

Financing Housing Improvement in Urban Ghana: Experiences from the Rental Sector in Accra and Takoradi.

Issaka Kanton Osumanu^a

Abstract

Ghana, a low-income country, experiences several unsatisfactory situations in urban housing provision as a result of rapid population growth, a poor economy and persisting poverty as well as lack of effective and consistent public policy formulation and implementation. *This paper looks at the housing conditions and upgrading financing in the rental housing sector, the largest and most affordable segment of the country's urban housing market, using the experiences of two of the country's largest urban centres.* The findings presented here are based on the analysis of questionnaires that were administered to 200 landlords and 200 tenant households in four low-income communities within the study areas. *The analysis reveals that the majority of low-income urban households live in rented accommodation, usually of substandard quality. Landlords are generally willing to upgrade their rental units but are largely constrained by lack of access to finance.* The provision of easy access to housing finance in the form of micro-credit, participation in savings and credit cooperative schemes along with community involvement are the options suggested by the paper for achieving sufficient and good quality housing for the urban poor. At the same time the paper recognises strong political commitment and support through local authorities as preconditions for sustainable urban housing delivery.

a. Department of Environment and Resource Studies, University for Development Studies, P.O. Box 520, Wa, Ghana Email: osmankanton@yahoo.co.uk

Introduction

Housing is known to have strong links with both forward and backward socio-economic development (Buckley and Mayo, 1989; Malpezzi, 1990; Renaud, 1990). Besides, the design and condition of dwellings both reflects and protects important elements of culture and, sometimes, religious beliefs. Although the economic and social advantages of housing development have been recognised in general, effective housing delivery still remains a mirage for many low-income residents of cities and towns in the developing world. At the turn of the 21st Century, it was estimated that there were more than 100 million homeless and about 1 billion inadequately housed people in the world (UN-Habitat, 2001). Needless to say, the vast majority of these people are living in the cities and towns of developing countries. With the current rates of urban growth and the inability of housing delivery systems to cope with the ever increasing demand in many cities and towns, the urban housing crisis in developing countries is likely to worsen in the future. UN-Habitat (2003) estimated that in the next two decades, about 35 million housing units need to be constructed annually to accommodate newly formed households and to replace inadequate units in urban areas. In other words, about 95,000 housing units need to be completed daily in the urban areas of developing countries. Roughly two-thirds of this need was estimated to pertain to Asia and the Pacific region, 16% to South America and the Caribbean, 11% to Sub-Saharan Africa and 8% to North Africa and the Middle East. Africa, being the least urbanised but fastest urbanising continent, undoubtedly has a great challenge when it comes to improving housing conditions. While in 1975 there were eight cities in Africa with more than one million people, currently there are over forty cities in this category (UN-Habitat, 2001). These demographic trends will put more pressure on governments to pursue the right policies and improve housing delivery processes.

Although in the last two decades there has been some progress in the formulation and implementation of housing policies and, to a little extent, the development of strategies (World Bank, 1991; Ogu and Ogbuozobe, 2001), many constraints still effectively hinder progress in housing development in developing countries, particularly for low-income households and other vulnerable groups. Policies aimed at providing housing, either directly through the public sector or indirectly through the promotion of private investment in housing, have not been able to meet the growing demand. Governments of most developing countries, influenced

by policy recommendations from international organizations, have gone through similar approaches to low-income housing. Until the 1960s, slum and squatter clearance, with the attempt to re-house residents in public housing projects, either in rental units or in dwellings that they had to purchase, was the strategy (World Bank, 2002). Socially and economically unviable, this approach was abandoned in favour of sites-and-services projects implemented throughout the 1960s and 1970s. Often combined with infrastructure-based settlement upgrading projects, the approach was capital-intensive and implemented in a top-down manner which led to lack of ownership and, as a consequence, to lack of maintenance. Improvements were not sustainable, nor were they sufficient. Since the 1990s, participatory or community-based settlement upgrading has been the new paradigm (World Bank, 2002).

In addition to the weaknesses in policy-implementation, one crucial and common shortcoming in the housing sector is the inadequacy and limitations of housing finance mechanisms. Despite the enormous potential benefits of a well functioning housing finance system to the housing market (Malpezzi, 1990; Kim K.-H., 1994; UN-Habitat, 1996), many developing countries do not have any systems for financing housing improvements. In most cities in Africa, Asia and Latin America, low-income households cannot afford good quality housing, largely as a result of lack of finance. They either rent (usually in poor quality overcrowded dwellings) or buy, or build very low quality houses in shanty areas. They cannot get conventional housing finance because they lack the income or formal documentation to use as collateral to secure loans, and because there are no housing upgrading finance institutions. Available evidence shows that the poor and low-income earners who form the majority of the population in most developing countries cannot afford a loan even for the least expensive commercially built housing units (Alfredo and Castillo, 2005). Despite this situation, government support for rental housing development is completely absent in most developing countries. Although some agencies at least recognize the importance of the rental housing sector, the majority have been remiss and virtually never mention rental housing, let alone develop mechanisms to encourage it. The fact that conventional housing finance usually works in favor of middle-and-high-income groups is reflected in highly segmented housing markets.

Until the 1980s, research and policy dealing with informal settlements neglected the rental sector (UN-Habitat, 2003). The results of this neglect

were two-fold: there was ignorance about landlords and tenants and their operations and living conditions, and disinterest in rental issues on the side of governments. To date, there is still little knowledge about the kinds of programs that might promote the rental housing sector in low-income areas. Consequently, aid programs for rental tenure remain a neglected element of most housing interventions in urban areas of developing countries. The objective of this paper is to examine the untapped potential of financing improvements in the rental sector of Ghana's urban housing market. The paper aims to draw support for designing suitable measures for a more effective use of existing rental mechanisms and for promoting the implementation of housing improvement projects for low-income groups. The paper contributes to the existing literature by providing a descriptive analysis of rental housing in urban Ghana with links to theoretical debates on housing provision in developing countries.

