slum housing. Rather, informality represents a continuum of housing conditions, ranging from units without access to any improved infrastructure, absent compliance with planning and building standards and lacking land and property tenure security to units with sequentially greater levels of permanence, tenure security and quality. While the precise degree and cost requirements of housing standards have long been debated (Payne 2001; Cohen 2007), the definition of informality allows for wide variation in the type and quality of housing (see Figure 5 below). Indeed, global experience suggests that it is common for informal housing conditions to improve incrementally over time through infrastructure upgrading, self-built construction, and tenure claim recognition (Payne and Majale 2004; Payne 2005; Choguill 1999).

Figure 5. A Continuum of Informality in Housing



Source: World Bank data.

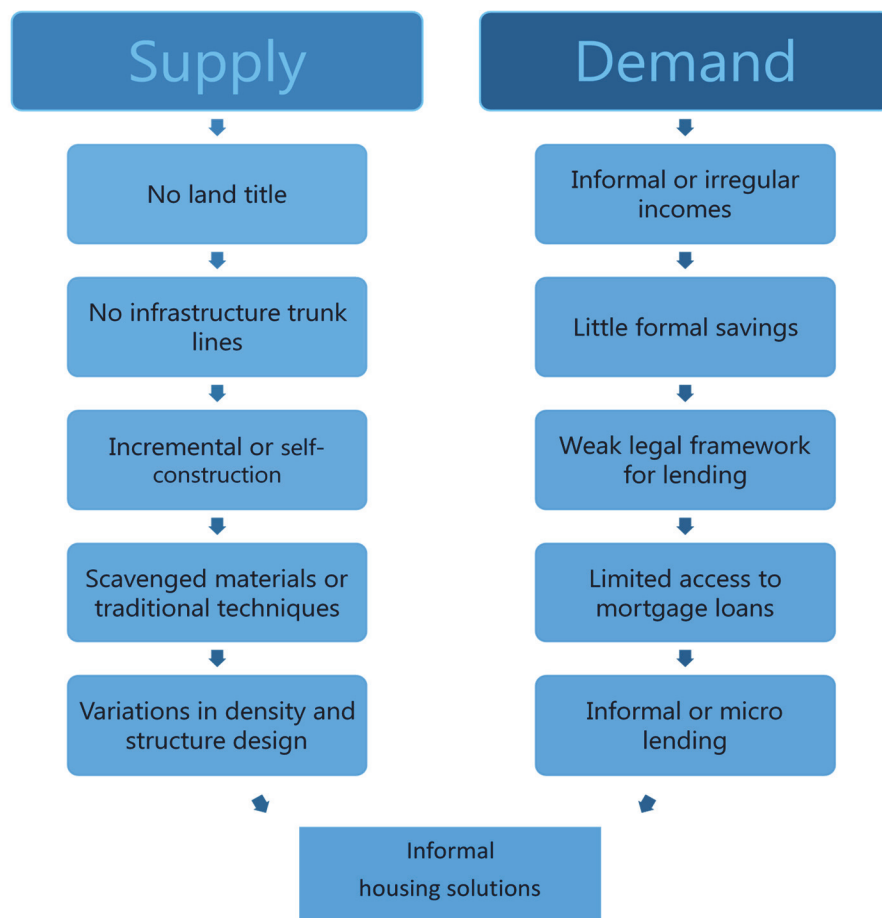
Comparing formal and informal value chains will identify areas for policy attention to improve the function and overall affordability of the housing sector. The informal housing sector has a separate, parallel value chain system but, in many areas, this value chain cannot adequately provide quality housing for the majority (see Figure 6 below). The purpose of the value chain approach is to map out the main constraints for supply and demand that impact the housing sector's contributions to domestic economies and its power to provide affordable housing at scale.

The key issue is not an absolute lack of housing supply but instead a very limited provision of quality housing within the continuum of informal conditions shown above. The challenge for policy makers is to improve housing delivery value chains in a way that allows residents to steadily transition toward more formal housing conditions. At the same time, improvements to formal sector value chains can reduce the cost of construction and broaden access to finance for consumers and developers.

3. Supply-Side Challenges to Housing Delivery

Formal housing affordability is constrained by challenges to realizing key supply inputs. These inputs begin with the cost and time necessary for obtaining, transferring, and developing land for residential use. Second, network infrastructure—roads, power, piped water, sewage/drainage and so forth to service residential land—is lacking and very expensive to build retroactively in settlements that do not have such connections. Most SSA countries also lack the institutions and capacities to capture land value in ways that can be used to finance these types of public infrastructure investments. Finally, the cost of building the dwelling is very high due to the cost of construction materials (such as cement) and absence of a robust construction sector. The scarcity of these inputs drives up the cost of formal housing for all residents, forcing the majority of low-income and middle income groups to seek other housing options that are often of lower quality and may be without secure tenure.

Figure 6. Informal Supply and Demand Side Value Chains for Housing Delivery



Source: World Bank data.

Land Administration, Planning and Construction Standards

Land tenure and administration systems complicate the function of land markets. The plurality of tenure systems found across the region (and often even within the same country) discourages the market-based circulation of land because rights to control or exchange land may be unclear and subject to dispute. Land administration systems such as registries and cadaster records are incomplete and are underused for enforcing legal claims or fiscal obligations of land holders, diminishing the ability for lenders to use land as collateral. Building standards and regulations, particularly with regard to minimum plot sizes, density and land use intensity, discourage the efficient development of urban land and place additional burdens on infrastructure provision. Each of these factors raises the cost of housing by increasing the costs of land assembly, raising the risks for investment, and making infrastructure extensions less cost effective.

