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APPROACHES AND METHODS TO MOBILIZE AND CHANNEL FINANCE
FOR INVESTMENT IN HUMAN SETTLEMENTS

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APPROACHES AND METHODS TO MOBILIZE AND CHANNEL FINANCE FOR INVESTMENT IN HUMAN SETTLEMENTS

OVERVIEW OF AFRICAN CONDITIONS

1. The situation in human settlements in most African countries remains unsatisfactory. The underlying factors are population growth, rapid urbanization and resultant overcrowding, lack of finance, underdevelopment of productive resources, and the failure to draw up and implement effective housing programmes.
2. The population growth in Africa over the last ten years has been at the rate of 2.4 per cent per annum while urban population has been increasing at the rate of 5 per cent. Assuming the present population of the continent to be 350 millions and the urban population 42 millions, the overall population and urban population at the turn of the century will cause unmanageable situations in urban settlements. In addition to the population growth rate, the situation is further aggravated by the high costs of construction.
3. The current cost of constructing a simple but modern type of house (three rooms with sandcrete block walls and corrugated iron roof), including sanitary facilities, is, on the average, not less than US\$2,500 in urban areas. A similar situation exists in rural areas where the poor quality of the houses is a major problem. Construction materials are wattle, daub, timber, mud and clay. The construction of a decent dwelling would cost US\$750. The non-use of domestic sources of finance and building materials has in the past resulted in dependence on foreign aid^{1/}, but this aid has diminished greatly since the early 1960s.
4. Several countries are showing interest in the aided self-help method of housing and have introduced this method of construction in their low-cost housing programmes. The ECA secretariat has carried out sub-regional training courses in aided self-help and has established a co-operative housing society in Tanzania through joint arrangements with the International Co-operative Housing Development Association (ICHDA) whereby land and infrastructural work is being provided through government agencies and the co-operatives themselves will build 500 housing units. This project has been progressively documented and the results made available to other African countries.
5. In collaboration with the World Health Organization, studies on the technical and economic aspects of community facilities related to housing have been made. They pay particular attention to the basic cost of installing water supply, sewage disposal and environmental sanitation problems.
6. Analysis of the human settlements situation in Africa, based on the decisions of the Commission and the priorities established by the secretariat, has revealed the immensity of the problem. It is unlikely that more than two houses per thousand inhabitants are being built annually. This can be compared with the United Nations

^{1/} E/CN.14/HOU/WP/5, 6, and 7/Rev.1.

call for ten houses per thousand inhabitants. It was pointed out in a preceding paragraph that population increase annually in member States has been estimated at 2.4 per cent on an average and the rate of urbanization is estimated to be about 5 per cent. In the light of these figures, tremendous efforts have to be made in both urban and rural areas to provide improved conditions. This will not be easy. There are several problems.

7. Planning machinery is still weak. In only a few countries have matters of human settlements been integrated into economic development planning and the allocation of resources is in most cases on an ad hoc basis. Progress has been made in establishing machinery but the existing organizations are generally under-employed and their operations are haphazard because of the lack of a stated policy and lack of programmes geared to economic development. Generally, there are too many authorities and departments having direct or indirect influence. The need is for co-ordinated decision-making to carry out a national programme in a systematic way.

8. The present level of costs is high as a result of a complex set of factors, most of which reflect the general level of development and inflationary conditions.

9. Domestic sources of finance are inadequate although there is scope for improvement, especially with regard to the utilization of the growing funds of social security schemes and of national loans or development loans, some of which are already being used for the financing of housing programmes in a few countries of the continent.^{1/}

10. In view of the inadequacy of domestic resources, most countries have resorted to external financing, but this does not solve the problem as a large share of the materials used in construction are imported, and aid has to be repaid in foreign currency. Increased utilization of local raw materials would contribute towards foreign exchange savings. The total consumption of building materials and components in the sixties was estimated at around US\$1,200 millions annually, of which 55 to 60 per cent is imported.

11. Added to the problems mentioned above is the quality of houses already built or under construction. In both urban and rural areas many dwellings are too small. There are many defects in design. Traditional materials such as mud, straw, etc., which are used especially in rural areas often lead to rapid deterioration, and the need for the early replacement of dwellings.

12. An action-oriented programme to tackle these problems has now been established as a result of the recommendations of the Commission and the surveys carried out by the secretariat. For the immediate future, the secretariat is adopting a phased operational programme. Emphasis will be on completing the collection of data on existing housing stock and machinery for project implementation. These data are to be used not only as a basis for future planning but also for providing advisory services on maintenance and repair operations to preserve the existing stock and improve obsolete dwellings at a comparatively moderate cost, thus contributing to alleviating current shortages. In order to provide additional dwellings as quickly as possible low-cost and aided self-help housing programmes are to be accelerated, using a minimum number of standard designs. This would enable production of standard components and materials on a sufficiently large scale to reduce costs.

13. In order to meet an accelerated human settlements programme, the construction industry has to be reorganized. Building firms have to be africanized, building components standardized, and supplies made readily available. A reappraisal of the entire rent structure is necessary for the effective amortization of capital already invested.