Approach and Methodology

The paper is based on the analysis of data from a survey conducted within four low-income urban communities in Ghana using mainly descriptive and qualitative methods. The communities are: Sabon Zongo and Agboghloshie in the Accra Metropolitan Area in the Greater Accra Region, the largest urban centre in the country, and New Takoradi and Kojokrom in the Shama Ahanta East Metropolitan Area in the Western Region, the fourth largest urban centre in the country in terms of population. These communities are made up of peoples of various ethnic and religious backgrounds most of whom are engaged in petty trading and small-scale businesses, while others are civil/public servants (Table 1).

Table 1: Socio-economic background of respondents (%)

Socio-economic characteristics		Sabon Zongo		Agbogbloshie		New Takoradi		Kojokrom	
		H/Os	Tents	H/Os	Tents	H/Os	Tents	H/Os	Tents
Age	15 – 24	0	20	0	0	0	5	2	0
	25 – 34	0	10	2	15	0	15	2	10
	35 – 44	10	25	10	40	10	30	12	45
	45 – 54	10	25	20	20	32	30	46	25
	55 – 64	40	15	40	10	20	10	20	10
	65 – 74	0	5	24	10	24	10	12	10
	75 – 84	40	0	4	5	14	0	2	0
84+	0	0	0	0	0	0	4	0	
Gender	Male	90	75	75	50	54	50	76	85
	Female	10	25	15	50	46	50	24	15
Employment status	Petty trading	75	20	80	15	47	21	57	11
	Large retailing	10	0	10	5	13	7	10	6
	Public service	10	15	0	5	20	29	6	50
	Self employed	5	65	10	75	20	29	27	33
	Others	0	0	0	0	0	14	0	0
Major source of income	Major employment	45	80	40	60	46	60	42	70
	Remittances	10	5	10	5	16	15	12	15
	Rent	40	0	45	0	28	0	36	0
	Others	5	15	5	35	10	25	10	15

a – House Owners

b – Tenants

Source: Based on questionnaire survey, March 2008

The study was preceded by in-depth interviews with local leaders of landlords' associations in the study settlements. The insights gained from these interviews informed the design of two structured questionnaires: one for landlords in rental housing units and the other for tenant households. To determine the pattern of housing conditions and improvement in various communities, a two-stage survey methodology was adopted to

produce a representative sample of tenant households and house owners. The data collection process involved a survey of 200 tenant households and 200 landlords, using a representative sample of residential areas randomly selected from the study communities. Within the selected communities, blocks were chosen based on the number of houses and interviewers selected households to interview by systematically walking through the blocks and interviewing one tenant household in every twentieth/twenty-fifth house. The study adopted a contingent valuation approach to assess housing improvement needs in the study communities. The contingent valuation approach allows respondents to state their willingness for improved services (Lockwood et al., 1993). In addition, the collection of valuation data through surveys allows one to simultaneously elicit beliefs and opinions that underlie preferences for particular interventions (Osumanu, 2007). Data generated from the field was analysed in two stages. The analysis of the quantitative data involved the use of descriptive statistics, mainly frequency tables, charts and bar graphs. The information from interviews was analysed using largely qualitative methods – content analysis and narratives.

Features of the rental housing market in Urban Ghana

Although housing market behaviour is remarkably similar from place to place (Malpezzi, 1991), regulatory institutions and constraints, particularly the amount of income available for housing and other goods and services, varies dramatically from place to place. And at a different level it is argued that the stakes of how well housing markets work vary from place to place. The urban housing market, globally, has been identified by Grimes (1976) as being a framework of supply and demand. Supply in the urban housing market is determined by all factors of production directly involved in the construction and maintenance of housing as well as in management, marketing, insurance and related services. Mayo et al. (1986) and Malpezzi (1990) also give comprehensive analyses of how the housing market works. Inputs such as land, labour, finance, materials and infrastructure are combined by supply-side agents such as landlords and developers to produce housing services. Homeowners and, to a lesser extent, renters are also producers, as they maintain and upgrade their houses. Relative prices inform producers of housing services about whether to provide more or less housing and input suppliers about providing more or fewer inputs. Supply in any given period comes from both new construction and the modification of the existing stock.

According to Grimes (1976), changes in family income, the distribution of income, the rate of household formation (as a function of population growth) and household size, household priorities, the nature of employment, age and occupation are the major determinants of demand for housing. Studies, using Muth's (1971) factor share model, have estimated price elasticities of demand for housing in developing countries. For instance, Grootaert and Dubois (1988) found that, estimates of the price elasticity range between -0.5 and -0.6 for the cities of Ivory Coast and Malpezzi (1988) finds an elasticity of -0.5 for Cairo. Using distance as a proxy for price, Ingram (1984) also found price elasticities in the range of -0.28 to -0.48, closer to the lower end of the estimates extent. Within particular markets Malpezzi and Mayo (1987) generally found that demand for housing is income inelastic. Most estimates using household housing consumption and incomes from cross-section data ranged between 0.4 to 0.6 or so. Across markets, however, demand for housing has been found to be price elastic. For example, Malpezzi and Mayo (1987) estimated that, using city averages of housing consumption and incomes as the unit of observation, the very long run elasticity ranges somewhere between above 1 and less than 1.6.