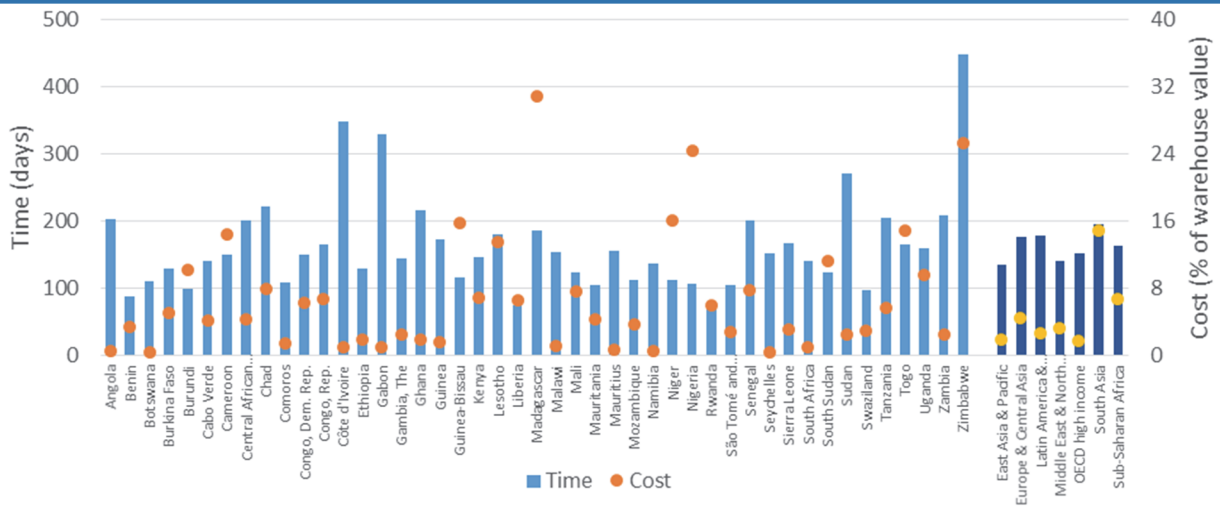
Tenure systems often do not support the emergence of land markets. In many areas land is subject to tenure regimes that limit the ability of markets to circulate land or to define and protect development rights. These issues are particularly complicated owing to the array of different tenure systems across the region and within individual countries, as well as the general lack of a consolidated, efficient land administration system in many countries.³ For example, customary tenure may only allow land to be acquired or transferred with the consent of a local tribal council or leader (Toulmin 2005). In some countries, such as Ethiopia, the government has sole control over all land and ultimate control in land administration issues that can limit the private use and exchange of land and property. Where land is expensive to acquire or where tenure rights are difficult to obtain and protect, housing costs will inevitably be high.

The time and costs required to meet construction and development standards discourage informal sector developers from compliance (Figure 7). This arises partly because the enabling environment of laws and regulations is structured on the implicit assumption that property is formal and building codes must apply to all forms of construction. Building standards tend to be excessive and minimum lot sizes, for example, costly. The result is per-activity costs that render smaller formal housing unaffordable while smaller informal housing is affordable.

Infrastructure

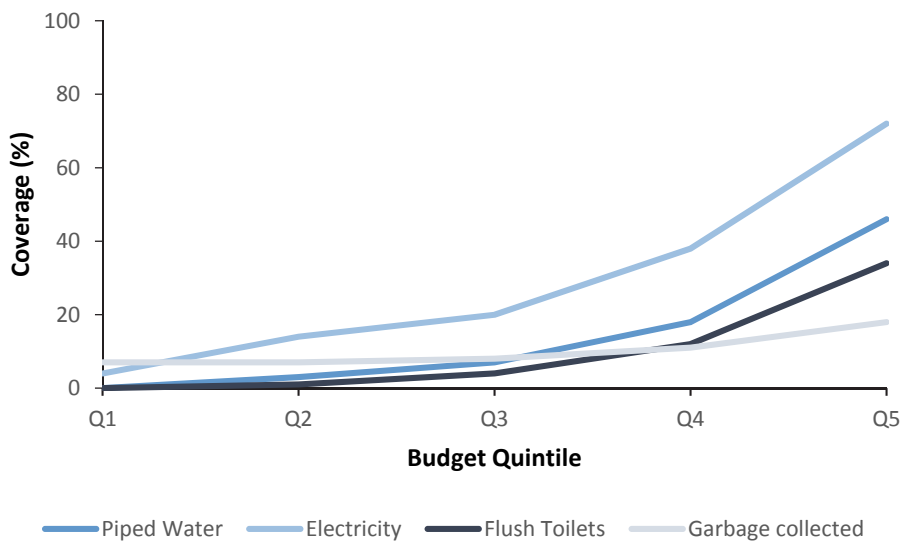
Across the region, recent data suggests that infrastructure coverage overall is actually *declining* due to rapid population growth in urban areas and inability of core utilities to maintain existing infrastructure stock and expand service coverage in new areas. In 2010, when the SSA urban population reached 37 percent, only 34 percent of urban residents had access to piped water, down from 43 percent in 1990.⁴ In many of the larger SSA cities, up to around 1950, developed areas tended to be fully serviced. However, as these cities rapidly grew in the pre- and post-independence period, service provision fell behind development. This occurred particularly in the informal areas where houses are often built before the plot is hooked up to water, electricity, and sanitation. The sequence of infrastructure planning and investment in informal settlements is the opposite of that in wealthier neighborhoods. The formal process of *plan-service-build-occupy* is reversed into *occupy-build-service-plan* (Baross et al. 1987). Infrastructure coverage in SSA is mostly directed toward wealthier groups who are also better able to self-provide for services that local governments and utilities do often not cover (such as sanitation). For the poorest 60 percent, however, coverage is less than 10 percent for most infrastructure services (Figure 8).

