

International Housing Coalition

IHC

Housing for All

Housing Challenges and Opportunities in Sub-Saharan Africa

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Preface

This paper provides information on the housing situation in sub-Saharan Africa and presents a series of policy and program options that should be considered by U.S. policy makers and the private sector to increase U.S. support to the critical housing and urban development sector. The paper is based on a review of secondary source materials, interviews with U.S. government and international donor policy makers and short visits in March 2007 to four countries, Kenya, South Africa, Ghana and Nigeria, to meet with housing experts and officials.

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The IHC, a non-profit advocacy organization, supports “Housing for All” and seeks to raise the priority of housing on the international development agenda. The IHC supports the basic principles of private property rights, secure tenure, effective title systems and efficient and equitable housing finance systems—all essential elements to economic growth, civic stability and democratic values. To learn more about the IHC visit its web site at www.Intlhc.org

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EXECUTIVE SUMMARY

Sub-Saharan Africa* is undergoing profound demographic changes. People are moving to the cities at unprecedented rates, and Africa will be more urban than rural by 2030. African cities will have to accommodate more than 300 million new residents over the next 25 years. Urbanization in Africa, unlike in other regions of the world, has not reduced overall poverty. In African cities and towns, poverty rates have actually increased and in several of the region's most populous countries urban poverty rates are now close to those in rural areas. Efforts to reduce overall poverty must therefore increasingly focus on urban, not rural, areas.

To address the challenges posed by the unprecedented rates of urbanization, African national and local governments and their international development partners, working with the private sector and with the poor themselves, must create the political will; make essential policy reforms; significantly upgrade human and institutional capacity; and mobilize a quantum increase in financial resources for urban areas for housing and essential urban services. If Africa does not meet these challenges and take advantage of the opportunities created by urban growth, it risks becoming even more marginalized in the global economy.

Housing is a key component of urban development. Improved housing is not only a desirable goal in its own right, but it also contributes to economic growth, social development, improved governance and enhanced security and stability. Housing construction and upgrading are major sources of employment, particularly for the unskilled poor. Improved housing and urban services can also have a major impact on the health of the urban poor. They can play a constructive role in the strengthening and spread of community, civic, and democratic values, which in turn enhance social stability and personal security. Failure to deal with housing issues will lead to the continued growth of slums and poorly serviced informal settlements on the urban periphery. Already, between 75% and 99% of urban residents in many African cities live in squalid slums of ramshackle housing.

The efforts of African governments and international donors have barely impacted the need for new and improved housing and for essential urban services, particularly for low and moderate income families. Very little new housing is actually being built or improved by the formal sector. Most Africans continue to build housing incrementally through the unregulated informal sector as their financial circumstances permit. With the exception of South Africa, formal sector housing programs have mostly targeted middle and upper income families.

Encouragingly, with the return of macro-economic stability to many countries in Africa, the overall climate for a rapid increase in housing production through the private sector is now more favorable than it has been in many years. There are also positive indications that housing is gaining importance both as a policy issue and as a tool for economic growth. A number of African countries are tackling important legal and regulatory constraints that have traditionally restrained private sector housing production. Other major constraints to the production of housing "at scale" in Africa are: the unavailability of reasonably-priced, well-located serviced land; the lack of financing for essential urban infrastructure; and the increasing cost of building materials. Surprisingly, the availability of resources for mortgage lending is not generally seen as a

* Hereafter in this paper, the term "Africa" is used to refer exclusively to "sub-Saharan" Africa.

major impediment since the liquidity situation of many financial institutions has improved over the past several years. Housing finance institutions, however, must find new ways to go “down market” to reach low and moderate income families where the demand and need are the greatest. For many of the poor, financing from micro-credit institutions offers the best hope.

Housing and urban infrastructure have generally not been a high priority for international donors. The World Bank has been the largest donor in the sector. The U.S. Agency for International Development (USAID) implemented the successful Housing Guarantee (HG) loan program for almost 30 years until it was discontinued in 2000. The key United Nations actor in the sector is UN-HABITAT. However, resources at its disposal remain very modest. The European Union has just launched a new *EU-Africa Partnership on Infrastructure*, but the focus is on trunk infrastructure, and housing is not a priority. Other multilateral and bilateral donors have loaned or granted negligible amounts for housing and urban infrastructure.

Other than the HG loan program, U.S. assistance for housing and urban infrastructure in Africa has been decidedly “underwhelming.” USAID has provided some modest support for clean water in Africa through Global Development Alliances and the Development Credit Authority (DCA). The DCA has also supported several other housing programs in Africa since its creation in 1998. During the past five years, the Overseas Private Investment Corporation (OPIC) has become a much larger player in supporting housing in Africa. Unfortunately, housing, slum upgrading and urban infrastructure and management are only incidentally mentioned in the administration’s new *Foreign Assistance Framework*, the blueprint for programming foreign aid. This reflects the lack of any real priority for this important sector.

Specific actions that should be considered by U.S. policy makers, and the private sector, including NGOs, to increase U.S. support to the critical housing and urban development sector are identified below.

1

Congress should make it clear that improved housing and urban development are high-priority U.S. foreign policy objectives. Following from this, the importance and visibility of housing and urbanization issues among foreign assistance agencies must be raised and the sector must be made an integral part of the U.S. *Foreign Assistance Framework*.

2

Substantially increase the resources within USAID for technical assistance related to housing and urban development in Africa to restore U.S. leadership in the sector, with emphasis on affordable land, housing finance, slum upgrading, and urban infrastructure.

3

Fund the proposed Africa Housing Infrastructure Facility in the FY 08 Budget with a direct appropriation under USAID’s Development Credit Authority (DCA).

4

Substantially increase resources to support improved water and sanitation in Africa and assure that at least 60% of the funding is designated for urban areas.

5

Provide greater coherence to often disjointed U.S. government programs that impact on housing and urban development in Africa and create a strong institutional focal point for U.S. assistance to the international housing and urban development sector.

6

Encourage the Millennium Challenge Corporation (MCC) to develop an “urban optic” for eligible countries in Africa.

7

Increase the efforts of U.S. advocacy organizations to build more effective housing advocacy coalitions in both the developed world and in Africa.

8

Encourage major foundations to increase their funding for housing and urban development in Africa.

9

Increase U.S. Government contributions to UN-HABITAT and the Cities Alliance.

10

Assure sufficient subsidy and operating funds to OPIC to augment its housing efforts in Africa, with an emphasis on housing for lower income families.

11

Provide increased support for the U.S. Department of Housing and Urban Development’s (HUD) international outreach efforts, especially in Africa.

I. Demographic Realities in Sub-Saharan Africa: The Hard Facts

The Looming Urbanization Crisis

Sub-Saharan Africa is undergoing fundamental and profound changes in demographics as the 21st century moves towards its second decade. However, they are not unlike demographic changes that the rest of the world has experienced as countries become more highly developed and integrate into the global economy. Once overwhelmingly rural, where agriculture was the life blood of local economies, Africa is now well on its way to becoming a much more urbanized continent where cities, both large and small, will harbor the majority of the population and the health of the urban economy becomes the most important factor in reducing the continent's widespread poverty.

While in 1983, just 21% of sub-Saharan Africa's (hereafter referred to as Africa) population of 400 million was urban, by 2003, 36% of its 700 million people lived in cities and towns. From 1990-2003 urban growth rates increased by 4.6% per annum, almost twice as much as overall population growth rates. In absolute terms, the urban population almost doubled in 15 years. Given current projections of 5% per annum growth in urbanization rates, however, the real surge in Africa's urbanization is yet to occur. UN-HABITAT has acknowledged: "Stopping [urbanization] is not an option. The world's rural population has essentially reached its peak."¹ Within the next 25 years, the majority of Africans (at least 53%) will live in cities and towns. The absolute numbers are sobering — there will be more than 300 million new urban dwellers in Africa by 2030! This is more than twice the rural population increment. Where they live, learn, and work will profoundly affect the region's future.

Urban Poverty is Real and Growing in Africa

Poverty in Africa is becoming increasingly an urban phenomenon. Unlike other regions, urban poverty rates in several of Africa's most populous countries are close to rural poverty rates. If current projections hold true, in 20 years more than half of Africa's poor will live in urban areas. Income inequalities are also increasing significantly in the region's cities and institutional failures and lack of resources have denied equal access to services for the urban poor.² African policy makers, in tandem with their international partners, must therefore recognize that an increased focus on raising incomes and improving livelihoods in urban areas is key to reducing overall poverty rates.

African leaders and their international partners must also become more aware of the interdependence of rural and urban growth. Rural farmers must depend on the increased efficiency of urban markets to sustain higher incomes just as urban residents must depend on reliable sources of reasonably-priced, locally-produced food for their livelihood.

¹ UN-HABITAT, "Urban Land for All," 2004.

² The demographic information is drawn primarily from *The Urban Transition in Sub-Saharan African Africa* by Christine Kessides, published by Cities Alliance, 2006.

Where and How Do Urban Dwellers Live?

In many of Africa's cities and towns, less than 10% of the population lives in formal sector housing. A few examples are illustrative. In Zambia, 74% of urban dwellers live in slums; in Nigeria, 80%; in Sudan, 85.7%; in Tanzania, 92.1%; in Madagascar 92.9%; and in Ethiopia, a staggering 99.4%. The Kibera slum in Nairobi has more than half a million people packed into 225 hectares (2,000 people per hectare). Mike Davis in *Planet of Slums* cites an OECD study that indicates that by 2020 a network of more than 300 cities larger than 100,000 people will stretch along the entire coast of the Gulf of Guinea (anchored by Lagos with 23 million people) and observes, "Tragically it will (also) probably be the biggest single footprint of urban poverty on earth."³

Typically, African slums and informal settlements lack adequate shelter, potable water and sanitation systems, electricity (from the grid), and affordable public transportation. Furthermore, they may be located far from centers of employment and on environmentally hazardous sites. Overcrowding is severe — median useable living space in such slum dwellings is about seven square meters per person (compared to 32 square meters in industrialized countries).⁴ However, most African slums are far from homogeneous — they house both the destitute and families of greater means who may not have other housing options or who, in the case of centrally located slums, may choose more convenient location over better shelter conditions. Some also have established informal businesses in slums and would not choose to move even if they had the option.