According to Annez and Wheaton (1984), as economies develop, increasing incomes fuel housing demand but investment in housing is in large part offset by increasing prices. Also, Malpezzi and Mayo's (1997) investigations into the aggregate supply of housing in three developing economies showed that in countries with a liberal regulatory environment and substantial growth in income per capita, of which Ghana is typical, the relative asset price of housing tends to grow substantially over time, resulting in an elastic supply of housing. Similar conditions have tended to make housing investment in urban Ghana systematically lower while housing output prices are substantially higher than marginal costs. Housing development in Ghana is almost entirely in the hands of the private sector, through individual developers. Severe constraints in the housing delivery systems are responsible for the lack of sufficient quality accommodation facilities. There is the high cost of construction, inaccessibility to land by low-income landlords due to high price and shortage of finance. Then there is the high cost of infrastructure, building materials and poor construction skills. Additional constraints are the lack of effective rent control mechanisms, ineffective land allocation agencies and non-enforcement of urban land use regulations. Taken together, these facts confirm the existence of a shortage of accommodation in the urban

housing market in Ghana. Consequently, the supply of housing in urban Ghana continues to lag behind demand. The inability of the housing delivery system to meet effective demand over the years has created strains on the existing housing stock and infrastructure, especially in the high density low-income residential areas.

Buildings in the rental housing market in urban Ghana are predominantly compound houses (Figure 1), usually containing an average of not less than eight rooms and occupied by multiple households. Other forms of buildings in decreasing order of importance are semi-detached houses, apartments and bungalows. The majority of houses in the sector, as is also the case for other sectors, are built with cement blocks/concrete walls and floors and roofed with aluminum sheets. In communities such as Agbobloshie where land ownership is often temporary or where land occupancy is considered by authorities as illegal, wooden structures are the most common.

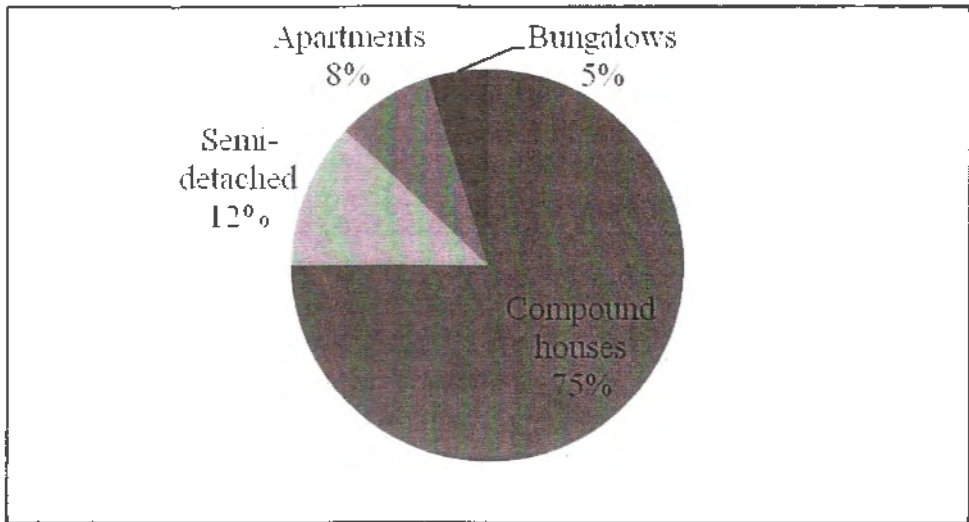


Figure 1: Types of building in the rental sector
Source: Based on questionnaire survey, March 2008.

Household income has been found to be a significant determinant of home ownership and therefore tenure in developing countries (Lim et al., 1980; Grootaert and Dubois, 1988; Kim S.-J., 1992; Daniere 1992). In Kumasi, Ghana, Tipple and Willis (1991, 1992) found that income, wealth and how long households have resided in the city are the primary determinants of

tenure. Similarly, this study found that a significant proportion of urban residents are not able to afford land and housing ownership due to low incomes, or have household priorities more pressing than home ownership. Thus, while a few are able to obtain housing services, many are not. Therefore, rental housing is the most logical solution for many households. Property usage rights are leased for short or long terms. Households usually rent from private landlords and, in a few cases, relatives. The number of tenant households in a house ranges from one to 18 with an average of six tenants per house. By approximation, a total of 1,200 tenant households were accommodated by the 200 houses covered in the survey. With an average household size of five persons, 6,000 people lived in rented houses in the four communities studied. Thus, tenants are the majority in the informal housing sector of many urban settlements. The number of tenants, however, varied according to types of building, with compound houses having the largest numbers of tenants. Generally, apartments and bungalows are occupied by their owners and/or their family members, leaving little or no room for tenants. In a few instances, however, compound houses may be inhabited by family members, usually members of the extended family.

Evidence exists that in cities of developing countries large fractions of low income households live in the informal sector; as incomes rise they rent in the formal sector, and the richest again become homeowners (Malpezzi, 1991). Strassman (1991) has also shown that residential mobility in developing countries is often 20% higher than it is in developed countries and argues that government interventions in housing markets on balance tend to lower residential mobility. Arguably, with high rates of rural-urban migration in Ghana, migrants to the growing cities first find shelter in the informal sector to start city life. With time, those who are able to secure decent jobs and higher incomes accordingly look for decent accommodation in the formal housing sectors of the cities. Housing in the rental sector is but a partial solution to the housing problems faced by many low-income people in the country's towns and cities. The buildings in which tenants and their families live would fail any conscientious housing inspection. Self-reported conditions of rental housing units and physical checks by interviewers during the survey revealed that several of the houses were in deplorable states. The most easily observable problems identified were: inadequate foundations and inadequate protection of the base of the wall against rain water runoff; open, unscreened eaves with no internal ceiling; open, unscreened windows and doors; cracked uneven

floors; un-rendered, cracked walls; dark, poorly ventilated interiors; and shrinkage cracks at junctions between wooden frames and walls of other materials. Together, these conditions make the domestic and peri-domestic environment an attractive habitat for a wide range of vectors, many of which are important as carriers of human disease pathogens (Schofield et al., 1990; Mara and Alabaster, 1995).