14. An important aspect of short-term measures is the role of governments and public authorities. The housing problem in Africa, especially the provision of low-cost houses, requires action by governments and/or public institutions. In particular, the task of public authorities is to channel enough resources and ensure that they are used with maximum efficiency, and where necessary subsidize low-income housing by an adequate rent policy.

15. Three underlying long-term problems are housing policy, cost of housing and the production of building materials. Agreement has still to be reached on the necessity for a housing policy to be an integral part of national development plans. Within the framework of overall national development plans, housing needs, both rural and urban, have to be identified and priorities established so as to meet the needs of the greatest number of people and make efficient use of existing resources.

16. The best means of making better use of present resources is to reduce the cost of housing and related facilities. Activities of the secretariat are directed towards advising governments and public authorities on improving marketing, handling, and transport facilities to reduce the cost of materials delivered to the building site; increasing the productivity of labour through a better organization of building operations on site and the use of simple tools and machinery; raising the qualifications of contractors; continuity in house-building programmes and closer association of all participants in the building process; development of better and more functional designs; modernization of existing bye-laws and regulations, and development of applied research.

17. Finally, the local production of building materials and components is another field where action is required on a long-term basis. There is no shortage of natural resources in Africa, at least as far as cement, lime, clay, non-metallic ores and wood are concerned. In view of the hydro-electric power and oil potential of the continent, the present scarcity of economic fuel and power does not present an insurmountable problem. The most serious obstacle is presented by the relatively small national markets for household fittings, sanitary ware, hardware, etc., in a great number of African countries, a limitation which is further aggravated by the inadequacy of transport facilities.

18. The ECA secretariat believes that all the factors mentioned in this introduction must be taken into account if practical improvement is to be made in the use of resources from whatever source in human settlements. We can go further to comment on the sources and methods presently being used and in doing so make some positive recommendations.

FINANCING OF HUMAN SETTLEMENTS IN THE PUBLIC AND PRIVATE SECTORS

19. The following paragraphs aim to establish a baseline on the sources and characteristics of finance in the public and private sectors of the economy. In terms of housing finance the coverage is intended to be fairly extensive, although most of the empirical examples are limited largely to Uganda, Kenya, and Tanzania. Other material

will be incorporated where possible, but this is limited largely to current literature, where much of the information is likely to be dated. It is to be expected that where general economic, social and political background is the more shared that there will be fewer divergences from any given pattern of financial practices and institutions. In this sense a major difference in existing characteristics is found between the ex-colonies of France vis a vis those of the United Kingdom.

20. The discussion falls under four headings. The introductory section sets out some of the principles of finance in the light of the market characteristics of the commodity (i.e. accommodation). There follows two sections dealing with the private and public sectors respectively. The concluding section deals briefly with the relationship to development planning.

21. Housing markets in human settlements in Africa are notably dualistic in character. Housing supply tends to be either in a "traditional" or "modern" sub-market. This dualism is marked in both the costs and techniques of construction. In the "traditional" sector the mode of building is based on the mud and wattle structure, modified to a greater or lesser extent to fit in with rural or urban environment. In the "modern" sector the standards set are generally equivalent to those of the ex-colonial power, with building regulations and town-planning criteria borrowed wholesale, with little or no modification, from the advanced, industrial, high-income countries. By their nature the "modern" sector is predominantly urban, and the "traditional" sector peri-urban and rural.

22. Since the greatest proportion of the population of Africa are living in a rural, agricultural environment, mainly based on peasant small-holdings, most housing is in the private sector, and in the peri-urban and urban centres private residential development is still usually a larger sector than public housing. In some countries, particularly those with considerable external investment in extractive and processing industries, employers provide their workers with housing which is tied to the employment. Among the higher income groups the housing which is provided by employers is frequently heavily subsidised or large housing allowances are given in addition to the basic salaries. In this latter respect the pace is generally set by Government continuation of terms of service created for an expatriate civil service in the colonial period. This phenomenon has been removed from some African countries but in others it continues to have a major influence on the housing market and on the level of real salaries rather than basic money salaries among high level manpower.

23. The social and economic framework of countries that are basically agricultural and have low per capital income means that much of the demand for housing accommodation in the growing urban agglomerations is for rental rather than owner-occupier dwellings. Since the only means for most of the population to ensure security after retirement from the wage/salary, predominantly urban, labour force is to return to the rural areas, there is pressure for any personal housing investment to be in rural rather than urban areas, at least as a first priority. This characteristic of the African housing market can certainly be expected to change as development is likely to lead to more long-term urban settlement on the individual "family" basis, and as social security schemes are introduced. However, in the short- and medium-term periods it is clear that a demand for rental rather than owner-occupier dwellings would affect the optimum structure and activities of housing finance institutions. If a part of Government housing policy were to be stimulation of demand for owner-occupation of dwellings, then institutions lending money for only this type of dwelling, in the context of social and economic characteristics which imply mainly rental demand, are unlikely to have total success in urban areas, at least for the time being.