Efforts to Deal with the Problem

In spite of some modest efforts of African governments to provide shelter for the burgeoning urban population, very little new housing is actually being built or improved by the formal sector and most of it that is built remains unaffordable to the great majority of the poor. South Africa since the fall of apartheid has perhaps made the most serious efforts to address the situation but still faces a very serious housing deficit. From 1994-2004, more than 1.6 million low cost houses were built in South Africa and another 500,000 families were given an opportunity to secure title to publicly held township houses. Despite these efforts, Mary Tomlinson has observed: "... the changing nature of demand and the pace of urbanization has resulted in the number of people living in shacks in informal settlements [actually] increasing from 1.45 million in 1996 to 1.84 million in 2001, an increase of 26%."⁵ South Africa is, nonetheless, a special case with unique resources, skills and institutions. Elsewhere in the region, the picture is even more bleak. In Kenya, it is estimated that 234,000 new housing units are required every year yet only 20,000-30,000 units per year are currently being produced and a mere 20% of these are affordable to low and moderate income families. In Zambia, 600,000 units are needed annually in urban areas while less than 1% of this amount is being produced. Ghana estimates that its backlog of decent affordable units is between 300,000 and 500,000 units with an annual demand of 75,000 to 140,000 new units, while during the past 15 years at most 50,000 formal sector houses have been constructed. At the same time, almost a million additional houses were

³ *Planet of Slums*, Mike Davis, 2006.

⁴ African slums also typically lack decent pedestrian circulation systems, and schools and adequate clinics within easy reach. They usually lack safe areas for children to play and places for the community to meet.

⁵ "From Quantity to Quality, Restructuring South Africa's Housing Policy Ten Years After," Mary Tomlinson 2005.

constructed from 1984-99 by the informal sector. From Senegal to Mozambique, the situation is similar – totally inadequate production of affordable formal sector housing has resulted in the rapid proliferation of housing in slum areas and informal settlements.

From the 1970s through the 1990s many African governments assumed that the responsibility for providing housing for low and moderate income families rested with the public sector. However, policies that rely on the government for meeting the housing needs of the vast majority of the population have proved to be illusory. Government-produced housing, which in many cases has been designated for civil servants, has but scratched the surface of effective demand.⁶ Even where lower income public sector housing developments were built, middle income people often bought into them, displacing the people for whom they were intended. Nor has the formal private sector been able to pick up the slack, producing very few new housing units during the past 30 years. For very obvious reasons, such as affordability, perceived risk and profit, what housing it did produce has been targeted primarily to higher income families. The result, as the Kenya government readily admits, is usually “the proliferation of informal settlements, construction of unauthorized extensions in existing estates, poor standards of construction and increasing conflicts between tenants and landlords, especially in low-income housing estates and informal settlements.”⁷

Despite the inability of the public and private sectors to meet the demands of low income families for adequate housing, particularly those living in slums, alternatives such as slum upgrading have often received lukewarm support in Africa. Although a number of donor-supported slum upgrading efforts have been undertaken, many local governments have attempted to bulldoze slums out of existence. These shortsighted policies have only exacerbated the housing shortage.

Nonetheless, during the past few years, a number of the more progressive governments in the region have realized that the public sector cannot possibly begin to meet the demand for new housing units and are increasingly looking for ways to engage the private sector more constructively. Some are also recognizing that slum upgrading is part of the overall solution.

Various donors have provided substantial funding for housing construction over the past 30 years, considerable amounts of it in Africa. The World Bank has been the major donor in the sector, providing more than \$16 billion worldwide since 1972.⁸ USAID’s Housing Guarantee (HG) loan program, the major bilateral program in the sector, provided \$2.7 billion in loan guarantees in 44 countries from the mid-1970s through the mid-1990s before being phased out in the late 1990s. While donor programs and “pilot projects” introduced many innovative ideas, such as sites and services, “evolutionary” housing (housing built over time as financial circumstances permit), and slum upgrading, they were unsuccessful in creating sustainable systems for the production of housing at the scale needed to meet the burgeoning demand in the urban areas. UN-HABITAT notes that donor assistance (in Africa and Asia) “does not seem to have had any major impact on the incidence of slums.”⁹

⁶ Effective demand is the demand for housing by people who can afford to purchase or rent housing, with or without subsidy.

⁷ Republic of Kenya, Ministry of Roads, Public Works and Housing, *National Housing Development Programme, 2003-2007*, p.1.

⁸ Robert Buckley and Jerry Kalarickal, *Thirty Years of World Bank Shelter Lending*, The World Bank, 2006.

⁹ United Nations Human Settlements Programme, *Financing Urban Shelter, Global Report on Human Settlements*, 2005, p. 7.

The Amount of Housing Needed Is Daunting

UN-HABITAT estimates that worldwide close to three billion people will need access to housing and basic infrastructure services over the next 25 years. This will require 35.1 million housing units per year or 96,150 per day or **4,000 per hour** in order to meet demand for housing and basic infrastructure over the next 25 years. Since Africa's urbanization rate is higher than that of any other region a reasonable estimate is that at least **7,000 units per day or 290 units per hour** will be required given current growth projections. A tiny fraction of this amount is currently being produced.

In sum, in Africa, housing production by both the public and the private sectors, supplemented by donor programs, is still woefully inadequate to meet the growing demands for decent shelter, especially for low and moderate income families. Unless new ways are found to “go to scale” in the production of new housing and the upgrading of existing housing, Africa's cities will continue to witness the inexorable expansion of slums.

Yet with fairly robust economic growth rates during the past several years in many

African countries, with greater macroeconomic stability, and with governments finally beginning to acknowledge the key role of housing in economic growth and social development, the underlying conditions for a significant increase in privately financed housing are better now than they have been in at least a decade. Donor technical assistance and financial support for housing would therefore have high payoffs at this time.

Why Well-Functioning Urban Areas Matter

Well-functioning urban areas are critical to Africa's economic growth. Most African countries, like the rest of the world, show a positive correlation between levels of urbanization and economic growth. Urbanization is, in and of itself, a wealth creating process. Economic growth in Africa during the past 15 years has been driven overwhelmingly by the industrial and service sectors, which are mainly urban based. These urban based activities accounted for at least 60%, and averaged almost 80%, of GDP growth in the region during this period.¹⁰ If estimates of informal activity are added, the urban share of the economy is even greater. It is clearly in African urban areas where most economic growth is taking place and it is these areas that can, in the future, stimulate the growth necessary to reduce poverty. Productive activities located mainly and most efficiently in urban areas should therefore be the primary focus of national growth strategies in Africa. Other regions of the world have balanced rural growth strategies with greater recognition of the need to promote urban-based economic growth, while in Africa there has been a much greater focus on rural growth. However, evidence would indicate that pinning hopes for sustained poverty reduction in Africa on increased agricultural production is misplaced. Unfortunately, African leaders, abetted by international donors, have not understood this fundamental lesson.

What distinguishes urban growth in Africa is the fact that urbanization rates have outstripped the creation of sufficient higher-value urban employment opportunities needed to lift the majority of urban residents out of poverty. The World Bank has noted that the factor “productivity” of African cities lags significantly behind that of Asian cities, hampering “export competitiveness.” High transport costs, outdated labor laws, low urban population densities and poor physical distribution and living conditions of the urban population, climatic conditions, and the scourge of HIV/AIDS all contribute to lowering the competitiveness of African cities vis-à-vis cities in other regions.¹¹

¹⁰ Kessides, *op.cit.*, p. xv

¹¹ *Ibid.*, p. 15

Poor living conditions directly affect the productivity of the labor force and the efficiency and competitiveness of Africa's cities and act as a serious drag on economic growth. With the vast majority of urban residents living in slums and informal settlements, often located far from formal sector employment opportunities, and lacking adequate shelter, decent and affordable infrastructure, social services and health care, it is not surprising that labor productivity in Africa is comparatively lower than it is in other parts of the world. Therefore, improving urban shelter and infrastructure must be a critical component of African countries' national development strategies.

What are the consequences if nothing is done to manage urban growth and improve shelter conditions in Africa?

Unless concerted actions are taken to better manage the inevitable urban growth and to increase the relative "productivity" of its cities, Africa risks becoming even more marginalized in the global economy. African leaders, supported by the international community, must recognize the key role of urban areas in the national economy and take measures to address the conditions that impede the growth of the urban private sector. The need for affordable well-located housing and essential urban services must be urgently addressed. Housing has been a driver of economic growth throughout the world and there is no reason why it cannot do the same in Africa. Failure to initiate a quantum leap in the production of affordable housing and improved urban service delivery will not only result in the continued growth of slums and a deteriorating standard of living for the majority of Africa's urban dwellers, it will also hinder the region's efforts to create the broad-based economic growth required to reduce poverty.

Even if the public and private sectors do succeed in ramping up their production of housing in Africa, it is unrealistic to assume that they will be able to meet fully meet the demand for new and improved shelter for many years to come, especially for low and moderate income families. Slum upgrading programs therefore offer a viable cost-effective solution in the short to medium term. The majority of the urban poor will nonetheless still continue to resort to incremental upgrading of informally built housing to meet their needs.