Rental housing units in urban Ghana are often located independently of official plans. The location of a housing unit in Ghana is mostly determined by the owner who works with a market referent. Location is critically considered but quality choices are almost totally ignored under the informal housing system. The houses tend to be well located with respect to high rent values, which is in turn determined by proximity to employment opportunities and other income generating advantages. However, other factors make the location of such houses unsuitable for human settlement. The risks faced by households residing in these houses include flooding, which leads to loss of lives, homes and possessions. Examples of poorly located housing include houses sited close to refuse dumps and public toilets where, again, health risks are traded for closeness to income earning opportunities, which of course bring indirect health benefits. Additionally, spontaneous buildings occur in already overcrowded township areas in open spaces. There is a range of problems which result from this condition, including lack of space for expansion of houses and for public facilities such as schools and markets, inadequate access to refuse removal, sanitation and disposal of sullage and the risk of fire and accidents. Of particular concern is the lack of access to emergency services. Fire and ambulance services are unable to enter overcrowded township areas and as a result, the residents are less protected against damage to property and life caused by fire and accidents. There are a number of factors which make homes in such areas susceptible to fires, including the burning of domestic waste, the use of kerosene lanterns and candles when there are cut offs in electricity supply, and the use of inflammable construction materials such as wood and paper. Like the inappropriate location of houses, poorly organized neighborhoods, a prominent feature of the rental housing sector in urban Ghana, also have public health implications. Several factors, including noise and violence, make such conditions a nuisance.

In many low-income urban areas rental accommodation is often inadequate. Three main types of rooms are available for renting by tenants

in the rental sector (Figure 2). These are single rooms, chamber-and-hall units, and single room or chamber-and-hall with private kitchen, toilet and bath room. The rest are made up of several types of accommodation, including rooms which were intended to serve as stores or even kitchens. In some instances, the high demand for rental units has forced landlords to convert spaces which previously accommodated toilet facilities into sleeping places for rent. It is not surprising, therefore, that crowding is one of the most serious problems faced by 52% of households accommodated by the rental sector. Closely related to the issue of crowding is the type of room rented by the household, as tenants in ordinary and self-contained chamber-and-hall units did not generally seem to have problems with space in their rooms. Using the UNCHS desk study in Accra, which defined crowding as “3.1 to 3.6 persons/room” (UN-Habitat, 1995:56), and with an average household size of five persons in the study communities, it is very obvious that crowding in rooms is an issue that should be of concern, especially for the majority of households living in single rooms.

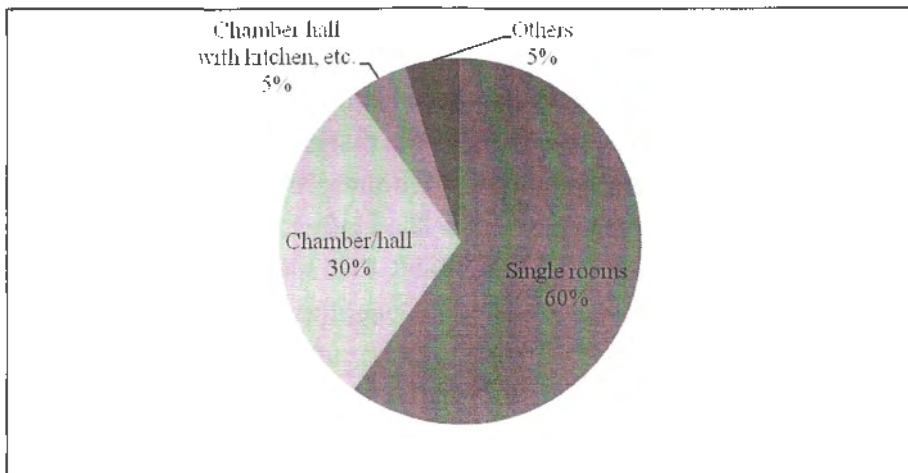


Figure 2: Types of rooms available in the rental sector
Source: Based on questionnaire survey, March 2008.

There is no doubt that for people to enjoy the full benefits of housing, there must be electricity, potable water, toilets, bathrooms, kitchens and such other essential facilities, and these must be of good quality and in sufficient quantity. However, the household profiles of the rental housing segment reveal that such facilities are generally non-existent, a situation that is exacerbated by the absence of particular services in many homes.

The majority of the houses covered in the survey had electricity (Figure 3), at least for lighting and for other minor electronics, but the availability of the other essential facilities varied, with pipe borne water and toilet facilities being the least available. Generally, compound houses tend to have less household facilities than other types of housing because most of them were constructed at a time when such essential household facilities were not of significant value to many people. Recently built houses – bungalows and apartments – are constructed with modern household facilities but are often, as has been the norm, affected by the failure of public service providers to meet their expectations. The provision of housing infrastructure and related services such as water and sanitation is a traditional public sector activity and one of particular importance to low-income households. Households can benefit directly from several types of infrastructure through saving time and money and through improved living conditions, particularly if such structures are within easy access, of acceptable quality and in sufficient quantity. Often, providers of infrastructure investments encourage the construction of new houses and the upgrading of existing ones, including the provision of more rooms for rent. The public nature of such infrastructural services has led to governments taking the leading role in their provision, but often with under investment and with prices that are too low to recover costs. The result has been severe rationing and chronic problems in maintaining and expanding the stock of urban housing-related infrastructure. Therefore, cities are both less efficient and more inequitable than they could be if alternative policies were deployed, with low-income localities often suffering the worst. As a result, people in many households in the rental sector who cannot access the few available facilities have to provide them on their own. Such people often purchase from relatively costly informal service providers or tap illegally from what is provided by public services. Productivity gains in the neglected urban areas are thus limited due to congestion and environmental deterioration, which in turn result from public policy's lack of concern for the provision of infrastructure for urban rental housing.