Figure 7. Average Time and Cost to Obtain a Construction Permit in Sub-Saharan African Countries and International Benchmarks



Source: Generated using World Bank 2016, Doing Business data.

Figure 8. Infrastructure Service Coverage by Household Budget Quintile in SSA



Source: Banerjee et al. 2008.

Note: Data are latest available as of 2006.

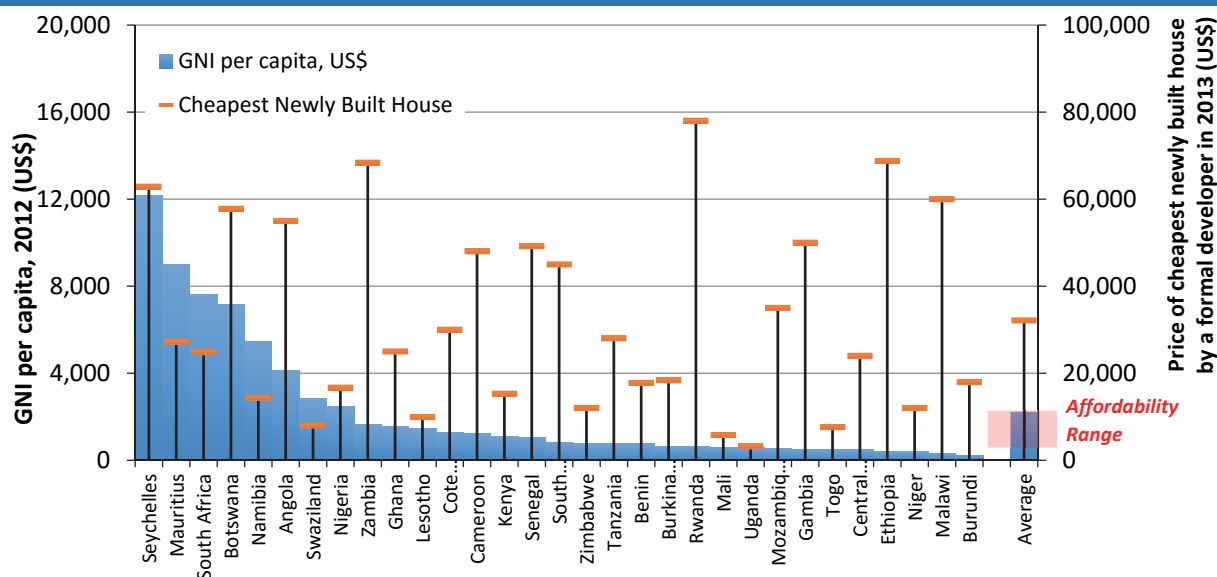
High Cost of Housing Construction

The cost and availability of quality construction materials are a major impediment to reducing the cost of all types of housing. There are few local production sources for high quality construction materials, and government and private sector developers tend to prefer imported materials. Imported materials ultimately increase the cost of housing for consumers, as developers must include the cost of materials in the final price of a complete house. On the other hand, self-builders cannot afford materials necessary to meet standards. The region also faces a challenge of scaling up the complementary service industries—architectural design, construction inspection, property valuation and appraisal, title review and verification, title insurance—that in other contexts have expedited the value chains and reduced the marginal cost of housing construction and consumer finance by building houses at scale. The lack of skilled architects, construction managers and laborers reduces the quality and consistency of the housing stock and limits the potential to develop economies of scale in housing development.

Affordability Gap for Formal Housing

Formal housing remains too costly for most people due to low incomes. This affordability gap is exacerbated by weaknesses in the housing sector such as difficulty acquiring land, the high cost of construction, scarce infrastructure provision, and the lack of access to finance. These factors constrain both the ability of households to consume housing and the quality of housing that is available, which is why informal housing is for most people the lowest cost option. Figure 9 shows 2011-2013 data from the Center for Affordable Housing Finance in Africa (CAHF) on the price and size of the least expensive newly built house by a formal, private developer in select countries.⁵ The mean per-capita income is US\$1,764, while the average house price is US\$31,085. The red band in Figure 9 identifies the price of an affordable house within a range of three to five times the average annual household income, a standard affordability measure. It shows that the cost of most houses is far outside this range.⁶