Continued growth of slums also threatens social stability and internal order. Unemployed urban youth living in slums are understandably more prone to violence and crime. Efforts to dismantle slums instead of dealing with the underlying problems have only escalated the desperation of their residents. Urban gangs have also become a regrettable feature of many large African cities. Furthermore, disenchanting and alienated urban youth are more susceptible to recruitment by those promoting extremist ideologies. Deteriorating security situations can also spill over national borders and become regional and international concerns. The World Bank has characterized urban poverty as the "most significant and politically explosive problem in the 21st century."¹²

Africa's poorly funded and overburdened public health systems are unprepared to deal with continued deterioration of the already deplorable health conditions in slums and informal

¹²International Bank for Reconstruction and Development, "Urban Policy and Economic Development; An Agenda for the 1990s," p. 4.

settlements caused by overcrowding and poor water and sanitation. HIV/AIDS rates in Africa's urban slums are higher than in rural areas and other "environmental" sicknesses, such as diarrhea, respiratory problems, tuberculosis, cholera and hepatitis are more common in slums.¹³

In Kampala, slum runoff contaminates Lake Victoria. In Monrovia, with a population swollen to more than 1.3 million due to the war but with an infrastructure designed for less than a quarter million people, untreated "excrement fouls the entire landscape, beaches, streets, yards and streams."¹⁴ Sickness and disease are also among the major determinants of labor productivity. Finally, in an urbanizing and globalizing world, diseases are crossing international borders more easily than ever before.

What Living Conditions Are Like in the Kibera Slum in Nairobi, Kenya

Mberita Katela is a vegetable hawker in Kibera, one of Nairobi's largest slums. "Every morning she walks a quarter of a mile to buy water. She uses a commercial pit latrine just outside her door. It is shared with 100 of her neighbors and her house reeks of the sewage overflow. She constantly frets about the contamination of her cooking or washing water. Kibera has been devastated in recent years by cholera and other excrement-associated diseases."

Quoted in *Planet of Slums* by Mike Davis. Excerpted from "Nairobi's Slums, Where Life for Women is Nasty, Brutish and Short," by Rasna Warah, UN-HABITAT debate, 2002.

The financial consequences of coping with urban health issues if the growth of slums continues unabated are simply astronomical and could completely overwhelm national healthcare systems.

If not upgraded, the growth of slum areas and informal settlements will also have serious deleterious effects on the environment. Pollution of urban water supplies from untreated sewerage and waste pose serious health risks not only for the communities themselves but also for peri-urban and even semi-rural agricultural areas downstream.

In very large cities, such as Nairobi, Addis Ababa, Lagos and Kinshasa, high concentrations of CO₂, caused by ever-increasing numbers of vehicles on inadequate road networks and by poor public urban transportation systems contribute to increased greenhouse gas levels. Pollution from cooking fires in dense slums of many large African cities also affects air quality throughout the entire urban area.

However, this depressing scenario does not have to unfold if urgent concerted and multi-pronged action is taken by African city and national governments, together with their international partners, to better manage and guide urban growth and provide land for expansion. Improved housing is a key component of more rational urban growth. There is no inherent reason why cities in Africa cannot contribute as much to the economy as do cities in other regions and

¹³ The World Bank notes: "Gastroenteritis and respiratory diseases are exacerbated by substandard housing and services. Indoor air pollution from cooking in poorly ventilated homes is taking a toll on women and children and children from households without piped water are 3 to 5 times more likely to die of diarrhea than those of households with piped water supply." UNICEF estimates that up to 80% of deaths (apart from AIDS) in cities like Maputo, Antananarivo and Lusaka arise from poor sanitation. The diarrhea associated with AIDS is a grim addition to the problem." In Cape Town, tuberculosis is 50 times more common among poor blacks (most of whom continue to live in slums and informal settlements) than among affluent whites. World Bank information from "Housing: Enabling Markets to Work," World Bank Policy Paper, quoted in "Housing for All: Essential to Economic, Social and Civic Development." PADCO publication for the World Urban Forum III. UNICEF statistics quoted in Davis, *op.cit.*, p. 143.

¹⁴ *Ibid.*, p. 137.

begin to meet the challenges posed by the inevitable surge in population. To do so, however, requires a major shift in the thinking of national policy makers and of international donors to implement critical policy reforms and to reallocate investment resources to urban areas where the returns can be expected to be higher and where prospects for real growth are more favorable than they are in the rural areas.¹⁵ There are some encouraging signs, however, that a number of African countries are beginning to recognize the importance of an effective urban policy in stimulating economic growth and social development.

As expensive as it may be to begin to provide the resources necessary to improve living and working conditions for Africa's urban masses, it is much cheaper than dealing with the increased poverty, decreased productivity and competitiveness, deteriorating health, rising social tensions and other threats to political stability and an increasingly degraded environment that will result if the current neglect of Africa's cities is allowed to continue. In short, a dollar spent now will save exponentially more later.

II. The Potential Contribution of Housing to Africa's Economic, Social, and Democratic Development

Why Focus on Housing and Related Urban Infrastructure?

The construction of decent housing can be a key component of economic and social development and a stimulus to the deepening of democratic institutions and ideals. As noted by PADCO in its paper "Housing for All: Essential to Economic, Social and Civic Development," housing is a driver of economic growth in developed economies and can be a significant component of developing countries' economies.¹⁶ A World Bank study has shown that investment in housing in developing countries represented between 15 and 30% of fixed capital formation.¹⁷ As economies develop, investment in housing becomes an even greater component of GDP.

Housing construction is a major source of employment worldwide. It can be a particularly effective creator of jobs in Africa, where building technology is still extremely labor-intensive and most housing is produced with domestically produced materials. Low-cost housing construction in developing countries utilizes mainly unskilled labor and it can therefore provide large numbers of decent paying jobs for the poor who have limited education and employment opportunities. In addition, housing construction generates jobs in many other locally-based ancillary industries such as furniture, equipment and supplies. It is estimated that in developing

¹⁵ Christine Kessides of the World Bank notes: "Clearly much greater benefits could be mobilized for the country and for the urban inhabitants by providing complimentary local public goods in a safe and secure environment for the urban economy. This implies focusing on basic investment and efficient functioning of the essential core of land and housing, environmental services public transport and local public finance -- typically the missing ingredients and weak links of the urban economies in Africa." In Kessides, *op.cit.*, p. 40.

¹⁶ PADCO, "Housing for All: Essential to Economic, Social and Civic Development," paper prepared for the World Urban Forum III in collaboration with the International Housing Coalition, 2006, p.5.

¹⁷ R. Buckley and S. Mayo, "Housing Policy in Developing Countries; Evaluating the Macroeconomic Impacts," IBRD, 1988, as quoted in PADCO, "Housing for All: Essential to Economic, Social and Civic Development," prepared for the World Urban Forum III, 2006.

countries the “multiplier generated by housing construction is 1.0, meaning that for every dollar spent on housing, another dollar is spent in other sectors.”¹⁸ Studies have also shown that improved shelter can provide increased opportunities for home-based income earning activities.

In industrialized countries, mortgage financing is a major driver of the deepening of the capital markets which can serve as sources of longer term financing for the development of more new housing and essential urban infrastructure. As financial markets become more stable in developing economies, the role of mortgage finance in their capital markets becomes increasingly important. Microfinance for housing and mortgage lending also creates more robust real estate markets, which frees up additional capital for development.

Housing construction is not only a driver of economic growth, but also improved housing and urban infrastructure can have major impacts on health conditions in urban areas. As mentioned above, people living in sub-standard housing in slum areas and informal settlements are subject to much higher incidences of infectious and environmental diseases, such as respiratory disorders, diarrhea and other gastrointestinal sicknesses.¹⁹ Decent housing in an environmentally safe neighborhood also improves the chances for success in prevention programs against AIDS, tuberculosis and malaria. Curative strategies have proven more effective where victims have access to safe drinking water supplies and warm, clean housing.²⁰

Improved housing can play a constructive role in the strengthening and spread of community, civic and democratic values which in turn enhance social stability and personal security. Michael Cohen, in “Preparing for the Urban Future: Global Pressures and Local Forces,” cites an “interdependent relationship between decent housing, the social fabric and public participation in governance.” Community mobilization around improved housing and related infrastructure can strengthen civil society and local democratic structures and help to defuse the frustrations of slum dwellers that can lead to instability and violence.²¹ Housing construction and improvement plays a positive role in empowering women, who, as the keepers of the hearth, have the most vested in improved shelter conditions.

Finally, once a housing market becomes more formalized and subject to real estate taxes and utility charges, such as in parts of southern Africa, housing can serve as an important source of revenue for financially strapped local governments. For example, in South Africa, more than 95% of local government revenue is derived from local sources including real estate taxes and surcharges on water and power. Thus, the formalization of housing and the provision of urban services can assist in creating more financially viable local governments. In many African cities, most plots are not surveyed or recorded, houses are often not numbered, and streets are not named, which makes real property tax collection possible on just a very small percentage of

¹⁸ A. Tipple, “A Matter of Interface.: The need for a Shift in Targeting Housing Interventions,” *Habitat International*, 18(4) 1994, as quoted in PADCO, *op.cit.* p.8.

¹⁹ An Emory University study revealed that children under five living in houses built by Habitat for Humanity International in Malawi showed a 44% reduction in malaria and gastrointestinal diseases compared to children living in traditional houses and concluded that the effect of improved housing on the health of young children was as high as that of water and sanitation programs.

²⁰ Ron Spreekmeester, “The Habitat Dilemma,” (UN-HABITAT Debate), June, 2004, in PADCO, *op.cit.* p. 15.

²¹ Michael Cohen, “Preparing for the Urban Future: Global Pressures and Local Forces,” in PADCO, *op. cit.* p. 17.

dwellings. However, there are examples of low cost ways to regularize housing short of expensive cadastral systems. Numerous studies have also indicated that even the poor will pay for improved water and sanitation since it is often cheaper than what they are paying to local vendors.

Unfortunately, the seminal role of housing in promoting economic and social development, improving health and strengthening of democratic institutions and values, while recognized by development experts, is not widely understood by decision makers and the political leadership in most developing countries in Africa nor by the policy makers in the international donor community.