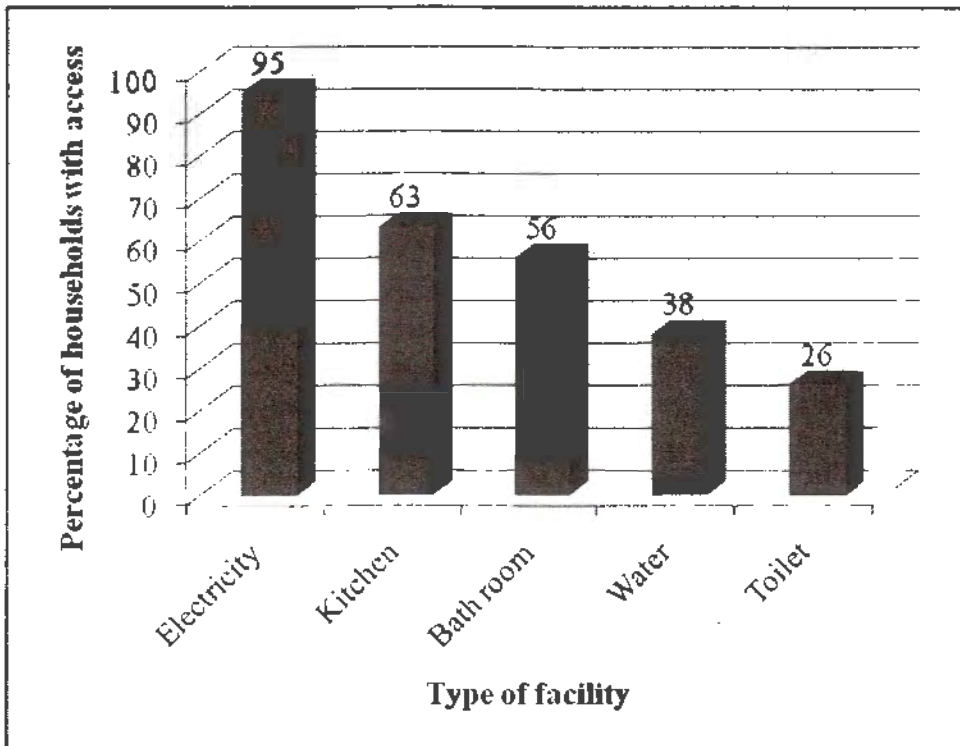


Figure 3: Households' access to housing facilities
 Source: Based on questionnaire survey, March 2008.

Where housing amenities are available, their location poses a challenge to easy access. As high as 76% of households depend on water from community-based supplies, mostly from water vendors located at an average distance of 300 meters from the house. Again, 46% of households use public/commercial toilets while 22% still use other sources, including defecating on the beaches. Moreover, 30% of households cook outside in the open and 45% bath in commercial showers/bathing places. A further indication of the drain on the limited income of poor households is the price of accommodation in the rental housing sector. Undoubtedly, with an increasing number of urban residents chasing limited accommodation, prices of rental units continue to escalate. The price of housing is individually determined by the house owner (and in some cases through bargaining with a prospective tenant), with variations in quality, size or location. Long-term tenants and relatives may be treated differently from recent movers. Rents are paid in cash, either periodically (usually

monthly) or in a lump sum (popularly called advance payment) covering up to two or three years, or a combination of both. Lump sum payments are returned to tenants, without interest, if they leave the unit before the period of tenancy elapses. Tenants do not enjoy utilities, maintenance and other services as part of the package. Tenants from family or kinship groups may or may not have different rights from strangers. A key element influencing tenure choice and the price of housing is the availability of transportation. Public transport in Ghanaian cities is mainly provided by independent para-transit facilities, mostly minibuses providing cheap urban commuting at slow speed, carrying a large number of passengers over short-to-medium distances with stops on demand and minimal waiting times. The slow speed of these commuters coupled with inadequate access routes has made congestion endemic in many Ghanaian towns and cities. These factors, together with frequent increases in transport costs (resulting from fuel price increases), place huge burdens on poor residents commuting daily between their homes and their places of work. Many households therefore prefer to rent houses located close to the centre of the city, where opportunities for income generation are also greater, with obvious implications for house prices in these high demand areas. Other considerations for rent values are the size of room(s), the availability of facilities such as water, toilet, kitchen and bathroom and the age of the house.

Housing improvements: experiences of house owners

A number of studies have investigated the determinants of housing upgrading behaviour in developing countries. Struyk and Lynn (1983) found that, generally, increases in income and the improvement of tenure security are associated with higher probabilities of upgrading. Struyk (1982) again found that high rates of new construction were associated with greater upgrading of the existing stock. He attributed this to a situation in which regulatory and financial constraints impede new construction as an adjustment mechanism, so that in active markets new construction is insufficient to meet demand, and upgrading is a gross complement to new construction rather than a gross substitute for it. In addition, Strassman (1980) argued that the availability of infrastructure (water and sewerage) is largely an exogenous variable.

Most of the houses covered in the survey had undergone one kind of improvement or the other since they were built or acquired (Figure 4). Re-roofing was reported to be the major improvement made by most

landlords, followed by re-painting of walls and re-flooring. Other forms of housing improvements are cladding/plastering, wood works and the construction of additional rooms and toilet facilities. The minimum amount of money spent on housing improvement was US\$30.00 and the maximum was US\$4,000.00. The cost of housing improvement also varied according to the kind of work carried out, with building new rooms being the most expensive. The others, in descending order of cost, are constructing a toilet facility, re-roofing, cladding/plastering, re-flooring, re-painting of walls and wood works. The most recent upgrading of any kind undertaken by landlords occurred from a month before the survey to as far as 10 years earlier. The frequency of upgrading houses also varied, with 65% of the landlords reporting that they did not regularly upgrade their houses. Aesthetic reasons, constituting 53% of responses, seem to be the most important consideration for renovating houses. Other reasons are related to social events such as Christmas celebrations, funerals and marriage ceremonies, as given by 22% of landlord, increasing the number of rooms to gain more from rent (18% of respondents), and the improvement in living conditions that comes with having important housing facilities such as toilets in the house. Reasons for upgrading also inform the kind of work carried out. For instance, aesthetic and ceremonial reasons for housing improvements are often associated with cladding/plastering and re-painting.