Figure 9. Relationship of Income to House Prices in SSA



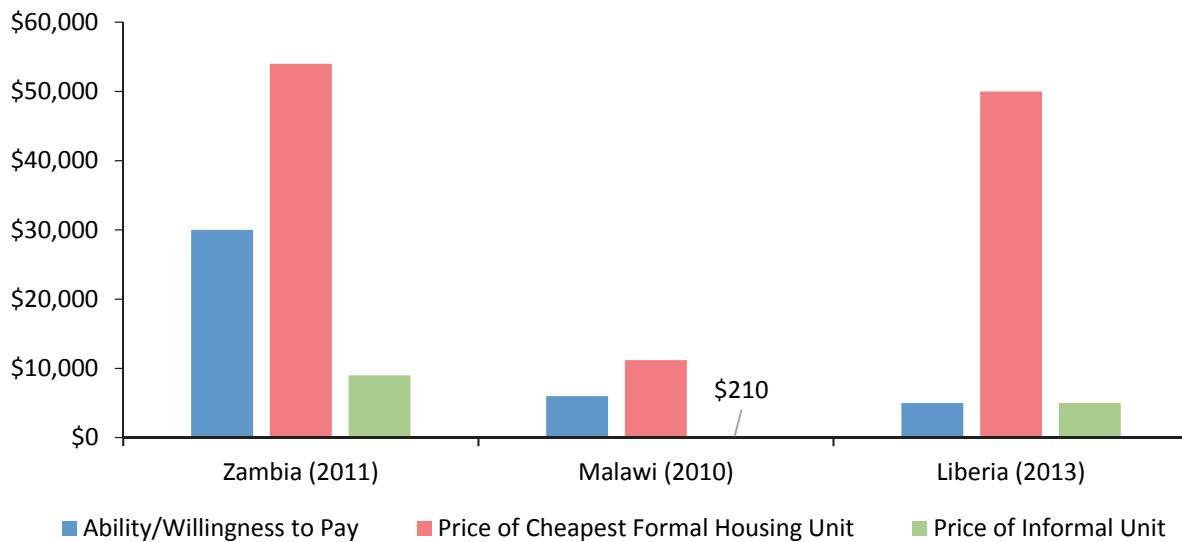
Source: CAHF 2013.

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The variation in cost across the region also likely reflects different weaknesses within housing delivery systems. For example, Gambia and Democratic Republic of Congo are two countries with low per-capita incomes, but have among the highest housing prices—more than twice those of Botswana and South Africa, which have higher per-capita incomes. However, other low-income countries, such as Mali and Niger, have among the lowest costs for formal housing. Of the 25 countries in SSA that are listed in the CAHF data, only five countries (South Africa, Namibia, Swaziland, Lesotho, and Mali) have a Gross National Income (GNI) per capita higher than or on par with the least expensive formal dwelling. While GNI per capita is a rough macroeconomic proxy for affordability, this finding points clearly to a gap between what the formal sector can provide and what SSA populations need.⁷ This means that in order to address the large majority of the population, policymakers must focus on cross-cutting drivers that increase the costs of housing and on improving the conditions of the existing (formal and informal) housing stock.

Conventional measures of housing affordability may even under-represent the actual demand. Due to low incomes, most urban households have very limited resources to spend on housing. Recent research finds that for households in low-income SSA countries, food expenditures alone account for 50-60 percent of total monthly expenditures, which leaves very little—and comparatively much less than in other regions—for housing or other necessities such as fuel, transportation, education or health care (Lozano-Gracia and Young 2014). Yet, for policymakers, ‘affordable housing’ typically means market-quality formal housing that can be consumed by households that cannot afford the typical market price. In developed countries, housing is considered “affordable” if households spend no more than 30 percent of income on rent or mortgage service plus other housing costs (utilities, etc.). Figure 10 depicts the variation in consumer ability to pay and the price differential between formal and informal housing options from select countries. Affordability in SSA differs from affordability in developed economies, and affordability in Zambia differs markedly from affordability in Malawi, though in each case the formal housing alternative is more expensive than typical affordability thresholds. Common measures of affordability then do not provide the most accurate picture for many countries throughout SSA.

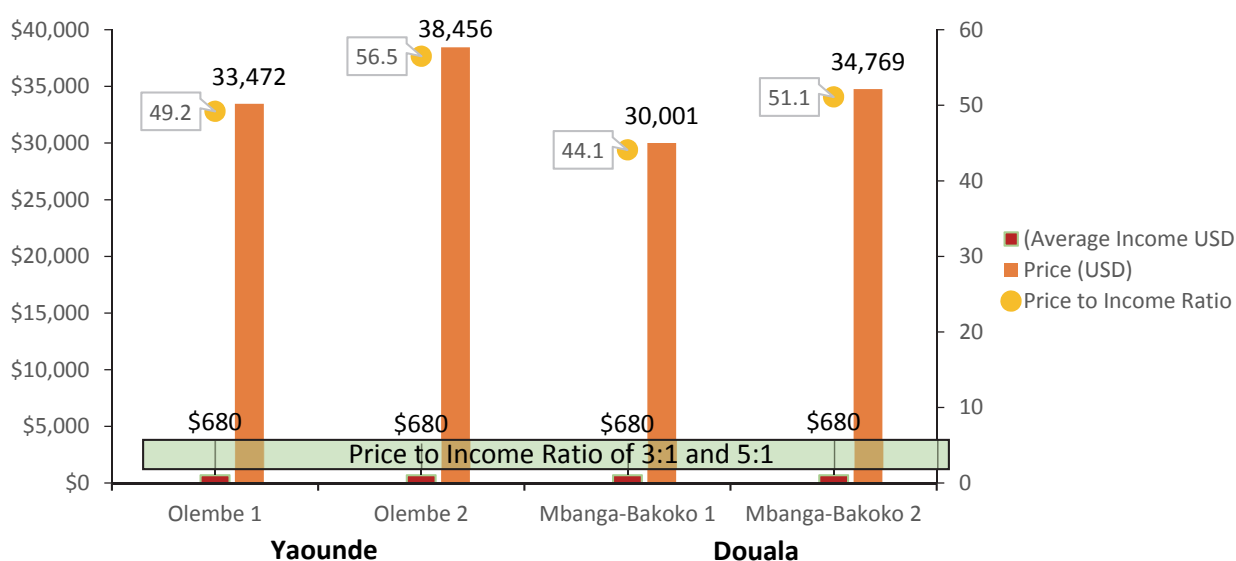
Figure 10. Housing Cost Comparisons: Formal vs. Informal in Zambia, Malawi, and Liberia



Source: UN Habitat Housing Sector Profiles.