III. Major Constraints to Providing Housing and Related Infrastructure “at Scale” in Africa

1. Policy and Institutional Constraints

Lack of Priority for Housing One of the most serious policy constraints to scaling up investments in housing and urban infrastructure in Africa is that in most countries in the region the sector is not accorded the priority it should command in national planning strategies and therefore receives short shrift in attracting budgetary resources. Nor do national governments take a comprehensive approach dealing with access to land, infrastructure, finance, legal systems, etc. This reduces their ability to attract resources from the international donor community. The World Bank has observed: “While the dire shortage of affordable housing has been recognized internationally as a deep and pervasive problem, strategies to address this have not been thoroughly addressed in existing mechanisms, such as poverty reduction strategy papers (PRSPs). Out of the 54 countries with PRSPs or interim PRSPs [the majority of them in Africa] many of them address housing but with varying degrees of commitment or specificity with regard to resource requirements. Some countries propose building a few hundred or a few thousand units, while others propose public–private partnerships and land reform measures. However, it is disappointing that many do not include clear measurable goals or budget information.”²²

Role of the Public Sector Recognizing the limitations of the public sector, a number of African countries during the past several years have begun to significantly revamp their housing policies to support a much greater role for the private sector in housing construction. This development is very encouraging. However, the private sector cannot on its own meet the needs of housing the burgeoning urban population. The public sector must continue to play a seminal role in creating a favorable policy environment and in making critical infrastructure investments necessary to allow the private sector to increase its investment in housing. If the government can assure macroeconomic stability and lower inflation, rationally plan for future urban expansion (e.g. through serviced sites), provide necessary infrastructure, ease access to urban

²² www.poverty.worldbank.org as quoted in *Financing Urban Shelter*, UN-HABITAT , 2005, p. 13.

land and adopt realistic building standards for low cost housing, the private sector has the capacity to raise financing and construct housing at affordable prices. To make this happen, housing and urban development ministries, with help from the international community, must increase the priority of shelter in national planning strategies and in national budgeting exercises. These “technical” ministries must more aggressively roll up their agendas to higher levels of decision making, such as the planning and finance ministries, to assure that shelter policy and investments become more integral to national planning strategies and that commensurate resources are made available to the sector.

Lack of Human and Institutional Capacity Most African countries face serious human and institutional capacity shortages in dealing with the rapid pace of urbanization and the growth of slums and informal settlements. Capacity issues affect both the public and the private sectors. Enhancing this capacity will take resources and serious commitment. While limited progress has been made to augment public sector capacity at the national level in some countries, at the regional and local levels of government, lack of capacity continues to be a major constraint to addressing the challenges of increased urbanization and the provision of adequate housing at required levels. The public sector in most African countries also lacks the capacity to generate data required to track key indicators of urban performance over time, data needed to support sound policy decisions. UN-HABITAT has noted: “Most cities in the developing world [but particularly in Africa] are suffering from an information crisis, which is seriously undermining their capacity to develop and analyze effective urban policy.”²³

Capacity is not only an issue for the public sector. Africa lacks the kind of larger scale well-financed private housing developers typical of more developed economies. Most housing construction is done by small to medium-sized builders with limited access to construction financing. Consequently they are unable to achieve significant economies of scale. Housing quality may also be compromised. In order to address the huge need for low and moderate income housing, the private sector must develop its capacity to adapt to new technologies and more flexible procedures that can decrease costs.

Legal and Regulatory Framework The legal and regulatory environments in many African countries remain ill-suited to address the new urban realities and to unleash the private sector’s capacity to finance and build shelter at scale. Encouragingly, increasing numbers of African countries are now beginning to recognize the need to change their legal and regulatory environments in such areas as land ownership, land registration, land use requirements, titling, transfer and ownership rights, foreclosure laws, environmental requirements, financial requirements for lending institutions, etc. While some of them are taking steps to address these issues, progress can be slow as entrenched interests can present obstacles. Corruption can also be a factor as countries make efforts to improve the legal and regulatory environment. Fortunately, many African countries now seem to be taking the corruption issue much more seriously than in the past.

Subsidy Policies One of the major policy constraints to African countries meeting the housing needs of lower income families is the nature of their subsidy programs. Housing subsi-

²³ UN-HABITAT, “Slums of the World: The Face of Urban Poverty in the New Millennium,” 2003 as quoted in “Global Urban Poverty Research Agenda, the African Case,” by A.K. Mabogunje in *Urban Update*, No. 10, January 2007, The Woodrow Wilson International Center for Scholars.

dies, if properly targeted, are not necessarily a bad thing. However, subsidies in many African countries do not favor the most deserving. Robert Buckley and Jerry Kalarickal of the World Bank have pointed out that while housing subsidies are in many countries important components of public expenditure, their extent and incidence is generally not well known by governments, “notably due to the natural fragmentation of housing subsidies between different levels of government and the use of different types of subsidy mechanisms.”²⁴ This has resulted in subsidies not proportionately and efficiently being directed to the neediest families. Improving subsidy systems would allow government systems to be more equitable in serving more households with affordable shelter.

Need for Effective Macroeconomic Policies Above all, a sound macroeconomic environment supported by appropriate fiscal and monetary policies holds the key to unleashing private sector capital and know-how for housing and urban infrastructure. Buckley and Kalarickal emphasize, “Perhaps the clearest lesson of the past 20 years is that housing finance does not work in unstable or inflationary environments.... Nor can housing finance be expected to be productive in a highly regulated or distorted housing market.”²⁵ Fortunately, many African countries have begun to pursue much more sound macroeconomic policies during the past several years and inflation rates have begun to either level off or decline. This has led to lower levels of government borrowing and reduced interest rates, creating greater liquidity and an improved environment for the rapid expansion of private finance for housing and infrastructure.

2. Technical and Physical Constraints

Shortage of Land for Housing Almost without exception, private sector developers as well as government officials and knowledgeable experts cite the unavailability of reasonably priced and well-located serviced land as the major constraint to the rapid expansion of housing for low and moderate income families. For a variety of reasons, including large holdings of land by government, control of large tracts by special private interests (e.g. traditional chiefs and private families in Ghana), poor environmental conditions and a woeful lack of essential infrastructure such as water and sewer, private developers are forced to look at unserviced land on the outskirts of most urban areas for housing sites. The number of sites and services projects, once supported by many donors and local governments in Africa as a means to direct urban growth, has decreased substantially in recent years as donors turned increasingly to “policy-type” programs. Because local jurisdictions have been unable to provide for basic infrastructure, housing developers have had to make provision for it as part of their development plans. Yet their only means to recoup the cost is through the sale of the housing units. However, providing such necessary infrastructure can add at least 30-40% to the sales cost of a unit, in effect pricing it well beyond the affordability capacity of most of the originally targeted population. Added transportation costs from new remote housing developments to other parts of the urban area where most jobs are located also strain affordability and add commuting time.

Inability to Provide Infrastructure A second major constraint to providing decent, affordable housing, almost universally recognized by both the public and the private sectors, is a

²⁴ Robert Buckley and Jerry Kalarickal, *op.cit.*, p.58.

²⁵ *Ibid.*, p. 47.

lack of financing and an effective means to provide basic infrastructure to potentially well-located sites, to create serviced sites for housing construction and to upgrade slum areas. This includes roads, water supply, sewerage and electricity. While many African countries have taken steps to decentralize the responsibility for certain public services to local governments, human capacity at the local level remains weak. Most local governments also have been given very limited abilities to raise revenues and must depend on resource transfers from national governments. Outside of southern Africa, very few municipalities in Africa have the capacity to raise funds in the capital markets for needed infrastructure. Their local revenue base is simply insufficient to allow for borrowing on any significant scale. The private sector is also largely unable to provide for infrastructure and recover the costs, except perhaps for higher income developments. Most local governments in Africa must therefore depend on national governments to either provide infrastructure directly or on financial transfers from national governments, which cannot be counted on with certainty or regularity.

Most national governments in Africa do not make housing-related infrastructure a high enough priority in national plans nor have they dedicated anywhere near enough funding from national budgets to keep ahead of increasing demand, let alone make up for the lack of maintenance of already existing infrastructure. Most donors have also not made infrastructure a priority.²⁶ As a result, many countries in sub-Saharan Africa, suffer from a huge backlog of needed infrastructure investments. Unless concerted efforts are made by national and local governments, working together with the private sector and with urban residents themselves to address these crippling infrastructure deficits, the likelihood of Africa meeting the growing need for decent affordable shelter will be slim. The long term solution lies in increasing municipalities' access to sufficient financial resources so that they can raise infrastructure financing in the capital markets. In the interim, they will undoubtedly have to look to the national governments, which have better access to the capital markets, for significant infrastructure financing. Whether such investments are undertaken by municipalities or national governments, both the private sector and communities themselves should be involved in finding innovative and cost effective solutions to addressing the crippling urban infrastructure deficits.

High Construction Costs Both government officials and private sector housing developers frequently cite increasing construction costs as a constraint to providing affordable housing. Causes include unrealistically high national and local building standards, a reluctance to use innovative techniques, the fact that building materials are often imported (even cement), a cultural aversion to materials deemed as “cheap” and the unavailability and the high cost of construction finance. While the need for the formal private sector to significantly scale up its production of housing in Africa is unquestioned, realistically the majority of the very poor will continue to build incrementally to improve their shelter and will usually rely on the informal sector or on “micro-suppliers” as a source for building materials and financing. Because there are few options, the poor unfortunately often end up paying more by buying materials piecemeal and paying higher interest rates from informal lenders. There are some examples of innovative ways to overcome these obstacles, but they need to become much more widely replicated.

²⁶ The OECD notes that spending on infrastructure (both capital and recurrent costs) in low and middle income countries has declined from 15% of GDP in the 1970s and 1980s to about 7% in 2003. Funding from all sources has fallen dramatically; government funding (which accounts for 2/3 of spending), Official Development Assistance (with a 50% drop in multilateral and bilateral aid to infrastructure) and private funding, which dropped from \$128 million in 1997 to \$58 million in 2002.