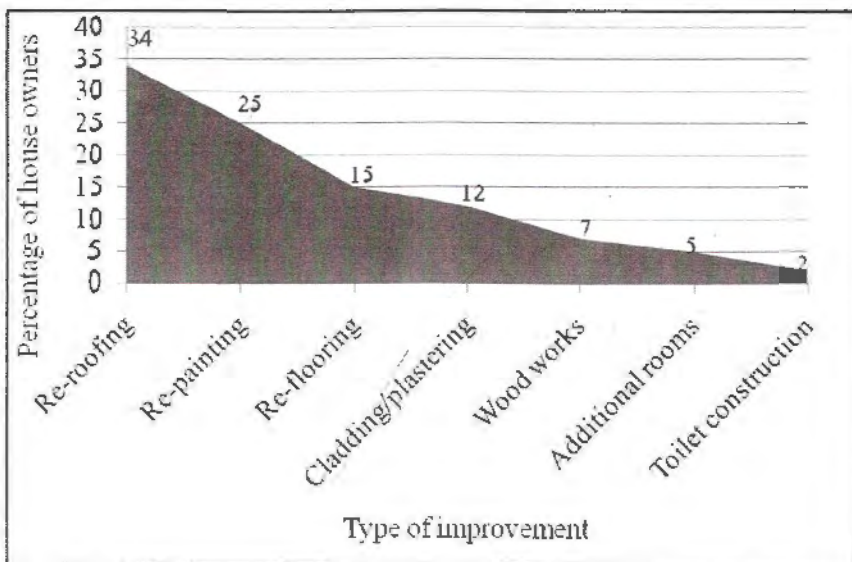


Figure 4: Kinds of housing improvement

Source: Based on questionnaire survey, March 2008

Many of the landlords who did not make any improvements failed to do so because of lack of funds. Others also said the houses were still “new”/“fresh” or in good condition. Of the houses that had never been upgraded, 34% were reported to have leaking roofs and minor damages while 20% had poor walls (cracks with paints washed away). The inability to raise money for housing improvements stems from the fact that most landlords are retired or retrenched former employees of the public or private sector who invested their retrenchment/retirement packages in the construction of rental units and now live on the rent payments. They spend rental income on daily household needs and on investments in their children's education. A few landlords, however, use the money from rent for the construction of more rental units for additional income. Most landlords who added rooms constructed them adjacent to existing buildings on their plots. Some simply converted existing spaces, usually meant for other purposes such as toilets, store rooms and kitchens, into sleeping places. Only 7% obtained additional parcels of land, usually not too far from their old buildings, to put up new rental structures.

Income from formal employment and private informal business activities are the most important sources of money for both the creation of additional rental units and the improvement of existing ones. But savings from rental income are also an important source of finance for both. An innovative way of financing housing improvement is to take a rent advance of up to three years from tenants. A few landlords also receive salary advances from their employers for the construction of additional units or for other forms improvements. All landlords intend to make further improvements to their rental units. These include increasing the number of rooms, re-roofing, cladding/plastering, ceiling, re-painting and constructing toilets, kitchens and bathing facilities. The provision of water facilities was not mentioned as an area requiring attention by any of the house owners. For 85% of landlords, the main obstacle to realizing their housing upgrading intentions is lack of access to finance. Many landlords are not aware of the existence of housing financing institutions and therefore have never attempted accessing credit for housing projects. Besides landlords' lack of knowledge about the requirements and the procedures for acquiring loans, there is the refusal of financial institutions to accept as collateral income

from informal sector activities, such as money from rents, remittances and gifts, which disqualifies landlords from obtaining overdrafts. Furthermore, landlords cannot get conventional housing finance because their homes are in unplanned areas and, in some cases, on contested lands or settlements, and therefore they do not have the formal documentation that housing finance agencies require. It is also true that the low income house owners themselves do not trust banks and mortgage companies, for fear that the loan repayment terms and obligations imposed by these institutions will endanger their families' future. The other major barrier to housing improvement is the lack of space on existing plots for additional rental units, toilets or kitchens.

Innovative financing for housing improvements in the rental sector

The housing improvement experiences of house owners shows that increased demand for more rental units leads to higher rent charges and thus to more profit from their investment. But above all, these findings demonstrate that without financial support the majority of them may not be able to realize their desire to maximize the benefits of higher incomes available in the rental housing sector. It has been argued that generally, high and rising prices for housing can be viewed as signals that the market requires additional investment (Malpezzi, 1991). Because the cost of housing finance is high, particularly when it is considered in relation to incomes in low-income areas, there is the need for support through public investment. Housing finance is also inevitably affected by institutional and systemic features determined and controlled by heavy government regulation of lending institutions and of the financial system in general. As financial liberalization proceeds, housing finance systems are becoming more and more integrated with financial markets in general, and many institutions are relying on broader capital markets as sources of funds rather than on direct personal/household deposits.

After two decades of structural adjustment and economic recovery programmes in Ghana, financial regulation has increased the number of agencies interested in providing mortgage finance, mainly in the urban centres of the country. However, these are available to a restricted section of high income groups in the formal housing sector. At the same time, although microfinance for housing has become a significant part of the microfinance portfolio of lending opportunities, this option is not available for house improvements and extension. Rather, all mortgage finance

opportunities come in the form of the acquisition of new houses built in planned areas which also usually constitute the newly developing areas of cities/towns. Certainly, it is difficult to imagine that these types of financial operations would be involved with providing financial support for housing upgrading in the rental sector, as they might lose out.