24. The discussion in the above paragraphs is intended to show that not only in the present, and future, shape of the housing markets an important determinant of the types of financial institutions appropriate in African countries, but also that the demand for different types of housing finance is likely, a priori, to vary between different sub-sectors of the aggregate housing market, quite apart from the dichotomy between the private and public housing sectors. This implies that the wholesale importation of housing finance institutions from urbanized industrial economies is likely to have limited relevance to the improvement of housing conditions in rural, agricultural countries. The remainder of this first section concentrates on economic aspects of housing which have an important bearing on finance.
25. Dwellings generally represent a significant proportion of a nation's annual capital formation, and therefore an important claim on the available economic resources. Two studies in the early 1950's, based on fairly conservative estimates, showed that the "traditional" style house construction accounted for about 4 per cent of Gross Domestic Product in Nigeria and (then) Tanganyika. An estimate in 1960's for National Income series in Kenya indicated that building and construction in the non-monetary sector contributed 2 per cent of GDP. Unless house construction is entirely carried out in the non-monetary sector, which is becoming increasingly rare in Africa, the expenditure on materials and labour represented by a completed dwelling requires financing. Since housing is a particularly durable form of consumer goods, the consumption of goods and services put into construction takes place over a considerable number of years.
26. In general, this gap between current consumption of housing services and the capital cost of construction can be met either by loan finance by owner-occupiers, or by the occupant hiring accommodation from the landlord. In the latter case, the long-term financing problem is effectively handed over to a second party who may be in the public or the private sector. Housing as an economic commodity can thus be described as immobile and indivisible through space and through time. The alternative to owner-occupying as a specific capital asset is that of hiring from an owner on a short-term basis. This is the theoretical basis of the division between the owner-occupier and rental sub-markets.
27. The proportion of income that people are prepared to spend currently on accommodation is a question which can only be answered by observation of expenditure patterns. These generally reveal a wide divergence of individual spending habits. During the period of repayment of a loan, owner-occupiers may be expected to spend a greater proportion of their current income on housing compared with renters for two reasons. First, the house purchaser is paying for current consumption of an asset that he is buying, and saving at the same time. Second, real estate generally represents a real 'hedge' against inflation, since the market money value of dwellings in a free market or mixed economy can be expected to appreciate at a rate which at least keeps pace with inflation. In African countries, dwellings can only really be regarded as marketable, in, and in the vicinity of, towns. Evidence suggests that renters are generally prepared to spend something in the region of 10-20 per cent of current income on rents when the market taken is a private, uncontrolled, unsubsidised market. Owner-occupiers might then be expected to pay 5-10 per cent out of current income over and above this.
28. In general, however, a high proportion of income spent on housing clearly leaves a small proportion for other essential household expenditure, and at the low levels of income that predominate in African countries it also leaves a low absolute amount of income for other necessities. In addition, if the largest area of consumption of necessities at low-income levels is on foodstuffs, then since food prices tend to be

unstable, a high proportion of income spent on housing may leave insufficient margin for these price fluctuations if housing payments have to be made regularly. This means that housing expenditure may be expected to rise only with income in the long-run, and not through higher proportions of expenditure in the individual household in the short-run.

29. Two approaches to rent determination can be distinguished, related respectively to market rents fixed by direct forces of demand for and supply of accommodation, and cost-based rents, which will reflect market forces in as much as factor prices reflect the demands put upon them in a market economy. It is on the former that rent control measures are taken if it is felt that the market rent gives too high a margin of surplus to the private landlord over and above the cost-based rents. In turn cost-based rents may be based on the historical construction costs or on the replacement costs.^{1/}

30. The elements in the cost of a dwelling will be made up of the following: capital costs of the land and the building, which are themselves divided between principal and interest costs; the cost of maintenance, which will not be a stable function of construction costs for any one dwelling over its complete life; the recurrent costs of services provided to the site which may be charged through some kind of property tax which cannot be avoided once the building is complete. Depending on the relationship between these different cost components, the total cost of the dwelling may be established, and a fixed proportion of capital costs may be charged as the rent for a given period. It has been suggested that $12\frac{1}{2}$ per cent, of capital cost might be a reasonable standard to take as an annual rent. If the construction cost can be reduced to a monthly rent, and the proportion of income that is spent on rent, or housing, can be expressed as some average level, then the cost and rent structure of the housing stock will be a function of the level and distribution of income in the economy being considered.

31. Housing subsidies are, in theory, a provision to fill a gap between effective demand represented by people's ability and willingness to pay for accommodation, and the costs of providing the type of accommodation which is deemed to fulfil certain standards. The need for subsidies may be said to exist if the costs of providing acceptable standards of accommodation get out of step with the available economic resources that would freely be spent on housing, and/or if the distribution of income in the economy is such that the higher income groups' standards of accommodation give an upward pull on lower income groups' standards, necessitating some kind of income redistribution through subsidies. Thus if the rent of the lowest cost type of accommodation is higher than the expenditure patterns of the lowest income groups can afford, then the rent paid by the tenants is effectively "topped-up" by a subsidy to cover the full-cost. In the African context it will be clear that subsidies may be implicit or explicit (i.e. hidden or open), and may in fact be used to distribute income in any direction that policy requires, given sufficient means of operating them. Thus a subsidy system would be very difficult to operate in a totally free market system except through, for example, tax concessions to private landlords - the greater the proportion of accommodation in the public sector the easier subsidies are likely to be to operate. It should be stressed that subsidies constitute a part of current consumption, a type of transfer payment, and may be the more difficult to justify where a major policy aim is the achievement of high rates of saving and investment.