3 Housing Finance Constraints

Formal Sector Financial Institutions and Mortgage Finance With macroeconomic stability returning to many countries in Africa, and with implemented or planned deregulation of the banking sector in several countries (e.g. Kenya, Ghana, Uganda, Nigeria, Tanzania and Zambia) the liquidity situation of many of the well-managed banking institutions in Africa has improved considerably. The availability of resources to invest in areas such as mortgage finance, therefore, does not appear to be a major constraint to increased housing production, particularly among the large regional merchant banks such as Barclay's Bank, Stanbic and Standard Charter. In a number of countries, there has also been a significant "shake out" of the banking system and increased oversight by government institutions, which has left remaining banks in a stronger financial position. The improving financial climate has led to the expansion of mortgage lending in a number of African countries. For example, the mortgage market in Uganda has grown from almost nothing at the beginning of the decade to a \$50 million industry in 2006. Nevertheless, the development of mortgage markets is still in its infancy in most African countries. For many banks, building societies, and mortgage companies, the mismatch between the short term nature of their deposits and the longer term nature of mortgage lending, in combination with the unavailability of longer term sources of finance, remain constraints. Interest rates for mortgages are therefore still at fairly high levels despite the improving macroeconomic climate. Pension funds and insurance companies represent a potentially huge source of longer term funds, but for the most part, their investment in housing finance has been very limited. Some countries, such as Nigeria, are beginning to undertake secondary mortgage market operations through institutions such as the Federal Mortgage Bank of Nigeria, but these initiatives are still in very early stages.

Nonetheless, because interest rates remain relatively high (although they have fallen in many countries over the past year) and because of increases in other cost factors, such as building materials, construction finance, the need to provide basic infrastructure and the price of suitable land, most of the mortgage financing in Africa goes to the middle and upper income classes, while low and moderate income families, that represent the bulk of the potential market, find themselves unable to qualify for conventional mortgage financing. However, there are encouraging efforts underway in several countries to find innovative ways for formal sector finance institutions to go "down market." For example, in Ghana, the HFC Bank, (the country's largest mortgage lender), which became a full service bank in only 2003, has recently expanded its mortgage products to meet the needs of lower income groups.

Micro-Finance Institutions and Micro-Finance The past decade has witnessed the rapid growth of micro-finance in Africa as in other regions of the developing world. Micro-finance is provided by both formal regulated institutions such as credit unions and savings and loans organizations as well as informal unregulated institutions such as NGOs and varieties of savings clubs and private money lenders. While short term loans from micro-credit organizations have traditionally been for business purposes, some organizations have recently begun to make housing loans and extend the terms out three to five years. Such loans are usually not large enough for the purchase of new houses but allow families to improve their existing housing incrementally as their financial circumstances permit. Formal institutions tend to focus on the upper range of lower income families while the more informal institutions have been able to

direct their loans (sometimes subsidized by government or donors) towards poorer clients. While the micro-credit institutions are an increasingly important source of housing finance for lower income groups, most are unable to access long term funds which would allow them to achieve significant scale.²⁷ An innovative program in Ghana, where a U.S. NGO, CHF International, is serving as an intermediary between the HFC Bank and a micro-credit institution to provide loans to low income families, may provide an example of a way to attract more stable sources of funds to micro-credit organizations and to allow formal institutions to go “down market.”

In sum, an increasing number of African countries are finally beginning to appreciate the role that housing can play in economic and social development and are taking a hard look at outdated policies. Some serious constraints remain, however, that hinder new housing construction and the upgrading of slum neighborhoods at anywhere near the scale necessary to meet existing and anticipated demand for decent shelter in the coming years.

IV. The International Donor Response

In a paper commissioned by the International Housing Coalition for The World Urban Forum in 2006, Daniel Coleman and Michael Shea conclude that during the past decade the international community has by and large paid scant attention to the housing sector. They observe: “Housing is one of the most neglected of all the development assistance sectors... housing assistance is a low priority for the international community. Neither the multilateral nor the bilateral institutions have recognized housing as a sector category for their activities. The housing sector is currently out of favor with the development community, both by donors and recipients [with a few exceptions, including South Africa]. Most often, housing is developed only as a part of a disaster reconstruction program.”²⁸ The only major exception is perhaps the World Bank.

Among the multilateral institutions, the World Bank is by far the largest donor in the housing sector. Although it does not have a housing policy *per se*, urban development and housing are among its 11 major development areas. According to Buckley and Kalarickal, shelter assistance is now a “mature sector” for the World Bank. Over the past 34 years, it has lent almost \$1 billion for shelter loans in Africa.²⁹ Its shelter loans have also been among its best performers with 78% of worldwide projects having had successful outcomes.³⁰ However, shelter lending in Africa, almost all of which is at highly concessional International Development Association (IDA) rates, has decreased dramatically over the years, from almost \$500 million in the 1980s (23.2% of worldwide shelter lending) to just \$81 million from 1992-2005 (1.2% of worldwide shelter lending). Recently, housing has become a growing line of business for its private sector window, the International Finance Corporation (IFC) and discussions are currently underway

²⁷ The discussion on mortgage financing and micro-credit draws heavily on Sally Merrill, *op.cit.* on the Urban Institute “Mortgage Market Development in Uganda, Zambia and Tanzania,” prepared for USAID and the US Treasury Department by Sally Merrill, 2007 and on “Understanding housing finance needs in sub-Saharan Africa,” presentation by Kecia Rust, Finmark Trust, 2006

²⁸ Daniel Coleman and Michael Shea, “Assessment of Bilateral and Multilateral Development Assistance and Housing Assistance in Latin America, Asia, Africa and the Middle East,” for the International Housing Coalition, 2006

²⁹ This includes loans for slum upgrading, sites and services, housing policy, housing finance and small amounts for disaster relief.

³⁰ Robert Buckley and Jerry Kalarickal, *op. cit.*, p. xi

with its Multilateral Investment Guarantee Agency (MIGA) for supporting shelter investments. However, Buckley and Kalarickal conclude that as it has moved away from “project-type” lending (e.g. slum upgrading and sites and services projects) to more policy-based lending over the past decade, the World Bank has also largely abandoned the poverty orientation that was its earlier focus. They recommend that World Bank support for shelter should be “reinvigorated and retargeted” to more effectively benefit the poor by re-engaging in slum upgrading and sites and services programs along with continued support for sound policies.³¹

The other major multilateral institutions active in Africa are the European Union (EU) and the African Development Bank (AfDB). The EU is the largest donor in Africa and in late 2005 adopted a new strategy for its assistance to the region. One of the key components of the strategy is a new EU-Africa *Partnership on Infrastructure* which will substantially augment EU assistance in this sector. However, the EU-Africa Partnership makes no specific mention of housing, slum upgrading or improved urban finance and management.³² For its part, the AfDB has not made housing a priority, although it does recognize an urban development sector and has made some loans through private sector intermediaries for water and sanitation.

The key United Nations actor in the shelter sector is, of course, UN-HABITAT. UN-HABITAT is active in most African countries albeit on a relatively small scale. The bulk of UN-HABITAT funding is for technical assistance, although it does provide very modest amounts for water and sanitation, infrastructure and shelter. An innovative new program of note is the Slum Upgrading Facility (SUF), created in 2004.³³ However, although they have grown since 2000, the resources available to UN-HABITAT worldwide (excluding a special Iraq program) remain very modest at less than \$100 million per year, of which about 15% is for programs in sub-Saharan Africa. While UN-HABITAT expertise contributes significantly to improved shelter and urban development policies, its limited funding can at best serve as catalyst for much greater funding from domestic and other international donor resources.

Only a few of the bilateral donors are active in the housing and urban development sector in Africa. USAID’s Development Credit Authority (DCA) supports several programs in Africa and the Overseas Private Investment Corporation (OPIC) has become a much more active player in the housing sector during the past five years. The UK’s Department for International Development (DfID) has shown some interest in the shelter sector, providing \$10 million for UN-HABITAT’s SUF pilot phase. Some bilateral donors provide limited funding for activities that can benefit the housing sector, such as micro-finance programs where housing loans are eligible, water and sanitation projects that support the improvement of housing, support for mortgage lending, and disaster-related housing construction or rehabilitation programs. However, with a few exceptions, financing for housing and related urban infrastructure is clearly not a priority for most bilateral donors.

³¹ *Ibid.*, p. xv.

³² The EU initiative will focus on badly needed transport, energy, water and ICT networks to enhance the interconnectivity of systems at a continent-wide level. Such infrastructure is of course critically needed and will eventually improve the overall environment for investment in housing. The new strategy also makes reference to supporting governmental decentralization and improving local level governance.

³³ The SUF has four primary functions: advisory services, referral functions, financial packaging and the development of financial products. The SUF is still in the pilot program phase and Ghana and Tanzania are among four pilot countries.

V. The Anemic U.S. Government Response

Overall, the response of the U.S. Government to the looming housing and urbanization crisis in Africa has been decidedly “underwhelming.” Far less attention has been paid to this crucial sector than it deserves given its critical linkages to economic growth, health, democracy and governance and the environment. In fact, of all of the Millennium Development Goals (MDGs), the U.S. has unquestionably taken Target 11 of MDG 7 among the least seriously.³⁴

The U.S. does not have a coherent policy to address the housing deficit and the rapid urbanization phenomenon in Africa. While some agencies have undertaken activities that touch on certain aspects of the problem, the overall response of the U.S. Government has been very fragmented. In 2003, the administration did propose a Presidential African Mortgage Market Initiative. However, other than a one-off housing project supported by the Overseas Private Investment Corporation (OPIC) in Zambia with some technical assistance from USAID, no additional funding was made available to implement the initiative.