Quite recently, there have been a number of innovations in finance to support housing, infrastructure and community development for low-income groups and households which provide useful lessons regarding efforts to provide financial support for low-income landlords to improve their houses. Many of these works have been centred in informal settlements, supporting negotiations for land tenure security, house construction and upgrading, and often for improved provision of water and sanitation (Bruce and Nayarrete, 2003; Mohini, 2003; Daphane, 2004). Most of these innovations combine elements of savings, loans and subsidies. Overwhelming evidence available suggests that such innovative approaches, which use savings and loans to transform low-income neighbourhoods, have demonstrated impact at scale (Daphane, 2004; Alfredo and Castillo, 2005). Such schemes have become popular because public sector programmes have turned out to be less concerned with direct provision of housing and more interested in working to facilitate finance to enable greater choice for beneficiaries. Furthermore, the largest segment of landlords sees micro-credit or participation in a savings and credit cooperative scheme as a welcome solution to their housing upgrading financing problems.

Current socio-economic policies in Ghana detect that development activities like housing provision are left to the private sector, with the government providing suitable policy directions and regulations. However, urban housing is such an important aspect of economic and social progress that it cannot be left to the forces of the market alone. The government can therefore intervene by empowering the decentralised local governments to lead the process of mobilizing house owners for micro-credit and to participate in savings and credit cooperative schemes. The creation of a housing fund based on the existing property tax and the introduction of other income/service taxes, as was the case in Argentina in the 1980s (Buckley, 1991) and earlier in Brazil (Sandilands, 1980; Silveira, 1989), can target the informal rental housing sector dominated by low-income households. This may be considered as a move away from deposit taking institutions and a breaking of the direct link between small-scale savings and large-scale mortgage lending through housing finance subsidies.

Subsidies and public actions reduce the cost of something to particular recipients. A common type of subsidy is a payment to a person for a particular purpose – such as an allowance used for rent. But subsidies are also created when government makes rules which change the price that an individual has to pay for a good or service, such as rent control (Malpezzi, 1991). Larger subsidies mostly go to higher income households, especially when indirect subsidies through the tax and finance subsidies are considered. Increasingly, housing finance should be seen as a mechanism to subsidize housing off-budget; subsidies should not be separated from the financial system, they must be better targeted and made more efficient. Subsidies can be justified not only to achieve social goals such as fairness, justice and societal stability, but more specifically, to help improve standards of living through gains in public health associated with decent shelter. Subsidies have also been shown to be useful for overcoming market inefficiencies that yield poor housing or insufficient new constructions, particularly for low-income households (UN-Habitat, 2003). Government support to cooperative housing societies, which are often formed around landlords associations in many informal urban settlements in Ghana would be another option. Other forms of support could be the provision of capital funds for interest only loans, such as seed capital for the operation of revolving funds.

Conclusion

The progress of effective housing delivery processes in urban Ghana, as it is in many developing countries, has been stalled by inadequate and inefficient implementation of pro-poor policies. Another important challenge in urban shelter development strategies has been how to balance market incentives and private enterprise with social and economic goals and communal action. Findings from this study indicate that a large number of families live in rental homes. Therefore, helping landlords to improve their houses would be a much better way of meeting the housing needs of the majority of urban poor. However, house owners are generally old and retired or retrenched public and private sector workers who depend mostly on income from rent and, in a few instances, remittances. While income from rent may seem to be high, it is mostly spent on basic family needs such as food, water, energy and transport, leaving nothing for housing improvements. Consequently, lack of access to finance is a major obstacle to housing improvement in the rental housing sector in urban Ghana. The findings further reveal that low-income landlords

create additional rental units and improve existing ones, but that the positive impact on rental housing provision and on landlords' livelihoods could be greater if access to finance could be facilitated. The paper has suggested possible ways to support landlords with the much needed financial resources for housing upgrading. Most importantly, housing improvement strategies should incorporate an integrated vision, which sees adequate and quality housing both as a goal in itself and as a contributor to economic growth and social development through gains in public health. Policy makers must be able to recognize and build on these linkages so that housing and other policy goals can be made mutually supportive.

References

- Alfredo, S. and Castillo, L. (2005). "Innovative financing for Low-income Housing Improvement: Lessons from Programmes in Central America", *Environment & Urbanization* 17: 47-66.
- Annez, P. and Wheaton, W. C. (1984). "Economic Development and the Housing Sector: A Cross-national Model", *Economic Development and Cultural Change* 32: 749-746.
- Bruce, F. and Navarrete, J. (2003). "A Financial Framework for Reducing Slums: Lessons from Experience in Latin America", *Environment & Urbanization* 15: 201-216.
- Buckley, R.M. (1991). "The Measurement and Targeting of Housing Finance Subsidies: The Case of Argentina", *Public Finance* 46: 355-372.
- Buckley, R.M. and Mayo, S. K. (1989). "Housing Policy in Developing Countries: Evaluating the Macroeconomic Impacts", *Review of Regional and Development Studies* 1: 123-421.
- Daniere, A.G. (1992). "Determinants of Tenure Choice in the Third World: An Empirical Study of Cairo and Manila", *Journal of Housing Economics* 2: 57-72.
- Daphne, F. (2004). "A Market-based Housing Improvement System for Low-income Families – The Housing Incentive System (SIV) in Ecuador", *Environment & Urbanization* 16: 171-184.
- Grimes, F.O. Jnr, (1976). *Housing for low-Income Urban Families: Economics and Policy in the Developing World*. Washington, DC: The World Bank.
- Grootaert, C. and Dubois, J.L. (1988). "Tenancy Choice and the Demand for Rental Housing in the Cities of the Ivory Coast", *Journal of Urban Economics* 24: 95-112.
- Ingram, G.K. (1984). "Housing Demand in the Developing Metropolis: Estimates from Bogota and Cali, Colombia", *Staff Working Paper No. 633*.
- Kim, K.-H. (1994). *Financing Shelter and Urban Development: Towards Habitat II*. Nairobi: UNCHS.