Government subsidy programs have done little to promote wide-scale housing affordability. For example, over the course of more than 40 years, Nigeria’s Federal Housing Authority had met only 15 percent of its goal of supplying 261,000 units (2012). An alternative subsidy program of discounted credit to developers has encouraged land speculation rather than housing production (Abdullahi and Aziz 2011). In Tanzania, housing parastatals compete directly with the private sector, but provide units affordable to middle and upper income groups. In other countries, such as Zambia, Ethiopia and Liberia, housing subsidy programs are aimed at a single city, or in the case of Ghana, a single tenure type (homeownership). The government of Cameroon allocated US\$50.1 million to fund the Government Program of Construction of 10,000 Social Housing Units and Development of 50,000 Buildable Plots in 2009. Despite the ambitious targets, only 1,175 units have been built as of 2015. Moreover, 80 percent of Cameroon’s population cannot afford these social housing units. Figure 11 shows that in conventional affordability terms, these units are far outside of the typical price-to-income range of between 3:1 and 5:1, with prices 44-51 times typical income levels. Indeed, even for public employees, price-to-income ranges for homes in these developments range between 10.5-13.5 median incomes, or two to three times conventional affordability thresholds.

Figure 11. House Price-to-Income Ratios for Government Social Housing Program in Cameroon



Source: World Bank, Cameroon Country Case Study.

There are two main limitations to the reach of government subsidy programs. First, they are often poorly designed, lack targeting and monitoring criteria, and end up being captured by wealthier individuals that could otherwise afford market-rate housing. This is the case for government-built housing units in a number of countries. Second, governments, like any other housing developer, must contend with the same structural limits in the supply and demand value chains. These inputs—including land, infrastructure, construction materials, and technology as well as consumer and developer finance—all raise the production cost of housing. Even subsidized prices remain unaffordable for low-income groups and are not financially sustainable to bring to scale to meet demand. As such, in such situations, subsidies end up compensating for housing market dysfunctions and inefficiencies in place.

Renting deserves additional policy attention as an affordable housing option, particularly in the context of self-built housing. Across the region, the market for formal rental units is weak and is directed toward urban professionals.⁸ Most African governments began halting investments in rental housing during the mid-1980s, as the approach fell out of favor due to inefficiency. Much of the existing rental stock consists of institutional housing built by government ministries, local authorities, or major industries⁹ for their workers. Formal rental housing is also out of reach of most of the urban poor. The Nigeria case study report finds that 60-70 percent of low-income households are not able to afford the least expensive rental accommodation on the open market (around US\$1,200 per year in major cities), of which there is a negligible supply. Petty landlordships and subletting arrangements can provide affordable rental housing and generate income. As incremental self-built housing becomes increasingly challenging due to the high cost of urban land, rental and home-sharing options are becoming more popular. Rental rooms are also provided by owner-occupiers (or even renters) as extra rooms or buildings adjacent to their own dwelling.

4. Demand-Side Challenges to Housing Access

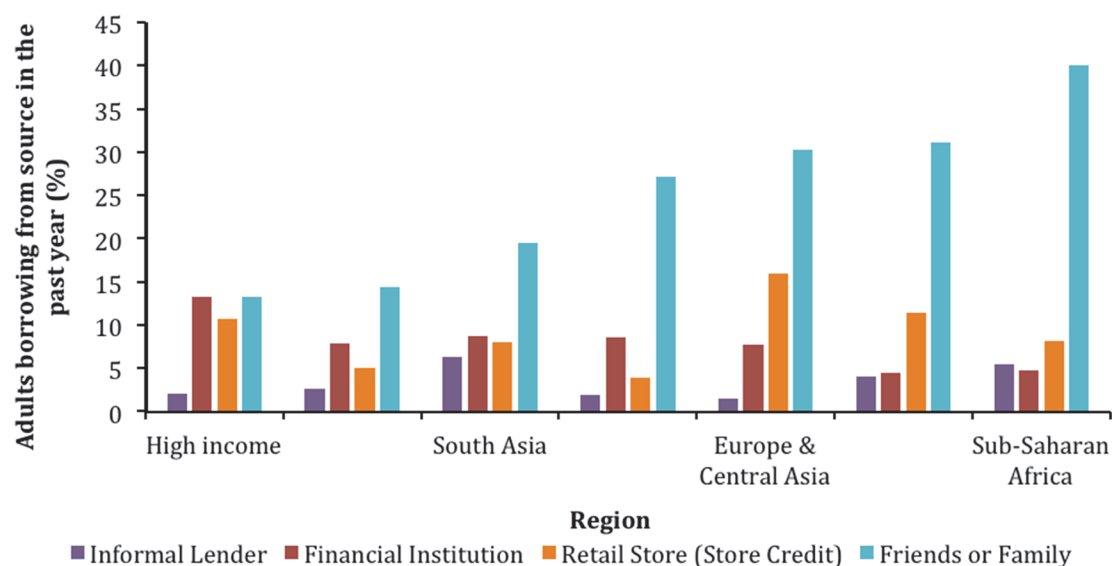
Housing finance options for low-income groups are limited. Across the region, the majority of residents does not have formal savings accounts and are not able to obtain mortgages for housing consumption. Only 24 percent of the adult population 15 years or older in SSA holds an account at a formal financial institution; the same holds true for 12 percent of adults in the bottom 40 percent of income levels. Only 6 percent of adults received a loan from a financial institution in 2014. The lack of savings reduces the amount of finance available for lending institutions to develop consumer mortgages or other lending products. The major source of housing investment is from household savings and government investment, rather than capital markets. This can crowd out public investment in other important sectors such as education, health and infrastructure. The lack of credit for development finance limits investment in domestic construction activities that could provide housing at scale.