^{1/} For any given dwelling the latter would normally be higher than the former in money terms because of inflation and the steadily rising standard of accommodation (particularly in the quality of facilities) over the life of a dwelling which may last 25-50 years or more, dependent on construction standards and efficiency of maintenance.

32. This final point makes it clear that investment in human settlements generally must be seen in the light of the overall development of an economy. Thus, in the short-run to increase the amount of resources, recurrent and non-recurrent, devoted to housing implies reducing the resources in some other sector of the economy. The discussion of financial aspects of housing is therefore largely around increasingly the efficiency of allocation of resources to the housing activities, and their distribution within these activities. Thus, redesign, or introduction of new, financial institutions may open up choices to people who were previously not able to achieve desired housing improvement due to financial obstacles. It may therefore be that more appropriate housing financial institutions may increase an economy's savings ratio and reduce "inessential" expenditure. It is the case in any event that any change in the proportion of a country's resources flowing into housing inevitably reduces the availability of resources elsewhere. If, for example, it is desired to increase the flow of resources into low-income group housing, it is inappropriate to design institutions which encourage investment in high-income group housing since these two types of accommodation are not substitutes.

Private sector

33. A large proportion of the resources used in private sector housing in Africa do not enter the monetary economy. Some countries include this real investment, and real income, in their National Income estimates - others do not. However, this sector is not necessarily clearly divided between monetary and non-monetary resources, but there is a considerable overlap. Thus an existing dwelling may be improved by the purchase of windows or cement. A newly built dwelling may constitute the use of corrugated iron sheeting for the roof, cement floor and wall-facing etc., but have been constructed using mainly family labour. When discussing existing financial institutions it has therefore to be clear whether they provide finance for only "traditional" or "modern" sectors, or for both. Most of the discussion will not distinguish between finance for owner-occupation and for rental dwellings.

34. Capital finance falls into two areas, that of short-term building loans, and that of long-term finance usually of a mortgage nature - that is to say that the land itself serves as security for the loan.^{1/} The size of required loans will depend to some extent on the institutional environment. Thus, building regulations may make the amount of capital necessary to build any dwelling high than might otherwise be the case. These types of regulations have frequently been adopted in a rigid form from the ex-colonial powers, and would be considered outdated and inadequate in their country of origin. Outside the urban administered areas, town planning and building regulations are either non-existent or more frequently broken than observed.

35. In the private sector the sources of finance have been split into eight groups:-

- (a) commercial banks;
- (b) building societies;
- (c) insurance companies;
- (d) co-operatives and housing associations;
- (e) employers;

^{1/} In many parts of Africa the extent to which a dwelling may constitute collateral on a loan will be limited by local land tenure conditions - it is not proposed to discuss this aspect of the problem here, but see E/CN.14/HOU/27 on mortgage securities in Africa, and E/CN.14/HOU/89 on some aspects of the mortgage market in Africa.

- (f) suppliers' credit;
- (g) saving in kind;
- (h) social security schemes, etc.

36. Commercial banks are generally concerned with short-term or medium-term finance of trade and commerce rather than in the long-term finance that construction requires. At least one commercial bank in Uganda was involved with the subsidiary of an insurance company in which the bank advanced funds to the contractors during the building period when the long-term finance was already assured. The insurance company took over the financing in the long-term after the issuing of an occupation permit on satisfactory completion of the dwelling. A bank established by the colonial government was involved in the finance of residential construction in the longer-run in Uganda. This was the Uganda Credit and Savings Bank, and its annual report for 1963/1964 shows that at that time there were 184 loans outstanding to the total of Shs.1,407,400 (rate of interest charged 9 per cent per annum). However, in 1965 this source was closed when it was transformed into the Uganda Commercial Bank, and began to operate on the same basis as the other commercial banks with their headquarters outside Uganda.

37. The expatriate commercial banks therefore do not lend money for house construction in the normal course of events. However, the practice of major banks is typical in its loans to permanent local members of staff at subsidized rates of interest for owner-occupier houses. Otherwise banks provide subsidized housing for expatriate and senior local staff on similar terms to other employers.

38. There is one matter concerning the role of commercial banks which appears to be assuming importance and which might have a real effect on the inflow of capital to human settlements. The enforcement of exchange control regulations in Kenya for example, puts practically all foreign dealings in the hands of the Central Bank thus, we find that the level of deposits in commercial banks whether locally or foreign-owned, is rising steadily year by year. Deposits in banks in Kenya in July 1968 totalled K£87 millions approximately and in July 1972 this total had risen to K£175 millions. In some cases the banks are in fact turning away deposit money by stipulating that accounts must be maintained at given figure otherwise it is not economical for the Bank to have these accounts. There is also the question of the interest rate structure whereby banks are paying 4 to 6 per cent interest to depositors but are charging 10 to 14 per cent to borrowers. The going rate is 10½ per cent. If this situation had continued and the high level of deposits had been maintained even allowing for normal withdrawals, then it appears that banks should have been able to make available funds for housing credit facilities because the dictum of borrowing short and lending long is not the real situation. However, everybody knows that the present inflationary conditions have changed the situation in that central banks in different countries have by various means drawn back into the bank a certain proportion of the money supply which was formerly available. Nevertheless, the argument should stand since it is hoped that inflation can be contained.