- Kim, S.J. (1992). "A model of Rental Housing Choices in the Korean Market", *Urban Studies* 29: 1247-1263.
- Lim, G.C., Follain, J.R. and Renaud, B. (1980). "The Determinants of Homeownership in a Developing Economy", *Urban Studies* 17: 154-171.
- Lockwood, M., Loomis, J. and Delacy, T. (1993). "A Contingent Valuation Survey and Benefit-Cost Analysis of Forest Preservation in East Gippsland, Australia". *Journal of Environmental Management* 38: 233-243.
- Malpezzi, S. (1988). "Analyzing Incentives in Housing Programmes: Evaluating Costs and Benefits with a Present Value Model". *World Bank: INU Discussion Paper No. 23*. Washington, D.C.: The World Bank.
- Malpezzi, S. (1990). "Urban Housing and Financial Markets: Some International Comparisons", *Urban Studies* 27: 971-1022.
- Malpezzi, S. (1991). "Discounted Cash Flow Analysis: Present Value Analysis of Housing Programmes and Policies", Tipple, A.G. and Willis, K.G. (eds), *Housing the Poor in the Developing World: Methods of Analysis, Case Studies and Policies*. London: Earthscan: 208-233
- Malpezzi, S. and Mayo, S.K. (1987). "The Demand for Housing in Developing Countries", *Economic Development and Cultural Change* 35: 687-721.
- Malpezzi, S. and Mayo, S.K. (1997). "Getting Housing Incentives Right: A Case Study of the Effects of Regulation, Taxes and Subsidies on Housing Supply in Malaysia", *Land Economics* 73: 372-391.
- Mara, D.D. and Alabaster, G.P. (1995). "An Environmental Classification of Housing-Related Diseases in Developing Countries", *National Library of Medicine* 98: 41-51.
- Mayo, S. K., Malpezzi, S. and Gross, D. J. (1986). "Shelter Strategies for the Urban Poor in Developing Countries", *World Bank Research Observer* 1: 183-203.

- Mohini, M. (2003). "Financing Her Home, One Wall at a Time", *Environment & Urbanization* 15: 217-228.
- Muth, R.F. (1971). "The Derived Demand for Urban Residential Land", *Urban Studies* 8: 243- 254.
- Ogu, V.I. and Ogbuozobe, J.E. (2001). "Housing Policy in Nigeria: Towards Enablement of Private Housing Development", *Habitat International* 25: 473-492.
- Osumanu, I.K. (2007). "Environmental Concerns of Poor Households in Low-income Cities: The Case of the Tamale Metropolis, Ghana". *GeoJournal* 68: 343-355.
- Renaud, B. (1990). "Housing Affordability and Housing Finance: An International Perspective", Hyundai Research Institute, *Proceedings of (the) International Housing Conference on Korean Housing Policies*. Seoul: Hyundai Research Institute: 23-46.
- Sandilands, R.J. (1980). *Monetary Correction and Housing Finance in Colombia, Brazil and Chile*. London: Earthscan.
- Schofield, C.J., Briceno-Leon, R., Kolstrup, N., Webb, D.J.T. and White, G.B. (1990). "The Role of House Design in Limiting Vector-Borne Disease", Hardoy, J. E., Cairncross, S. and Satterthwaite, D. (Eds), *The Poor Die Young*. London: Earthscan: 189-212.
- Silveira, R. (1989). *The Evolution of Rent Control in Brazil, 1921-1989*. INURD Working Paper No. 89-8 (1989).
- Strassman, W.P. (1980). "Housing Improvement in an Opportune Setting: Cartagena, Colombia", *Land Economics* 25: 78-95.
- Strassman, W.P. (1991). "Housing Market Interventions and Mobility: An International Comparison", *Urban Studies* 28: 759-771.
- Struyk, R.J. (1982). "Upgrading Existing Dwellings: An Element in the Housing Strategies of Developing Countries", *Journal of Developing Areas* 17: 69-76.
- Struyk, R.J. and Lynn, R. (1983). "Determinants of Housing Investment in Slum Areas: Tondo and other Locations in Metropolitan Manila", *Land Economics* 59: 444-454.

- Tipple, A.G. and Willis, K.G. (1992). "Who Owns, Who Rents: Tenure Choice in a West African City", Kilmartin, L. and Singh, H. (Eds), *Housing in the Third World: Analyses and Solutions*, New Delhi: 56-78.
- United Nations Centre for Human Settlements (Habitat) (1995). *Human Settlement Interventions: Addressing Crowding and Health Issues*. Nairobi: UNCHS.
- United Nations Centre for Human Settlements (Habitat), (1996). *An Urbanizing World: Global Report on Human Settlements, 1996*. Nairobi: UNCHS.
- United Nations Centre for Human Settlements (Habitat), (2001). *Cities in a Globalizing World: Global Report on Human Settlements*. Nairobi: UNCHS.
- United Nations Centre for Human Settlements (Habitat), (2003). *Rental Housing: An Essential Option for the Urban Poor in Developing Countries*. Nairobi: UNCHS.
- World Bank (1991). "Urban Policy and Economic Development: An Agenda for the 1990s", *A World Bank Policy Paper*. Washington, D.C.:
- The World Bank. World Bank (2002). *Urban Upgrading in Africa: A Summary of Rapid Assessment in Ten Countries*. Washington, D.C.: The World Bank.