Most housing is built incrementally, which is reflected by the most typical sources of housing finance: savings and small loans. The majority of urban residents build shelter themselves or through the assistance of local laborers. Without access to mortgage finance to purchase complete homes, housing is built incrementally with investments from individual savings, remittance transfers, and participation in savings cooperatives or through the use of microfinance. The expansion of microfinance lending for small and medium enterprises has given more low-income groups access to relatively affordable finance and banking services. Housing microfinance, though currently limited in its scope in SSA, could be a way to bridge the gap between small, short tenor microloans and large, long tenor mortgages, with a loan product tied to construction material discounts or technical assistance.

Borrowing and saving with formal institutions such as commercial banks is rare in SSA, and the mortgage sector remains underdeveloped. The use of formal loans for housing consumption in SSA is very low. Estimates indicate that in 2011, 85 percent of Africa's urban population lacked access to formal housing loans and only 3 percent of the population was eligible for a conventional mortgage (Kihato 2013). Instead, alternative forms of borrowing and saving are popular, including remittances, informal loans from friends or family, and the use of community savings clubs. In 2012, 40 percent of adults received a loan from family or friends, and 19 percent saved using a community-based savings club (nearly half of those who reported any savings saved with these clubs). Nine percent of the total population and 39 percent of those with formal accounts used them to send or receive remittances from family.

Figure 12 shows, SSA has the highest percentage of adults borrowing from friends or family compared to other parts of the world. There are also significantly higher percentages of informal lending, and relatively lower percentages of lending from formal institutions (bank, credit union, MFI) (Kihato 2013).

Figure 12. Sources of New Formal and Informal Loans in SSA



Source: World Bank 2012; Demircuc-Kunt and Klapper 2012.

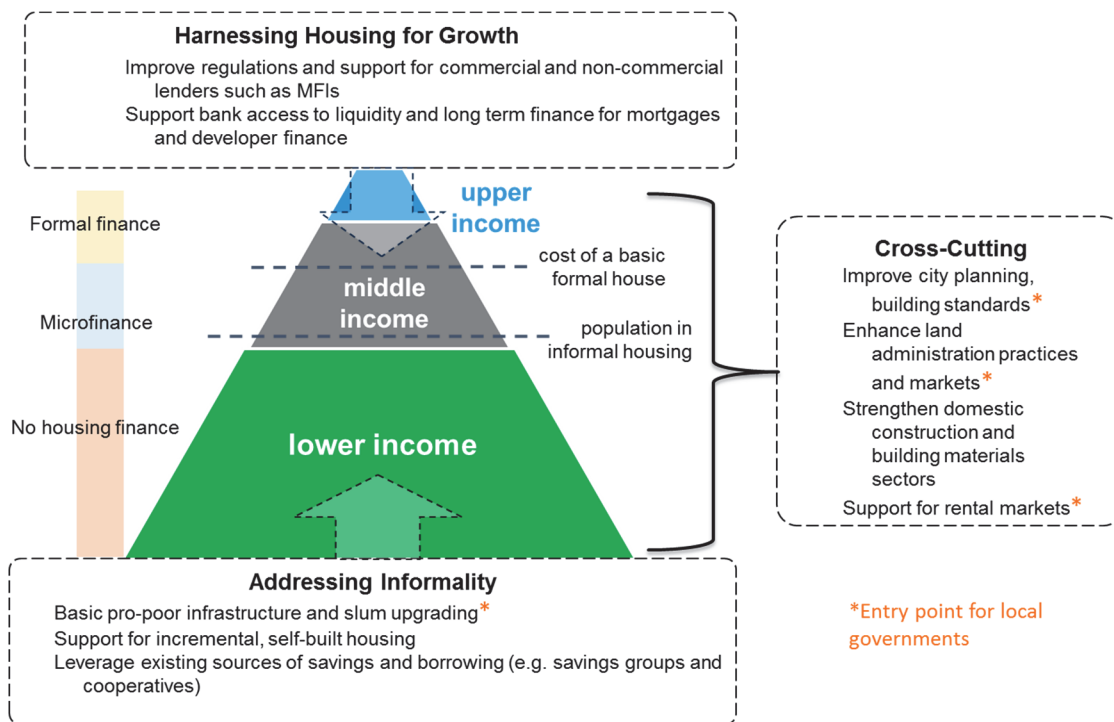
5. Addressing the Housing Challenge in Africa: A Way Forward

Housing has important and overlapping impacts on economic growth and social inclusion. The housing sector provides thousands of jobs in construction, manufacturing, and finance. A house is also the most valuable asset most people will ever own. Quality affordable housing can reduce the vulnerability of the poor to the effects natural disasters and advance human development goals if linked to water and sanitation infrastructure, as well as schools and health facilities.

Sound policy interventions need to focus on improving the functionality of both supply-side and demand-side value chains in both the formal and informal housing arenas. Housing affordability will improve not only with general economic expansion and income growth, but also with housing policy that both supports the incremental improvement of informal housing conditions for the majority of people and strengthens the function of the housing sector to bring down costs and expand the reach of the formal housing sector to lower income groups. Enhancing institutional capacity both in government and within the capital markets will be critical. Governments and other decision-makers in Sub-Saharan Africa should be equipped with a comprehensive understanding of the housing sector in the region and in their individual countries.

