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Housing policy in Ghana:

Providing Incentives to Investors and Consumers'

A walk through a business or market center, at dusk, in any of the urban areas in Ghana would reveal scenes indicative of the severity of the housing problem in the country.

In store fronts and under market stalls, scores of poor people, some of them employed workers, others unemployed, would be seen curled up on probably a cold cement or wooden floor, resting their weary bodies.

In rental housing units, families fortunate enough to have scraped up the large, standard two year rent deposit which often would be in excess of ₵100,000, are cramped in a room or two for the night. In some cases these tenements lack basic amenities such as toilets and bathrooms.

In a recent report on housing it was noted that in most urban areas only 3.3% of the rented low income homes could be rated excellent.

In the rural sector, it was reported, almost 50% of dwellings needed demolition and replacement, and another 26.5% required massive upgrading.

In those conditions no one will deny the health

problems and productivity losses of workers, and the urgency to improve conditions of housing. The importance of housing can hardly be exaggerated. In human terms, access to satisfactory or proper housing is vital to health, happiness and civilized living.

The problem is not lost on the Government. Since independence successive governments, ostensibly motivated by allocation or equity considerations, have sought, through many diverse policies, to provide affordable homes to all Ghanaians.

The May 15, 1993 issue of the 'Daily Graphic' featured a front page piece in which the Director of Home Finance Corporation reiterated the call for creative financing methods to solve, as she put it, "the alarming housing problem". She encouraged employers to make contributions on behalf of their employees toward the purchase of a house.

The funds from the contribution would be supplemented with funding from HFC for employee mortgage finance.

Although the Government's effort at providing an

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surate with resources committed to date to housing delivery. The current annual estimated national housing need is 70,000 units and there is a reported backlog of 250,000 units. Approximately 60% of the current annual housing need remains unsatisfied; a housing shortage of some 41,000 units is created annually, excluding the backlog. Approximately 92% of the housing units needed consists of low-to-medium income housing. Based on current production levels, the Government will not be able to reduce the backlog in the foreseeable future hardly a success story. The three major distinctions of accommodation in Ghana are: 3 bedroom house; 2 bedroom house; and the chamber and hall. The 3 and 2 bedroom houses are usually owner-occupied, while the chamber and hall category is often a rental unit. In this issue we consider how public policies have affected, the way housing is provided, and whether these policies can be improved. We submit that Government's role in the housing market be reduced considerably, with increasing reliance on the market to solve the housing problem. In advocating a greater reliance on the market in housing policy, we are motivated by a genuine belief that this would improve the housing situation in Ghana.

I. GOVERNMENT HOUSING POLICY

A discussion of the housing market problems in Ghana must recognize the pervasive role of Government. Not only does Government exert an indirect influence generally on housing markets through tax policies, but it also exerts, in particular, a direct influence through construction of public houses and the subsidization of housing costs.

The rationale for government intervention in the housing market, as can be gleaned from policy documents, revolves around the goal of providing all Ghanaians with a decent house in a suitable living environment.

To contain the scope of discussion within manageable proportions, we take a look at recent policies of the Government designed to encourage investments in real estate, and review the Government's record in the provision of public housing.

In the 1992 budget, it was stated that as a further inducement to real estate developers, customs duties and sales taxes on imported building materials would be abolished. Existing tax laws provide a number of concessions to real estate developers and companies. For example, developers of residential properties are tax exempt for five years, and rental income is tax exempt for five years following completion of building.

In addition, the Investment Code provides incentives for investments in real estate - such as exemption from payment of customs duty on plant, machinery and equipment required for the enterprise. Research and development expenditure relating to building construction is fully tax deductible.

A report recently submitted to Parliament by the Ministry of Works and Housing outlines a five-year strategy to reduce the problem of housing shortage. The strategy, inter alia, seeks to:

1. facilitate the flow of resources to the housing industry;
2. accelerate home improvement;
3. improve the environment of human settlements;
4. encourage greater private sector participation; and
5. make shelter programmes more accessible to the poor.

The Government's strategies to achieve the above are as follows:

To facilitate flow of resources, the government intends to mobilize more funds for the housing sector and develop non-conventional approaches to finance shelter program.

To accelerate home improvement, building skills and construction technologies will be improved and the availability of home improvement financing expanded.

improvements in the environment of human settlements will be achieved through strengthening of basic infrastructure services and the acceleration of programmes for environmental improvement of slums.

greater private sector participation will be achieved through the review of Rent Restriction Control Act and the provision of additional loan to private developers.

shelter programs will be made accessible to the poor through the encouragement of self help.