39. The major commercial banks in African countries are still using the criteria and philosophy connected with import-export business. Clearly this cannot entirely be eliminated, but since the main activities in African countries are connected with agriculture and human settlements in the majority of cases, then the disposable monies in these banks should proportionately be invested to a larger degree in these activities. Even if the banks prefer to purchase locally registered stock, governments should find a way to allowing of longer-term investment in human settlements.

40. Experience with building society or savings and loan finance in ex-British and ex-French countries is one area where differences arise. In general the building societies in anglophone Africa have been relatively unsuccessful in providing a source of finance for a large cross-section of the population. Those in East Africa collapsed in 1961 when a large proportion of deposits held by non-Africans were withdrawn. Rescue operations were put in hand by the governments in collaboration with the Commonwealth Development Corporation, and there has been more recent evolution in the East African countries. In Tanzania the Housing Finance Company of Tanzania Limited has been transformed into a Housing Bank since 1972 and is now wholly owned by the Government of Tanzania. In Kenya, there has been a combination of construction operations and financing for disposal operations. This has been brought about by a close link up between the National Housing Corporation and the Housing Finance Company of Kenya Limited. In this case, however, the Commonwealth Development Corporation still has joint investment agreements with the Government in the Housing Finance Company. There is a drawback in that the operations of the Housing Finance Company are now practically confined to those persons who are wishing to purchase houses from the National Housing Corporation and another housing scheme operated by the Commonwealth Development Corporation. Exact figures are not available but it would seem that the chances of persons not taking part in these schemes, are slim when they apply for mortgage loans. In Uganda the same type of operations had come about as in Kenya, but up to date information is not available.

41. But, in Kenya for example, the situation regarding the high level of deposits described above might have led to the interest rate structure of the building societies being adjusted downward. It is clear that the rate paid to lenders in the past was high in comparison with the commercial banks and correspondingly the rate of interest charged to borrowers on mortgage loans was also high. The Government of Kenya until 1974 had maintained a structure of low interest rate in comparison with other countries, but due to local inflationary trends and imported inflation, there appears to be little alternative to raising the rate of interest in present circumstances which have been affecting greatly the ability of borrowers to repay based on existing individual contracts.

42. In other parts of Africa building societies have had mixed fortunes. They have been most successful where they have not depended on an expatriate clientele, but on indigenous savings. In principle, there is nothing wrong with the idea of establishing building societies or savings and loan associations in Africa. The problem centres around management and the need to apply judgement taking into account African conditions and needs. Those which have been established have in all cases survived teething troubles and are still carrying out a good service for the generality of the public. One particular example is the First Ghana Building Society which was registered under the Law for Building Societies in Ghana in 1955. This Society, although in competition for market business with the State Insurance Corporation, has retained its original name and has progressively increased its assets. Another example of continued existence, allowing for fluctuations, is the Imperial Savings and Home Ownership Public Association (ISHOPA) in Ethiopia.

43. Insurance companies are another type of institution which give loans for relatively high cost housing development. In East Africa the societies involved in life insurance and endowment policies generally invest locally. However, local companies tend to be more diverse in their investment than foreign companies. The various premiums on life insurance in East Africa have steadily increased since 1965, and there is a steady figure of around 30 per cent of assets invested in mortgage loans for housing and other real estates. Not all of this was by any means in residential property, but it

gives some indication of the possible scope of this source of finance. Life insurance and endowment policies are an important form of contract savings among East Africans, and of three private companies operating in Uganda between 80 and 95 per cent of business by value or number of policies were with Africans. Furthermore, the investment by the Ghana State Corporation in mortgage loans for residential purposes is considerable.

44. Some companies in the East African Sub-region have preferred lending on account of rental accommodation because with the present high level of rents the repayment could be more certain. Generally the rate of interest charged for mortgage loans by insurance companies has always been higher than the conventional building society or savings and loan association. Insurance companies are of course profit-making corporations and this no doubt accounts for the high rates. The going rate charged by insurance companies is likely to be between 12 to 14 per cent per annum on the flat rate system for repayments. However, insurance companies represent a good and significant source of mortgage finance in African countries, particularly in those countries where they are now regulated locally and their profits and longer term premium monies must be invested locally.

45. Co-operative housing societies and non-profit housing organizations. These are promising areas of housing finance, if still largely underdeveloped. Trade Unions have shown interest in worker housing co-operative societies, and in Uganda a separate subsidiary company was formed for this purpose. The UN Inter-regional Seminar on Housing through Co-operatives held in Denmark in September 1973 would seem to have had a definite impact in African countries.