From the mid-1970s through the late 1990s, the primary U.S. Government vehicle for addressing the housing sector was the Housing Guarantee (HG) loan program, administered by USAID. Technical assistance grants generally accompanied the loans. Prior to its termination in 2000, the HG program had made available \$377 million in loan guarantees to seven African countries. In Africa, the most active HG programs were in Kenya, South Africa, Botswana, Zimbabwe, and the Cote d’Ivoire. The HG programs in Africa began to decline in the early-mid 1990s when the sovereign credit ratings of many African countries (excluding South Africa) began to suffer.

In 1999, USAID launched the Development Credit Authority (DCA), which provides a partial (up to 50%) risk guarantee for eligible loans made by financial institutions in developing countries. Housing loans are eligible activities and during the first few years of the program guarantees for housing loans made up a significant proportion of the DCA portfolio. This proportion has, however, declined significantly in recent years.³⁵

USAID also created a technical unit within its Economic Growth Bureau to provide leadership to housing and urban issues. This unit is, nonetheless, considerably smaller and less well funded than was USAID’s Office of Housing and Urban Programs of the 1980s and 1990s.

USAID funding for technical assistance in housing and urban development has also declined significantly from an average of \$2.3 million from 2003-2005 to under \$1 million in 2006. The FY 07 budget proposes just over \$900,000 for technical assistance activities in housing and urban development. This compares with approximately \$8-10 million per year in tech-

³⁴ MDG 7, Target 11 is to make significant improvement in the lives of at least 100 million slum dwellers by 2020.

³⁵ Several countries in Africa, most notably South Africa and Zambia, have used the DCA to enhance innovative lending programs for housing and related infrastructure. However, Given competing demands and the very modest amounts of funding made available to support this popular program (\$8-10 million annually in “subsidies” for the past several years which has leveraged between \$160 and \$240 million in investment) the proportion of DCA financing for housing has steadily declined as a proportion of total DCA guarantees, from about 40% in the early years of the decade to about 8% currently.

nical assistance funds for the housing sector in the years when the HG loan program was active — about a 90% decline in technical assistance from the levels in the 1980s and 1990s. In addition, USAID technical staff in housing and urban development has withered to less than 20% of what it was 15 years ago. As a consequence, the U.S. has almost completely forfeited its international leadership of the housing and urban development agenda.

Despite overall reductions in funding for economic growth in Africa (excluding the Millennium Challenge Account [MCA]), encouragingly, the administration's FY 08 budget request proposes the establishment of an African Housing and Infrastructure Facility (AIHF), which, if implemented, would for the first time provide dedicated subsidy funds for housing and urban infrastructure to be made available through the DCA mechanism. The \$5 million in DCA subsidy proposed for the AIHF would support approximately \$100 million investments in housing and infrastructure.

USAID has also provided modest support for clean water programs in Africa. At the 2002 World Summit on Sustainable Development, USAID and Japan formally announced the *Water for the Poor Initiative*, but the U.S. never funded it and Africa was never the focus of this initiative. USAID supported a DCA effort to improve water supply and sanitation in Johannesburg in the late 1990s. In 2002, USAID committed \$4.4 million over seven years to a \$45 million Global Development Alliance (GDA) for a *West African Water Initiative*, which focuses on water supply in rural and peri-urban areas. USAID has recently supported several other GDAs, including \$10 million over five years from PEPFAR³⁶ funding, for improved water supply in Africa. However, USAID support for water and sanitation in Africa pales in relation to the scale of the problem.

OPIC provides a guarantee facility for U.S. entrepreneurs investing overseas and provides political risk insurance for U.S. companies as an incentive for investment. Since 2002, OPIC has become increasingly involved in housing finance in developing countries, including in Africa. OPIC has provided more than \$360 million in financing and loan guarantees since 2003 for housing programs in South Africa, Nigeria, Ghana and Zambia. OPIC programs have focused on middle and upper middle income housing. The impact of OPIC's programs is of course limited by the fact that only U.S. investors are eligible while most housing in Africa is built by local developers. OPIC is however, initiating efforts to increase local participation in its housing programs in Africa. In addition, since OPIC provides 100% guarantees, it does not create incentives for African financial institutions to invest their own funds in housing. Yet the OPIC programs have had the positive effect of encouraging African housing finance institutions to look at innovative ways to go "down market."

The Millennium Challenge Account (MCA), administered by the Millennium Challenge Corporation (MCC) has, since its creation in 2003, become the U.S. Government's principal vehicle for supporting developing countries that qualify for assistance by meeting eligibility criteria in three categories: (1) political and economic freedom, (2) investing in people and (3) governance (including control of corruption and respect for civil liberties and the rule of law). To date, the MCC has approved "compacts" with seven countries in Africa, has compacts pend-

³⁶ The President's Emergency Program for AIDS Relief (PEPFAR).

ing with three others and has executed “threshold agreements” with six African countries.³⁷ The African compacts range from \$110 million to more than \$550 million over a four to five year period. Eligible countries initiate investment proposals for MCC funding. Although several of the African compacts include infrastructure components, land titling and micro-finance, the emphasis is on investments in the rural areas and financing for any urban infrastructure and housing will probably be minor. Rural land titling efforts may, nonetheless, have positive impacts on land ownership on urban areas.

The U.S. Department of Housing and Urban Development (HUD) has a small International Affairs Office which manages information exchange programs with the international community, sponsors some research and participates in international fora on housing finance, building technologies, urban reinvestment and community development. However, because HUD has no authority to provide technical assistance abroad, its international activities remain limited. Funding for its international affairs programs has also been decreasing over the past several years.

In 2006, the U.S. Government introduced a fundamental change in the way in which foreign assistance is planned, programmed and implemented by creating a new Office of Foreign Assistance (“F” Bureau) in the Department of State, whose Director is also the Administrator of USAID. The change was designed to provide greater coherence among the agencies providing foreign assistance. The new Office has recently completed a new *Foreign Assistance Framework* designed to better rationalize foreign aid and to provide greater transparency to the policy formulation, planning and budgeting processes. The new framework identifies program areas to support five major objectives for foreign aid: peace and security, governing justly and democratically, investing in people, economic growth and humanitarian assistance.

The new *Foreign Assistance Framework* does not mention housing, urban or slum upgrading, or urban management as specific program areas. Housing and urban development are also almost completely missing from the list of indicators for measuring program performance. The failure of the framework, as well as other “strategic” guidance and sector strategies, to make the linkage between investment in housing, urban infrastructure and urban management and the broader objectives of alleviating poverty, stimulating economic growth, improving health, strengthening governance and enhancing security is a major shortcoming. Unless the framework specifically mentions housing and urban investment as eligible activities and underscores their critical role in meeting development targets across many sectors, it discourages implementing agencies (USAID, MCC, the State Department) from considering housing and urban infrastructure investment as they develop their strategic and operational plans.

In conclusion, in contrast to the 1980s and 1990s, housing is currently seen by U.S. policy makers as outside mainstream development priorities. The overall U.S. response to the housing and urbanization challenges in areas like Africa over the past decade has been truly anemic compared to the scale of the issue.

³⁷ Benin, Cape Verde, Ghana, Mali, Madagascar and Mozambique have compacts “in force.” A compact has just been approved for Lesotho and compacts are pending in Namibia, Senegal and Tanzania and threshold agreements have been executed with Burkina Faso, Kenya, Malawi, Tanzania, Uganda and Zambia. Niger, Rwanda and Sao Tome and Principe are “threshold eligible” countries.

VI. The U.S. NGO Response

Few US-based NGOs have a specific interest in international housing and urban development. Many are implementers of USAID programs, such as the Urban Institute, CHF International, the International City Management Association (ICMA), the International Real Property Foundation, the Cooperative League of the United States of America (CLUSA) and the World Council of Credit Unions (WOCCU). These organizations have developed world-class expertise in many areas of shelter finance and urban improvement. However, their ability to provide technical assistance is largely dependent on U.S. Government funding. Sister Cities International and Habitat for Humanity International also have very active international programs. While Habitat for Humanity International has maintained its focus on the construction of low cost housing, the organization is currently exploring a broadening of its focus to look at supporting more systemic changes to housing policies and housing construction in developing countries, including Africa.

VII. Potential Priority Areas for Support from the U.S.

Affordable Serviced Land for Housing

As noted above, government housing officials, housing developers, housing finance institutions and independent experts in Africa all cite the unavailability of well-located serviced land at reasonable prices as perhaps *the* major constraint to “going to scale” in the production of affordable shelter. Yet, as Robert Buckley points out, African governments themselves are partly responsible for creating this situation because public sector ownership of significant amounts of accessible, serviced urban land limits the availability of sites for new housing and drives up prices. Many governments also apply numerous regulatory controls on land use and housing which inhibit the development of land markets. A further complication in some African countries continues to be customary forms of ownership (e.g. by families or tribal chiefs). Most of the land in Accra, for example, is controlled by just a few influential families. This scarcity of reasonably well-located, serviced urban land for housing actually forces lower income residents to occupy urban land illegally and fosters the development of squatter settlements. It also means that formal sector housing developers must seek out cheaper land on the urban periphery. Yet the need to provide infrastructure and services often raises costs to the point where developer-financed housing becomes unaffordable to lower and even middle income families.

The United States has technical expertise in many aspects of land market development and land use issues in developing countries. This expertise encompasses land planning, tenure and property rights, land titling and property registration systems, real estate development, land administration, simplified as well as sophisticated cadastral systems, and integrated institutional approaches to urban land issues. Increased U.S. technical and financial support for efforts to increase the supply of suitable urban land for housing and to create land markets in Africa would therefore pay high dividends.