It is doubtful whether the policies designed to improve housing availability to families in the low to moderate income group (salary range ₵37,974.25 - ₵65,851.33) have changed, to any appreciable degree, their housing situation. The real estate developers enjoying incentive packages, including tax benefits provided by Government, produce homes which are well beyond the means of those most in need of assistance. An analysis of the 1991 development estimates of the Ministry of Works and Housing shows that approximately 8% of public sector housing investment could be seen as benefitting the target groups. Clearly, the public sector housing policies exhibit a supply side bias. A major short-coming of the Government's plan to improve the housing situation in Ghana is the absence of a clear macro-economic plan to raise the funds necessary to implement the program as envisaged. This is a serious 'oversight' and must be addressed before any action is taken on the proposed plan. Without that, the plans will remain simply good intentions unsupported by action.

Some of the housing programmes which are essentially directed at housing workers in the urban areas, are vertically inequitable since some higher income households receive larger benefits than some lower income households; and horizontally inequitable because not all eligible households with similar incomes are assisted equally. It is a known fact that most of the public sector housing slated to

and moderate income families end up in the hands of high income families and those who are well connected politically.

In a recent ground breaking ceremony at a public housing site, the President alluded to the problem and called for transparency in the allocation of government financed and subsidized homes, to ensure that the houses are occupied by those who need them most.

As indicated earlier, the Government has been, and continues to be, intimately involved in providing proper and affordable housing to Ghanaians. The results, however, clearly do not match the efforts expended. This is indicated in Table 1 (See page 4).

Between the period 1987-1990 public sector total expenditure increased four fold, from ₵1,969 million to ₵ 8,490 million, while expenditure on actual units constructed declined from ₵ 1,034 million in 1987 to ₵ 352 million in 1990. It is expected that the new housing policy being promoted will result in a considerable overall increase in actual housing units -from the current level of 22,000 units to 43,000 units in 1994, the first year of the policy plan. Currently, there are no less than seven governmental agencies directly or indirectly involved in the finance and allocation of public sector housing. The extent to which their co-ordinated effort will help achieve envisaged in the Government's housing plan for the period 1993-97, is difficult to assess.

C. PRIVATE SECTOR HOUSING: FINANCE AND ALLOCATION

Most of the homes in Ghana are privately owned and financed; however, public sector housing policy dominates issues relating to the housing situation in Ghana. This is because public sector houses attract attention, being highly visible evidence of low income. In 1990, of the 32,402 housing units delivered in urban areas (comprising all types of houses), 32,129 were privately owned. The homes are financed mainly out of personal savings of the owners constituting roughly 75% of private home ownership financing.

(Table 1) Summary of Public Sector Financial Programmes

Item	Description	Amount in c1.0 m (at June 1986 Prices)					
		9	1988	989	199	Total	%
A.	Housing Land Acquisition				181	590	7
B.	Physical Planning	123	130	156	90	350	4
C.	Infrastructure	110	70	80	134	3790	45
D.	Housing Unit	446	808	1190	352	2630	31
E.	Building Regulations/ Codes and Design	103	712	532	3	35	1
F.	Material Development	4	7	5	124	580	7
G.	Manpower & Research	20	252	120	67	220	2
H.	National Housing Board Admin	84	48	53	15	95	1
I.	Contingencies	52	15	15	50	200	2
		50	50	50			
		50					
	Total Expenditure	196	2092	2201	2228	8490	100
	Expected Minimum Revenue	9	998	1420	3241	5659	
	Net Expenditure/(Revenue)		1074	791	(1013)	2831	
		196					
		9					

(Source: National Housing Policy and Action Plan 1987-1990 P.35)

Until very recently, the absence of an organized capital market in Ghana and the dominance of short term lending in commercial bank lending activity, meant that almost all prospective home owners relied on personal savings and relatives and friends for funds to build a house.

Although the housing finance market has improved for would be homeowners (with the establishment of Home Finance Corporation), bank lending remain a small percentage of housing finance. The lack of credit alternatives for individuals who wish to build, means that construction will often be halted when the builder experiences cost overruns, and when family emergencies arise which result in a decrease in saving. The Ghanaian landscape is dotted with housing structures in varying stages of completion. The sad fact is that some of the homes are never completed because of the unavailability of funds. In this situation an attempt to build a house is quite a risky undertaking.

Although HFC is actively assisting workers with housing credit, homeownership, especially in urban areas, remains the prerogative of upper income groups. For moderate income families, the estimated monthly mortgage payments for a modest

house would represent 58% of household income (see Table 2).

In addition to individual efforts, a significant market for suppliers of housing (home builders) is rapidly developing in Ghana. It is believed that these real estate companies are being established as a result of some very liberal tax benefits and other investment concessions enjoyed by construction companies. Two of the recently established real estate companies are:

Regimanuel Gray Limited
Parakuo Estates Limited
Both companies are partly foreign owned.