46. For its part, the UNECA is receiving offers of technical assistance from international organizations and non-government institutions. These bodies are expressing interest to assist in those countries where governments are prepared to formulate co-operative housing policy and programmes. The International Co-operative Housing Development Association (Washington, USA) and the German Development Assistance Association for Social Housing (DESWOS) are notable examples where assistance is being combined with bilateral aid programmes. The secretariat at present is seeking to enlarge the co-operative housing effort in Botswana, Ghana, Nigeria and Zambia. The diminution in foreign cash aid and in the funds which governments can put into public housing programmes, probably make the establishment of co-operative housing societies a real priority, supported by an intensive campaign to mobilize local financial resources in the countries.

47. Another source of finance in the private sector is through employer provision of housing, or participation in schemes for the raising of capital funds. The problem with the former is that it increases the amount of initial capital which an industrial investor has to raise, and therefore may lead to disincentives to investment. The second alternative of a type of tax or housing levy affects recurrent costs. Zambia, for example, has a considerable amount of worker's housing provided on the copper mines, which has made relatively low construction costs to be reached through economies of scale. However, housing tied to employment has frequently been criticised on grounds of labour immobility, and social effects of employer control over workers. A levy on employers is, in many respects more attractive, and appears to have been quite successful in some countries, e.g. Senegal. In a private employer context however a levy per number of employees could have two effects, first that of encouraging more capital intensive production techniques (also applies to employer housing provision) and second raising the level of the tax incidence on employers.

48. In the field of rural housing a considerable source of finance, in number of advances if not the aggregate amount of capital involved, is that of suppliers' credit locally. Thus it is frequently the case that the purchase price of corrugated iron roofing, for example, includes an element of interest since payment will be made over a period of several months. In a small survey in Uganda it was found that about half of a group of owner-occupiers working in a town had obtained some kind of credit or instalment payment on building materials. This is, of course, likely to be more important where the builder has regular paid employment as well as cash income from crops, since there is more likelihood of full repayment in this case. The major items of expenditure on a house built in rural or peri-urban areas, other than the labour element, lend themselves to this type of credit system when the type of construction is a modification of traditional methods. The types of materials involved are corrugated iron (asbestos) sheeting, roof and wall poles, doors and windows, cement, etc.

49. Perhaps the best documented scheme which attempted to use credit for these supplies was the roof loans schemes in Ghana. Despite the apparent lack of a final report on the scheme,^{1/} the idea of adapting housing loan institutions to the area where most significant improvements in standards of housing can be made (i.e. low-income groups in rural or peri-urban areas) deserves much closer attention than has been the case in the past.

50. Two other types of "finance" are important here. They are personal accumulation of savings and of building materials. The level of personal savings is improving. Few comprehensive income and expenditure surveys have been carried out in African countries, and so there is little information on savings behaviour, particularly in rural areas. What is clear from observation is that rural "savings" in Africa have two especial forms. The first is that of expenditure on consumer durables and capital goods after the lump receipt of cash crop earnings. This is likely to be important in the purchase of building materials, making the flow of business in these commodities distinctly uneven unless credit provision evens it out. Secondly, there is quite substantial savings in "kind" in the form of stored building materials, and the building of new dwellings in stages as and when finance is available. The notable characteristic of this is that it is likely to make construction more expensive in real and money terms through loss and waste of materials, and through successive hiring of new labour and constant re-preparing of the site for work. In this second case the problem is sometimes apparently exacerbated by the setting of too high an original standard on the part of the constructor, making completion even more difficult. Apart from this "standard" problem, the availability of credit could make building quicker and less costly.

51. In regard to personal savings in cash a phenomenon has occurred in 19 African countries to date, and this number is expected to increase. This concerns the mushrooming of the credit union movement which was first started in 1948 in the United States of America. The credit union movement has centred Headquarters under the name of Africa Co-operative Savings and Credit Association (ACOSCA) in Nairobi, Kenya for purposes of co-ordinating the movement in the 19 countries, securing technical assistance principally in the form of field workers and ancillaries such as transport, and last but not least a training movement with established centres in Cameroon, Kenya, Lesotho, and Zaire. This Association is recognized by the Government of Kenya as an African International Institution and it enjoys the privileges and immunities which are usually accorded to other international organizations.

^{1/} See E/CN.14/HOU/68.

52. The Association is headed by a board of directors who are chosen from the national federations in different countries. As of September 1974 the credit union movement controlled approximately US\$25 millions of which the major part is operating as a revolving fund in the different countries. The loans made by credit unions to their membership are usually for agricultural purposes e.g. fertilizers and machinery, and for housing improvements, particularly in rural areas.

53. The United Nations Capital Development Fund is negotiating to assist the Government of Lesotho in establishing a co-operative housing society in Maseru. In addition, the Capital Development Fund is negotiating to use the structure of the National Federation of Credit Unions whereby seed capital will be provided and used for loans to improve rural housing and facilities therefor. The link between the credit union and co-operative housing is obvious. In Thika, in Kenya, 75 dwellings have been constructed, through co-operative methods and co-operative bank loans, by the Credit Union formed among the employees of the Kenya Cannery Limited which is growing pineapples for local consumption and export.