Housing Finance

As noted above, a residential mortgage industry now exists in many countries in Africa, although market penetration remains very thin in almost all cases. Most of Africa is still highly “under-banked.” With improved macroeconomic conditions, a downward trend in interest rates across much of the continent, and the withdrawal of the public sector from housing finance in many countries, commercial banks, more specialized finance companies, regionally-based merchant banks and private and state owned building societies are now looking for ways to expand their product lines, including mortgage finance. However, the lack of long term sources of deposits and a mindset of charging large spreads to cover perceived risks mean that interest rates remain relatively high and, when combined with the desire of most of these financial institutions to work in more financially “safe” markets, most of the formal sector institutions still cater primarily to the higher income segment of the market. Nonetheless, a growing number of financial institutions in Africa are realizing that the bulk of demand for housing finance is in the lower and lower middle income market and they are increasingly willing to explore new ways to go “down market.”

In many African countries, sources of longer term capital exist that could be channeled to housing finance. Sally Merrill suggests that the creation of a longer term government bond market for housing and urban infrastructure, and more targeted interventions aimed at mobilizing longer term capital from insurance companies and pension funds that currently have excess liquidity could provide the stability needed for a quantum expansion of mortgage finance.³⁸ Some countries, such as Nigeria, Ghana and Uganda, are also taking the first steps toward the development of a secondary mortgage market. The U.S. has considerable expertise in the development of mortgage markets in both developed and developing countries and support for the expansion of mortgage finance is a potentially very fruitful area for increased U.S. assistance to Africa.

A related area where U.S. expertise could be particularly helpful is that of micro-finance for housing. Since formal mortgage finance will remain “out of reach” to many Africans, micro-finance for the construction or improvement of housing over time as family resources permit offers the greatest potential for reducing housing deficits for the poor. New and highly innovative housing micro-finance models are emerging in many countries. However, one of the major challenges to the sustainability of housing micro-finance institutions is the access to longer term funds. Ways to partner formal finance institutions with micro-finance institutions, such as that being initiated in Ghana with CHF International, therefore offer particular promise.

Slum Upgrading

With such large percentages of urban residents of many African cities living in slums and informal settlements due to the lack of affordable housing, bulldozing or forced relocation is simply not a viable option. Much as they might like to see the slums disappear, municipal authorities should have learned by now that, given the lack of alternatives, slum dwellers simply relocate nearby if their houses are destroyed. In a paper prepared for the World Urban Forum in 2006, David Painter commented: “Not only is the destruction of slums fundamentally poor

³⁸ Sally Merrill, “Mortgage Market Development in Uganda, Zambia and Tanzania,” 2007, study prepared for USAID and the U.S. Department of the Treasury, The Urban Institute, p. 7.

housing policy, it is poor economic policy as well. However appalling a slum may appear, a substantial amount of capital has been invested in its construction. Destroying capital investment ... cuts off the flow of economic benefits that would have otherwise continued to contribute to economic growth.”³⁹ Experts agree that providing security of occupation is usually key to residents’ willingness to invest in upgrading their housing. This does not imply that formal and expensive land titling systems must be implemented – but it does mean that governments should seek out more flexible ways of assuring slum dwellers that they are not at risk of losing their shelter. Even such “low tech” solutions such as numbering houses enable residents to feel a sense of permanency and also allows for municipalities to better recoup the costs through user charges for upgraded infrastructure. Painter has also observed that besides security of tenure, participatory planning is a key element in successful slum upgrading efforts.⁴⁰ Unfortunately, too many African municipalities still continue futile efforts to “rid themselves” of unsightly slums through demolition.

UN-HABITAT has estimated that the cost of slum upgrading in Africa at less than \$550 per person.⁴¹ Given the cost of construction and the constraints to making suitable urban land available for new housing, slum upgrading is an infinitely cheaper solution to the problem of providing decent shelter for the urban poor. Yet U.S. support for slum upgrading in Africa over the past ten years has been virtually non-existent. Slum upgrading clearly represents the most cost effective means of improving the shelter conditions of the poor in Africa. U.S. assistance programs should therefore refocus to provide a much higher priority to slum upgrading.

Urban Infrastructure Finance

A final area where increased support from the U.S. could be particularly helpful in the African context is that of infrastructure finance. As mentioned throughout this paper, the lack of adequately serviced land for housing is a major constraint to the rapid expansion of affordable housing by the private sector. Yet African governments have generally not made urban infrastructure a priority for investment (and even maintenance) in order to guide future urban growth and provide for new housing. Donor efforts to incentivize the private sector to provide infrastructure have also not yielded anticipated results. However, investments in urban infrastructure can have high rates of return. As Kessides points out: “the per capita costs of many forms of infrastructure and social service are generally lower, and many more people can be reached in urban areas even if the technical level of services must be higher than in rural areas.”⁴² The U.S. has considerable expertise in other developing parts of the world in infrastructure finance which could be applied to Africa. This is an area where increased technical assistance from the U.S. could be of real value.

These four priorities: *affordable land for housing, housing finance, slum upgrading and urban infrastructure*, therefore represent both critical needs of African cities to deal effectively with the urban explosion as well as areas where the U.S. is technically well-equipped to offer technical and financial assistance. It is suggested therefore, that they become the priority focus for increased U.S. support to Africa in the housing and urban sector.

³⁹ David Painter, “Scaling Up Slum Improvement: Engaging Slum Dwellers and the Private Sector to Finance a Better Future,” TCG International LLC, 2006, p. 5.

⁴⁰ *Ibid.*, p. 7.

⁴¹ UN-HABITAT, *Facts and Figures about Financing Urban Shelter*, 2005, as quoted in Painter, *op.cit.*, p. 10.

⁴² Kessides, *op.cit.*, p. 30.

Other potential areas of U.S. support are:

- technical assistance for the strengthening of housing and urbanization policies of African governments (including better integration of housing and urban development into national development strategies)
- assistance to strengthen the capacity of key institutions
- assistance to countries to rationalize their housing subsidy programs by redirecting resources to the neediest families
- further support for research into African housing and urban development issues and into the linkages of housing to economic growth, health, governance, security and environmental issues
- support for the gathering of better urban data than is currently available to African urban housing officials and urban planners.

VIII. A Short Term Action Agenda to Ramp Up the U.S. Response to Housing and Urban Development Issues in Africa

The following list of options reflects different ideas proposed by housing advocates and experts. They are presented for discussion purposes and are not necessarily recommendations of the International Housing Coalition. The costs of implementing the options have not been estimated.

1

Congress should make it clear that improved housing and urban development are high-priority, U.S. foreign policy objectives for Africa. Following from this, the importance and visibility of housing and urbanization issues among foreign assistance agencies must be raised and the sector must be made an integral part of the U.S. *Foreign Assistance Framework*.

U.S. foreign policy makers in both the executive and the legislative branches have largely overlooked the critical role that housing investment can play in reducing poverty and in contributing to economic growth. This is particularly true in Africa. The omission of housing and urbanization from the new U.S. Government *Foreign Assistance Framework* sends a signal to implementing agencies such as USAID, the MCC and OPIC that investments in this critical sector are not a priority. Although operational staff implementing assistance programs in Africa may understand the dire need for increased investments in urban housing and infrastructure and the relationship of such investments to goals and objectives in other priority sectors, because Washington senior policy makers have largely ignored the sector, agency professionals are reluctant to program scarce resources to address the pressing problems facing African cities. What is clearly needed is a wholesale change in the way the U.S. Government views housing investment in Africa, a much deeper appreciation of the catalytic role it can play in economic and social development and an understanding of the supportive role it can play in the achievement of goals in other sectors such as health, good governance, security and the environment.

To promote this change, first and foremost, Congress should make it abundantly clear that improved housing and urban development are high priority foreign policy objectives in Africa. A first concrete step would be for Congress, in conjunction with international housing advocates and experts, to review and perhaps modify existing foreign assistance legislation with a view towards increased recognition of the role housing and urban development assistance can play in poverty reduction and social and economic development. Following this statement of Congressional intent, advocates for international housing and urban issues must work with Congress, the NGO community, think tanks and universities, as well as with the administration, to increase the visibility and importance of the housing and urban development sector in the hierarchy of development activities in Africa. Efforts should also be made to improve delivery systems for foreign assistance in housing as existing programs are complicated and have high transactions costs.

An important second step would be to persuade the State Department and USAID's Africa Bureau to develop a strong, clear policy statement by their senior leadership on the role that investments in housing and urban infrastructure can play in Africa's economic, social and democratic development. State Department and USAID policy makers must then be persuaded to integrate housing and urban investment into the *Foreign Assistance Framework* and to add several housing and urban upgrading indicators to the Foreign Assistance Performance Indicators list. These steps would encourage USAID headquarters staff and Africa field missions to give this important sector its due as they develop their strategies and operational plans.

2

Substantially increase the resources within USAID for technical assistance related to housing and urban development in Africa to restore U.S. leadership in the sector, with emphasis on affordable land for housing, housing finance, slum upgrading and urban infrastructure.

Over time, USAID has lost the reputation it once enjoyed as a recognized leader in the international development community on housing and urban issues. Technical assistance is often critical to making credit programs, such as the DCA and OPIC, more effective. The USAID technical unit for housing and urban development has seen its human capacity reduced by at least 80% and its resources for technical assistance and training reduced by almost 90% over the past 15 years. To restore this unit as the focal point within the U.S. Government for international housing and urban issues, to regain U.S. credibility as a serious voice in the urban sector, and to provide critical technical assistance, the human capacity of this unit needs to be significantly strengthened and its program resources substantially increased. Technical assistance should focus on the areas of highest priority for Africa identified above, viz. land for housing, housing finance, slum upgrading and urban infrastructure. USAID should also restore the Urban Programs "team" to the status of a separate Office, given the importance of the sector.⁴³ In addition, USAID's Africa Bureau should increase its attention to and augment its funding of technical assistance for housing and urban programs, giving explicit recognition to the important role that this sector can play in improving governance and assisting economic and social

⁴³ USAID "demoted" the housing and urban programs technical unit from an Office within the Bureau for Economic Growth, Agriculture and Trade (EGAT) to a "team" in 2003.

development on the continent. Housing advocates should work with Congress and the administration's foreign policy team to assure that USAID has the capacity and the resources required to restore its credibility as a worldwide leader in the sector.