Parakuo is developing estates in Kumasi and Accra, and Regimanuel Gray Limited has delivered some 80 homes since its establishment in July, 1991. The company is aiming at an average delivery of 4 completed homes per week. Individuals who choose to employ the services of the real estate company still bear the burden of securing financing for the project.

Parakuo, for example, requires payment of 3% of the sale price as a deposit before commencement of construction; 20% in the fourth month; 20% in the sixth month; 15% in the seventh month; and 10% upon completion, but prior to handing over keys to the house. For low income families, financing will still be a problem

existing units.

Although capital investment in housing is considerable, it would have been even more so had effective steps been taken to remove some of the constraints that militate against rapid delivery of shelter in Ghana, especially rental units which, for

(Table 2) Estimated Disposable Household Income and Affordability

Income Group	Estimated Mean Monthly Household Income	Affordability on loan of ₵2.0 m			
		No Interest	3%	18%	26%
Very low	6,370	8,889	11,353	25,215	34,490
Low	22,420	8,889	11,353	25,215	34,490
Moderate	59,900	8,889	11,353	25,215	34,490
Middle	71,900	8,889	11,353	25,215	34,490
Upper	122,468	8,889	11,353	25,215	34,490

(Source: National Shelter Strategy Policy Planning and Evaluation Unit . Ministry of Works & Housing)

D.STYLIZED FACTS OF THE HOUSING MARKET IN GHANA

Housing plays a major role in the economy; it is probably the largest single consumer transaction, and the largest portion of non-human wealth.

Although there are no reliable estimates of the size of household expenditures on housing, nor, therefore, the fraction of gross domestic product it accounts for, private sector investment in dwellings is expected to be very important in overall economic activity.

It is estimated that for the period 1993-1997 public sector investment in the housing industry will be about ₵ 1,988,050 million. Since the private sector accounts for well over 60% of investment activity in housing, it could be surmised that private capital outlay in the industry will also be quite large (see Table 3).

Table 3 provides a breakdown of capital invested annually in housing for the period 1989-1992. A significant proportion of the capital investments is in the area of new construction and upgrading of

Ghanaians, remain the only choice of accommodation.

Apart from the obvious problem of rent control and bureaucratic delays relating to application for building permits, a host of problems continue to hamper activity in the housing industry. The major ones among them are related to land acquisition, poor infrastructure and very high building materials costs.

Presently, it is not at all easy to obtain a large tract of land necessary for real estate development. The communal ownership of land requires agreement among various families or stools/skins for a land deal to be consummated. All the elders: a family or stool/skin must be consulted and a consensus forged before a plot of land can be sold. This results in high transactions costs for the builder or developer. It is not uncommon to find, for example, that an elder or chief has sold the same tract of land to different buyers. Such behaviour results in protracted litigation or land disputes.

Poorly developed infrastructure, even in some parts of major cities (Accra and Kumasi) forces builders

to incur substantial indirect building costs. It is a common practice for a builder to purchase wooden poles for post and telecommunications to ensure supply of electricity and telephone services.

The Role of Government in the Housing Market

It has already been established that the Government's role in the housing industry is pervasive - in terms of housing policy and finance, and direct participation

(Table 3) Capital Invested Annually in Housing 1989 - 1992

Sources	In milli.on cedis (1989 Prices)			
	1989	1990	1991	1992
Public Investment Programma (excluding water and electricity)	5424.0	6605.0	12429.0	15569.0
State Agencies and Corporations (TDC, SSNIT, etc)	1014.0	1080.9	3612.9	3952.5
Parastatals (ASC, Awaso, etc.)	3325.8	2023.9	1629.1	1976.2
Private (Bldg Societies, Banks)	1194.6	586.5	897.8	1734.2
Private Individuals	N/A	N/A	N/A	N/A

(Source Same as Table 2)

With few exceptions most of the building materials currently in use are imported. These materials are subject to sharp price increases owing to depreciation of the cedi. Builders cite the cost of building materials as partly the reason for the high cost of houses.

The government has embarked on a campaign to encourage the use of local raw materials and the establishment of local industry to feed the building industry with the required inputs. The response to the campaign is not encouraging; perhaps the incentives are not attractive to entrepreneurs.

E. POLICY RECOMMENDATIONS

Policies to improve the housing situation in Ghana must have as their focus the reduction of the role of Government in the housing market, delivery of low cost housing to satisfy the needs of low to moderate income families, improvement of access to credit for housing, and promotion of greater private sector participation in the housing market.

in housing delivery. The record nevertheless supports the view that while policy initiatives to improve the housing situation in Ghana are well intentioned, and have caused the transfer of substantial amounts of resources to the housing industry, the desired results are yet to be achieved. It is questionable whether any new policy configuration which increased the direct role of government in housing would produce the expected salutary results.