Governments have a particularly strong role to play in ensuring housing affordability, through targeted investments in infrastructure for low income groups and through regulatory measures to improve the function of value chains. Governments should prioritize the scarce resources available for housing and invest them in the expansion of basic services (land and infrastructure) for low-income households. Complementary to this, governments should seek to address core bottlenecks in regulatory framework for formal and informal housing and introduce initiatives to improve the markets for housing inputs (land, building materials, and finance), thereby enabling households in all income segments to improve their own housing and move up the housing continuum. Experience shows that governments across the region have had difficulty promoting sustainable, broadly affordable housing through direct supply of units due to targeting problems and cost constraints. The key challenges for improving the quality of existing housing stock and expanding new housing at affordable levels are to lower the costs of inputs for housing across the entire sector, while at the same time expanding access to different types of credit needed, including commercial mortgages, and developer and secondary finance. Informal housing delivery channels will require incremental and parallel improvements in expanding access to savings, small loans and construction materials. Supporting institutional and regulatory frameworks must also evolve to ensure that construction and development standards provide a level of safety and security, but are not so restrictive or costly that they are ignored. Governments have a role in enabling housing markets and engaging the private sector to expand access to adequate shelter and to be a vehicle for economic growth.

Figure 13. Key Activities for Improving Access to Quality Affordable Housing



Complementary interventions can be targeted across three areas of the housing sector: (i) addressing constraints that cut across formal and informal market sectors, (ii) addressing informality, and (iii) harnessing housing for growth by expanding access to finance. Figure 13 summarizes key activities for improving access to quality affordable housing. A number of cross-cutting solutions will improve the functioning of the sector as a whole, for both formal and informal channels. These include functioning

land markets and administration, flexible or incremental planning, design and building standards and the inclusion of new and alternative building materials and techniques. Regulatory measures for rental housing markets can improve its provision across income levels and shelter types. For informal settlements, targeted and incremental improvements in infrastructural access along with the use of informal sources of credit for self-built housing can improve housing quality and reduce overcrowding. Within the formal sector, support for the expansion of finance for long term lending through mortgages and developer finance will also improve the delivery of housing both for ownership and rental. Investments in these cross-cutting activities as well as the informal housing sector will broaden access to quality affordable housing from the bottom up, while also reducing obstacles for formal investors and developers to build affordable housing at scale.

Cross-Cutting Solutions for the Housing Sector

Land, planning and construction issues affect the delivery of all housing. Improvements in these areas form the foundation for addressing informality and for catalyzing growth in the formal housing sector as well as the broader domestic economy. They can improve both the ability of low-income households to obtain land and build their homes incrementally and also for formal developers to assemble land for new construction. Urban planning standards and regulations can improve densities and facilitate more efficient investments in network infrastructure and reduce the costs and time necessary to complete construction for both informal and professional developers. Land use planning and infrastructure directly influence the form of cities, the mobility of residents, and the ease with which they can access jobs and services. Finally, governments should promote the adoption of low-cost but superior materials and technology for home construction. Local sourcing of materials and the adoption of affordable, high-durability building technologies would help these products reach the scale necessary to include informal dwellers, and also stimulate labor participation and investment in the construction sector as a whole. And essentially, hand-in-hand with legislative reform must be the buildup of institutional and technical capacity—education, accreditation, and training—so that new rules are consistently enforced as intended.

Engaging Informality toward Inclusive Housing Policy

Improving access to quality housing requires identifying how informality can be changed over time. This means that policy initiatives must act with both a long term and short term view; long term toward a vision of the end state, and short term so that each incremental initiative is sound both for the long term vision (i.e. enabling further innovations and buildup) and in the local political economy (i.e. aligning with local interests, priorities and capacities). The best avenue to improving access to quality housing in Sub-Saharan Africa is by addressing improvements in value-chain systems by degrees and steps. Incremental improvements for the informal sector will reduce their distance from total formality according to different sections of the value chains. If the housing challenge is to be effectively addressed by increasing the quality and stock of housing, the importance of the informal sector must be effectively recognized in both the supply-side and demand-side value chains (see Table 2 below for details).

Table 2. Overview of Core Interventions across the Continuum of Formal and Informal Households						
			Slum Conditions	Partial Upgrade	Semi-Formal	Formal Housing
Supply	Land Tenure and Administration	<i>Strengthen cadaster and land registry systems and land management practices</i>	Assessment of location and resettlement options to reduce hazard exposure; Improvement of protections for land tenure claims and regularization; Street addressing	Improvement of protections for land tenure claims and regularization; Adaptation of customary land administration systems for subdivision	Digitization and improved access to records and reduction in registration time and costs	Digitization and improved access to records and reduction in registration time and costs
	Planning Standards and Regulations	<i>Improve city planning and create more flexible regulations and standards</i>	Flexibility and graded standards for incremental improvement	Flexibility and graded standards for incremental improvement	Consistent design, layout and construction standards supporting compact development	Consistent design, layout and construction standards supporting compact development
	Construction sector	<i>Strengthen the capacity of the construction sector, improve access to finance for developers and builders to expand their businesses</i>	Availability of quality, low cost materials for self-builders and contractors	Availability of quality, low cost materials for self-builders and contractors; Training and licensing systems to improve capacity and quality of builders	Access to finance for developers and construction firms	Access to finance for developers and construction firms
	Building Materials	<i>Improve the quality and scale of local building material manufacturers</i>	Support for domestically produced, quality building materials; Realignment of building standards and codes to support a wider variety of lower cost material substitutes	Support for domestically produced, quality building materials; Review of VATs and tariffs imposed on imported building materials	Support for domestically produced, quality building materials; Review of VATs and tariffs imposed on imported building materials	Support for domestically produced, quality building materials. Review of VATs and tariffs imposed on imported building materials
	Infrastructure	<i>Targeted investments in infrastructure and informal settlement upgrading</i>	Explore partnerships with community organizations and service delivery agents	Grid/arterial-based land planning for future infrastructure extension; Targeted infrastructure investments based on specific criteria; income, tenure status, disaster risk, etc.	Assessment of options for self-finance for infrastructure	Inclusion of development fees, special assessments for infrastructure provision in new construction