3

Fund the proposed Africa Housing and Infrastructure Facility (AHIF) in the FY 08 budget with a direct appropriation under USAID's Development Credit Authority (DCA).

The administration has proposed legislation that would increase the subsidy levels of the Development Credit Authority (DCA) by up to \$5 million in FY 08 to create a new Africa Housing and Infrastructure Facility. Rather than increasing USAID's transfer authority, the AHIF should receive a direct \$5 million appropriation. The DCA program has had a commendable track record in mobilizing private sector resources to spur economic growth. Nonetheless, competing demands for DCA programs together with a need to fund already existing earmarks and to support presidential initiatives from declining economic growth funds has resulted in a substantial decline in DCA funding for housing and urban infrastructure, particularly in Africa. The creation of the AHIF for housing and infrastructure in Africa would enable USAID missions in Africa to undertake needed investments in this critical sector without making trade-offs in their already shrinking economic growth budgets. To assure that this happens, housing advocacy groups must work with the relevant congressional committee to deepen their understanding of the reasons why the AHIF is an essential piece of the U.S. commitment to Africa as expressed in the Gleneagles G-8 Summit of 2005.

4

Substantially increase resources to support improved water and sanitation in Africa and assure that at least 60% of the funding is designated for urban areas.

As noted above, USAID has provided some very modest support for urban water and sanitation programs in Africa, mostly through Global Development Alliances and the DCA. Though the U.S. Government has committed substantial sums during the past five years to water and sanitation, most of this has been directed to a few countries of high foreign policy interest and very little has gone to Africa. Clean water and improved sanitation are clearly health issues, yet far too little attention and health funding has been directed to these essential urban services in Africa's slums and informal settlements. The benefits of investing in urban water and sanitation are unquestionably among the most cost effective investments that African cities can make. Housing and health advocates should strongly support Congressional interest in specific legislation for international water and sanitation programs and urge U.S. Government agencies to put urban water and sanitation in Africa "on the front burner" with substantially increased resource commitments. Most USAID country programs and budgets in Africa are already heavily skewed toward health. What is needed is to redirect a greater proportion of their health resources towards health issues in urban areas, particularly water and sanitation.

5

Promote better coherence to often disjointed U.S. programs that impact on housing and urban development in Africa and create a strong institutional focal point for U.S. assistance to the international housing and urban development sector.

USAID has observed in its 2006 report to the Cities Alliance: “Part of the difficulty in allocating funding and implementing activities for urban development is the multi-disciplinary nature of urban issues... A coordinated approach that addresses urban poverty reduction from a spatial lens is needed... However, USAID typically provides funding through a wide array of development sectors such as economic growth, health and the environment. Such a variety of [urban] programs spread across a number of sectors can sometimes lack the coherence necessary to effectively address urban poverty reduction.”⁴⁴ Again, housing advocates working together with the leadership of key U.S. Government agencies can actively assist in promoting better coherence among government programs to improve results. Housing advocates can also promote much needed improved coordination between U.S. Government programs and the growing efforts of private foundations to address priority concerns of developing countries in Africa. A strengthened Urban Programs Office, working closely with USAID’s Africa Bureau, should be given a specific mandate to provide this much needed coherence and to serve as a focal point for U.S. assistance to the housing and urban development sector.

6

Encourage the Millennium Challenge Corporation (MCC) to develop an “urban optic” for eligible countries in Africa to complement other criteria used to review country proposals for MCA funds.

The MCA has become the U.S. Government’s biggest player in promoting economic growth in developing countries. The MCC has approved compacts with seven countries and signed threshold agreements with six countries in Africa. Three other countries in Africa are eligible for threshold programs. Proposals are generated at the country level, not by MCC staff. However, the MCC does have extensive dialogue with government officials during the proposal development stage. None of the DCA compacts in Africa focus on housing and urban infrastructure, although some investments, such as those in the transport or power sectors, would ultimately benefit urban consumers. Housing advocacy organizations should work with MCC staff to deepen their understanding of the role of investments in housing and urban development in stimulating economic growth in Africa and then encourage them to discuss investments in this sector with their host country counterparts at the early stages of MCA proposal development. In reviewing MCA proposals, the MCC should also consider ways in which elements of proposed infrastructure investments could be tailored to enhance housing conditions, promote urban upgrading and the improve the functioning of urban areas. MCA resources are of such a scale that large scale slum improvements could be undertaken by participating countries and significant inroads could be made in addressing water supply and sanitation deficits.

⁴⁴ Cities Alliance, *op.cit.*, p. 43.

7

Increase the efforts of U.S. housing advocacy organizations to build more effective housing advocacy coalitions in both the developed world and in Africa.

As noted above, African housing advocates in both the government and the private sector need to redouble their efforts to increase the priority of housing and urban development in national policy and planning exercises and in national investment programs, particularly in Africa. They must play a more forceful role in influencing national policy than they have done heretofore and must educate African government leaders on the impact that housing investment can have in their country's development. Their efforts, however, are often not well-coordinated and they require increased international and national support. By assisting these local African organizations to form more powerful coalitions, US-based NGOs and housing advocacy organizations can help them to strengthen their messages and their influence on policy makers. USAID should also consider additional funding for coalition building in Africa.

8

Encourage major foundations to increase their funding for housing and urban development in Africa.

In 2006, the Bill and Melinda Gates Foundation gave more than \$46 million in grants for water and sanitation programs worldwide, including \$27.6 million to the World Bank. The Foundation also gave more than \$10 million worldwide to expand access to financial services for the poor, some of which could be directed to micro-finance for housing. This represents more than 13% of the Foundations grants for "Global Development" in 2006. This excludes entirely the Foundation's grants for health, some of which address urban health concerns. Africa has benefited significantly from the largess of the Gates Foundation. Although the Gates Foundation is the largest, there are many other philanthropic organizations that could be encouraged to increase their focus on improved housing and urban service delivery in Africa. In fact, according to OECD statistics, philanthropic giving from organizations in the developed world (primarily from the U.S.) totaled at least \$3 billion per year during the early years of the decade and may have increased further since. Housing advocates should therefore engage these foundations to more seriously consider supporting housing and urban development in Africa. Foundations tend to support specific projects rather than policy work. In Africa, continued work in micro-finance, slum upgrading, water and sanitation would be particularly appropriate. NGOs and public institutions should also be encouraged to submit viable proposals to such philanthropic organizations for improved housing and urban upgrading programs in Africa.

9

Increase U.S. Government contributions to UN-HABITAT and the Cities Alliance.

U.S. Government support for UN-HABITAT and the Cities Alliance has been meager relative to the contributions of other member countries. These are the two premier international organizations that provide cutting edge thinking on solutions to address the growing urbaniza-

tion of the world. Much of UN-HABITAT's research and analytical work is extremely useful to other donors and to developing countries to increase the effectiveness of investments in housing and urban development. UN-HABITAT also plays an important role in the debate on best practices in dealing with urban issues. Its new Slum Upgrading Program offers particular promise for Africa. Yet U.S. contributions to UN-HABITAT, traditionally very modest, have fallen from about \$750,000 in FY 03 to \$149,000 in FY 06. For FY 07, the U.S. has pledged \$400,000 but with the Continuing Resolution, this figure may not be reached. The U.S. is, embarrassingly, only the 10th largest donor to UN-HABITAT. Encouragingly, the FY 08 budget request includes \$1 million for UN-HABITAT.

From FY 00 through FY 06, USG contributions to the Cities Alliance totaled \$1.5 million in core funding and \$465,000 in earmarked funding, placing it behind seven other bilateral donors with much smaller economies and government budgets. If the U.S. is to have greater influence in the programming of resources of international organizations to which it contributes, then it must step forward and increase its contribution levels to support the important work of organizations such as UN-HABITAT and the Cities Alliance. Housing advocates should strongly encourage the administration to increase its contributions to these organizations.

10

Assure sufficient subsidy⁴⁵ and operating funds for OPIC to augment its housing efforts in Africa, with an emphasis on housing for lower income families.

As noted above, over the past several years, OPIC has significantly increased its support for mortgage lending worldwide, including several substantial programs in Africa. Despite the commendable progress, OPIC's housing portfolio in Africa could still be significantly expanded. However, OPIC is constrained from moving much more aggressively into housing finance by limits on its overall subsidy levels and on the human and financial resources required to develop programs in this sector. Congress should therefore appropriate sufficient funds to OPIC to allow it to expand its operations in Africa. OPIC's focus has been in the middle income housing market whereas the bulk of future demand in Africa is anticipated to be in the low income market. Nonetheless, as has been pointed out, the lack of any finance for lower middle and middle income housing has put pressure on the low income market. An increase in the supply of lower middle and middle income housing would therefore help to free up lower income housing for the poor in Africa. OPIC should also be encouraged to explore creative ways of going "down market" to reach lower income families.

11

Provide increased support for the U.S. Department of Housing and Urban Development's (HUD) international outreach efforts, especially in Africa.

The U.S. Department of Housing and Urban Development (HUD) has a wealth of knowledge and experience with domestic housing programs. While housing issues overseas are of

⁴⁵ Funds appropriated by Congress to cover OPIC's contingent liabilities on its loans and guarantees are called "subsidies."

course much different, there are nonetheless lessons learned from the U.S. experience which could be of real benefit to housing officials in developing countries, including Africa. HUD has a small International Affairs Office which sponsors research and funds international exchanges. Yet this Office is meagerly funded and the scope of its activities very limited. While the focus of HUD should appropriately be housing and urban development in the United States, Congress should appropriate a modest increase in funding for HUD's Policy Development and Research Department to allow the International Affairs Office to more effectively spread relevant lessons learned to developing countries, particularly in Africa.

The above are all do-able action proposals that would help to elevate the priority of housing and urban issues among appropriate American and African institutions, both governmental and non-governmental. This is a preliminary list that should be added to as advocates for international housing issues debate them.

APPENDIX 1

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