54. Social security schemes including national provident funds and pension funds are equally important as a source of finance for not only housing but in the whole scope of human settlements. Investment of funds accumulated has of necessity to be of a long-term nature. Observations in African countries in the present time show that the managers of these schemes are usually purchasing locally registered stock issued by the governments. This method certainly places more local funds for government purposes but there has been no study of allocations to human settlements once the funds have been invested in this way according to fixed priorities. It is felt that this is another aspect of the conventional issue of communication between interested authorities which was explored in the Regional Meeting on Housing Administration in Africa (English-speaking countries) held in Denmark in September 1972.^{1/}

55. Post office savings banks can also make a fairly substantial contribution to investment in human settlements. These banks have maintained a fairly consistent level in their funds over recent years. Perhaps the best method for them to use in investing in human settlements would be through housing credit institutions where an attractive rate of interest is offered in present day conditions. An evolutionary step has been taken, notably in Ghana, Swaziland, and Zambia, where post office savings banks have been converted into savings and credit banks. Under this arrangement they undertake both borrowing and lending operations, whereas in the past they have undertaken borrowing operations only. In the three cases mentioned the banks have extended their mortgage lending for residential purposes and have entered into the field of lending on commercial and industrial properties.

56. Apart from these sources of finance, and actions concerning them which are still in an early stage, there are other more sophisticated approaches such as the sale of mortgages, on a market created for this purpose; the insurance of mortgages; and the operations of secondary mortgage market.

57. In the slow evolution of investment as credit in human settlements in Africa, only insurance of mortgages has any real appeal in African countries at the present time. Where organized a scheme of insurance of mortgages can produce a healthy revenue for the mortgagee acting as a main agent for the insurance company whereby mortgages

affected can be operated for insurance purposes on a group basis. These operations would include the period of construction of any buildings and thereafter insurance against the usual risks of fire, tempest, flood, impact, burst of water mains or sewers, etc. There is also the personal aspect to the individual who has obtained a loan from any credit institution. This can include life insurance to ensure that his dependents are not saddled with a large debt in the event of his death, insurance of valuables and contents of the buildings, etc. All these forms of coverage can be undertaken as agent by the credit institution.

58. In the case of secondary mortgage market there are many pitfalls for borrowers from credit institutions, and in any case the present day rates of interest which would be levied on a second charge on land and buildings would be prohibitive for the majority of borrowers in African countries.

59. Turning to the returns to investment, it is found that once again the dual nature of the market for housing is a major influence. So also is the predominance of government and employer provided housing. The returns to investment will clearly be a function of costs and revenue. Unfortunately, since "modern" sector housing is such a long-term asset, revenue in particular is subject to considerable uncertainty. However, some attempt has been made to calculate approximate private returns on different types of housing. First a division will be made between high, medium and low standard housing on the following criteria:

- (a) high standard - appropriate for diplomatic, higher executive and senior civil servants level people;
- (b) medium standard - appropriate for middle income groups such as executive staff in private and public sectors;
- (c) low standard - appropriate for junior office staff, and lower income skilled and unskilled manual workers.

In most cases in Africa we might expect the first two to be in the "modern" sector, and the third to be more in the "traditional" sector.

60. The high standard accommodation is considerably influenced by the high propensity for this group to have their accommodation provided at subsidised rents by employers. This is particularly the case where diplomats and senior civil servants form a considerable proportion of the market, and the result in Kenya, Tanzania and Uganda has been to push rents to an extremely high level. This is due to the very low bargaining power or incentive on the part of employers who do not wish to build their own houses. The rate of return on this type of property is likely to be in the region of 15 per cent per annum, thus giving a fairly strong incentive for private investment in a sector which has seen rapid expansion of demand in the post-independence period. The demand has come largely from the opening up of diplomatic relations and the increase in economic activity reflected in large numbers of foreign high level manpower in both private and public sectors. With the high rate of return in the "high standard" sector, a comparable return would be required in other sectors of the market which act as alternative areas of investment, thus forcing rents up there as well - this would be the case with the medium standard sector.

61. The demand for medium standard housing has been stimulated by the relatively rapid rates of economic development in the post-independence period, and in particular by the expansion of government administration as the expansion of the secondary and university level education becomes an influence. The problem has been made more serious in

several countries in the private sector due to the fall in business confidence in recent years due to the fluctuations in world market prices of primary produce exports, and uncertainty surrounding the periods preliminary and subsequent to the achievement of political independence. The political influence was especially strong where a major part of the investment was carried out by expatriate minorities as in East Africa. Due to the shortage of accommodation thus created by demand and supply factors the rate of return is again in the region of 15 per cent per annum for new building, the rate of increase of costs having apparently been slower than that of rents. This does mean, however, that the returns on dwellings built in the period of low building activity are likely to be higher than this return on new building would indicate. Because of these high rates of return in the "modern" sector it has usually been possible for potential investors to find capital in some way to finance building, particularly for renting. However, the high rents are likely to have had the effect of giving renters an incentive to become owner-occupiers, and in this area the acquisition of finance has been more difficult.