It is recommended that the Government abolish the Rent Restriction Control Act and eviction controls as defined in Act 220 LI 367 and PNDCL 138. The laws make it difficult for property owners to maintain their properties and evict problem tenants. Not only does the property owner have to go through a lengthy court process to evict a tenant for non-payment of rent, but must allow a grace period of 16 months during which the tenant pays no rent before the actual date of eviction. Such laws destroy incentives to build for renting purposes. It is acknowledged that these policies were designed

assist vulnerable groups. The policies, however, have served to discourage private entrepreneurs from investing in rental property and consequently caused a withdrawal of resources from the industry, resulting in a shortage of rented houses. The standard practice of rental property owners taking two years rent deposit from tenants, derives in part from the inability of property owners to profit from their investments and maintain their property at controlled rental prices. Today, most tenants willingly pay the large rent deposit, and the monthly rent known to exceed the controlled rate, because the alternative is homelessness.

It is, moreover, recommended that the Government divest itself of the State Housing Corporation and other governmental agencies involved in housing.

In our view these state-owned enterprises have outlived their usefulness. In the current economic environment their services will be better and more efficiently provided by private companies. The public agencies should be sold to private investors. Maintenance of existing public housing stock would be contracted out to private construction companies. Individuals currently residing in government dwellings should be given the option to buy or rent the dwelling at market prices. Low to moderate income families living in public housing units may be assisted with financing or allowed to pay subsidized rents. The Government is already moving in this area, but the process must be expedited. The scheme would be financed with proceeds from the sale of State Housing Corporation and publicly-owned construction companies. The role of Government in the housing market should be to provide appropriate guidelines for standardization.

Housing For Low to Moderate Income Households

With few exceptions, the problem of housing is a problem for the poor - unable to afford housing at market prices and to qualify for financing arrangements designed to assist home buyers.

the market, there are individuals who, in the short run, may not be able to buy or rent property at the market price: those too poor to be able to pay, the aged and the disabled.

For those people it is recommended that a rent subsidy or tax deductibility of rent expense be considered. A housing allowance for low income households, or a cash transfer would be preferable to the current practice of the Government building homes for workers. Moreover, Government may encourage, via tax policy, the provision of housing by special institutions such as corporations. They can buy or build houses for the purpose of letting them.

A study should be undertaken to identify government buildings which are not in use, for one reason or another, for rehabilitation and subsequent sale or rent to home buyers and tenants.

Housing finance is an intractable problem in the Ghanaian economy, given the generally very low annual average income of workers. However, in the wake of financial liberalization, policies should be promoted to encourage the establishment of financial institutions whose business would be solely mortgage finance. The Bank for Housing and Construction has been involved in industrial construction business since inception, and the building societies do not have the resources to assist in an effective way in solving the housing problem.

We recommend a credit scheme for low and middle income individuals, financed by long term government bond issue. The bonds could be retired with proceeds from installment payments to be made by beneficiaries of the credit scheme.

Promoting Greater Private Sector Participation on the Housing Market

The most important element in the drive to improve the housing situation is unquestionably greater private sector participation. Private sector participation should be encouraged in the housing industry not only in the construction of housing units but also

in the production of building materials. The use of wood, rather than cement, must be encouraged since the technology is widely available. It is our belief that once the Government begins to pull out of the industry and addresses the constraints identified in the paper, profitable opportunities will emerge in the industry and serve to attract more entrepreneurs to the industry. An important constraint that must be removed to enhance entrepreneurial activity in the housing industry is that of land acquisition or land use. All land owners in the country must have their property registered with Lands Department before sale. This will minimize fraud and discourage multiple sale of land. Existing tax policies and investment incentives must be improved to minimize the risk exposure of entrepreneurs in the housing market. As is the current practice, the incentives must have a shelf life attached to them.

As a service to the housing industry, the Ministry of Works and Housing should annually undertake housing need assessment studies to identify the

level of demand and the types of housing consumers want.

CONCLUSION

Decent and affordable housing is basic to human existence, and the Government's goal to provide housing for all Ghanaians was set with a strong belief that there is a direct relationship between the quality of housing and the quality of life. While the goal is honourable, the special characteristics of housing such as durability and spatial fixity, make direct involvement by Government in the housing market counter productive, as has been shown. In this period of very limited resources, housing inputs will be efficiently allocated if the distribution and use of resources is dictated by market forces, rather than bureaucrats, whose policy recommendations, although well-intentioned, do in some instances (as in the case of housing policy) produce unintended results

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- * Government of Ghana: Ghana Housing Data - Report of Housing Statistics.
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