Table 2. Overview of Core Interventions across the Continuum of Formal and Informal Households

			Slum Conditions	Partial Upgrade	Semi-Formal	Formal Housing
Demand	Formal savings accounts	<i>Support the development of alternative finance sources for the urban poor; housing microfinance, credit cooperatives, savings groups, community mortgages</i>	Promote a model for increasing familiarity and access to credit and financial services	Stocktaking and support of non-banking financial institutions	Assessment of options for provident funds/ formal employer contributions	Assessment of options for provident funds/ formal employer contributions
	Underwriting and verification	Assessment of income and creditworthiness to create mortgage terms	Assess alternative ways of identifying creditworthiness of borrowers for small loans for incremental improvements	Use of cooperatives or collective ownership schemes to off-load new development; Mobile banking for improving loan servicing	Use of cooperatives or collective ownership schemes to off-load new development; Mobile banking for improving loan servicing	Improve capacity of credit bureaus Regulatory reform to improve loan closing, underwriting and foreclosure
	Mortgage loans	<i>Reform the commercial lending sector to allow access to longer term sources of finance to develop a more competitive mortgage market</i>	Support for housing microfinance, savings groups, cooperatives and other forms of non-bank lending	Support for housing microfinance, savings groups, cooperatives and other forms of non-bank lending	Support for housing microfinance, savings groups, cooperatives and other forms of non-bank lending; Disclose criteria and target groups for any consumer mortgage subsidy Rent-to-own arrangements	Support development of additional liquidity through secondary markets

Low-income and informally housed groups can improve their access to housing with infrastructure upgrading and support for incremental housing finance. This approach engages and enhances the shortcomings of existing informal housing development channels and is better suited to the abilities of low- and middle-income groups to pay. This would require developing and experimenting with new housing microfinance products, such as tools and best practices, and disseminating them throughout the sector across the region. These financial products could be combined with subsidies for low-cost materials and construction technology, increasing access to these products and initiating a source of investment in the domestic building materials industry. Lending institutions also need greater policy support for more flexible lending terms, collateral requirements and more capacity to draw from client savings in order to develop and secure new loan products for housing. On the institutional side, governments can prioritize infrastructure investments to low-income and service-deficient informal settlements (such as subsidies

for utility hook-up costs) using explicit targeting criteria. Finally, governments can improve tenure security by initiating or scaling up land and property tenure regularization, which is a proven incentive for households to invest in housing consolidation and expansion.

Harnessing the Formal Housing Sector for Economic Growth

Though the formal housing sector in most of Sub-Saharan Africa is small, government support can encourage the expansion of the formal housing delivery system down market, while at the same time enabling the formal housing sector to become an important driver of the national economy. Presently, most housing investment occurs through household savings or direct government investment, rather than international capital markets. Improving formal lenders' access to capital markets will strengthen mortgage markets and increase competition among lenders. Housing delivery also requires coordination with actors from overlapping sectors, such as construction firms, real estate agencies, appraisers, property managers and others, that face impediments to growth. Allowing banks to more easily obtain secondary finance improves the variety and accessibility of consumer mortgages and sources of developer finance, which in turn stimulate both local and national economic growth.

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Notes

¹ These data are about 10 years old and it is likely that the extent of these deprivations has narrowed given steady GDP growth across the region of 2-4 percent during this period.

² The scarcity of data is due to a tendency by governments and the private sector to privilege the formal housing delivery system in their analyses and assessments. This is in part due to experience in developed countries but also because traditional tools for assessing the housing markets rely on data sources that assume a formal delivery system.

³ Land administration refers to the rights afforded by different tenure categories, the development rights afforded to land, the procedures required to obtain and transfer land, as well as any system of fees or taxes enacted to capture value from land.

⁴ Progress on drinking water and sanitation, 2012 update (UNICEF/WHO).

⁵ Housing price data are collected through a convenience sample of private developer respondents. Housing quality and sizes, along with the cost of land vary between countries.

⁶ Mean housing costs, mean per-capita incomes and the affordability range band is plotted against the right hand vertical axis.

⁷ CAHF's data is limited because it refers to the least expensive dwelling provided by the private sector only and neglects any dwellings provided by government housing programs. It is also unclear how much, if any, subsidies are hidden in these house prices, such as discounted construction materials or the allocation of public land at below market prices.

⁸ The providers of such housing are often members of the national elite who see the commercial sense of building for rent or who may build for their retirement and rent out to expatriates in the meantime. This is notably common in Lesotho (personal communication, Kabelo Lethunya, Chief Housing Officer, Government of Lesotho, Maseru).

⁹ For example, council-built and mine workers' housing in the Copperbelt of Zambia form a significant percentage of the housing stock.