62. For these types of reasons, particularly the equity argument of income redistribution between tenants and landlords, the Kenya Government introduced measures of rent control on residential properties. Legislation in February 1967 established a Rent Tribunal, and rents were related to their level as at January 1st 1965. Tenants of unfurnished dwellings up to K&40 or furnished up to K&55, in the three main towns of Kenya were able to appeal to the Tribunal for a reduction in rent. This was intended to cover lower and middle income groups. The major problems with this type of legislation fall into two groups. First there are the administrative problems of enforcing the Act, and secondly the repercussions on the behaviour of the market.

63. In an economy operating broadly under conditions of free enterprise, effectively the only countries where rent control measures would be felt necessary, rent control is likely to hide rather than eliminate market shortages. Thus the common methods of using "key-money" and/or two rent books (one for the landlord and one for the controlling body) may be signs of a housing "black market". In situations where there is an acute shortage of housing it may be in the interests of the tenant to pay higher than he needs to legally in order to retain his tenure. It is difficult to imagine that in the peri-urban areas of African towns there is any satisfactory record of the rent paid for a particular dwelling on a specific date in the past, even if a satisfactory representative date can be set. In addition it is difficult to imagine rent control measures being widely effective when administration is difficult to ensure in all departments of government, and the level of literacy and sophistication of tenants in the face of the administrative machine is likely to render them ineffective. The actual effect of rent control is therefore likely to be extremely uneven, and in general unsatisfactory in its equity between different sectors of the market.

64. The second area is that of repercussions on the market, particularly in the light of the type of measures that the Kenya Government introduced. In general the economist's view is that rent control in a "free enterprise" economy has the effect of reducing the attractiveness of investment in housing in the longrun (new dwellings in any year are always a small proportion of the existing stock). However, if the incidence of rent control is different, either by design or administrative effect, in the different sectors of the market, then those sectors where it is effective in reducing rents will become relatively less attractive for investment than those where it is not. In the Kenyan context, one would expect, a priori, that after the introduction of rent control, investment in unfurnished accommodation let at over K&40 per month would become relatively more attractive than that below K&40. If this is to be avoided then very complicated regulations may be necessary, but it is clear that the

more complicated the regulations the more difficult administration may become. The fact that housing is not a homogeneous commodity makes any analysis of the likely effects of rent control difficult. It should be clear however that where rent control is effective it will necessarily reduce the return to investment in new dwellings, thus reducing the effect of the price mechanism, and thus possibly increasing pressure on government to enter into housing investment on a greater scale itself.

Public sector

65. Government involvement in development of human settlements generally and in housing particularly, takes both direct and indirect forms. Where Government is involved in the construction and administration it deals with both capital and recurrent financial elements. However, Government may also be involved indirectly. One indirect effect is through the control of the economy, including the overall level of economic activity, the ease of obtaining credit, and the level of interest rates. Government regulations and statutes will include stipulations on structural standards, health provisions and town planning procedures. In addition there may be taxes on materials and/or property taxes which indirectly affect construction and running costs. So if, for example, land is available in towns with a high initial premium, high stipulation of the minimum standards and total value of development, then the total capital sum to be financed is likely to be prohibitive for all but the higher income groups.

66. For the purposes of the African Regional Preparatory Conference on Human Settlements scheduled for Cairo, from 19-26 June 1975, and for HABITAT: UN Conference on Human Settlements scheduled for Vancouver, Canada, from 31 May to 11 June 1976, it is in the public sector that fundamental issues are found affecting human settlements, and these are, in some cases, of a controversial nature. If it is the intention that these issues be raised for consideration at these conferences then the following must be included in this documentation.

- (a) the need for reorganization and rationalization in the construction industry particularly as it affects economic and social planning, and institutional machinery established to carry out the government policy and programmes;
- (b) the need to review procedures for using capital generally and in accounting for capital invested in human settlements.

67. Comprehensive planning of the construction industry should include consideration of the following factors.^{1/}

68. The complex and interrelated problems of the construction industry and in particular those that are raised by a fast growth of industry within the prospects of accelerated economic development cannot effectively be tackled in isolation. Policy considerations must encompass the whole range of factors influencing the construction industry and chart out the best co-ordinated path. The problem of the construction industry is not only defined by factors affecting material and labour inputs and the organization of the contracting business, but by other equally important factors. Continuity of construction programmes, technical, administrative and supervisory machinery for planning and executing projects, research and documentation facilities, bye-laws and standards are some of the factors which the considerations of policies must include.

^{1/} See "The Construction Industry in Development Programmes: A Techno-Economic Review in the West African Sub-region". (E/CN.14/INR/107).

69. The elaboration of a comprehensive construction policy should be based on clearly defined economic and social objectives and alternatives. Governments might decide on using the construction industry to fight under-employment and unemployment. For this purpose, construction methods will need to be made labour-intensive, and at the same time measures will have to be undertaken to ensure that the method would not prove wasteful in the use of scarce resources, especially of investment funds. It would be appreciated that the case for labour-intensive public works is strong in that in addition to creating employment opportunities on a large scale, it also would secure savings in foreign exchange which would otherwise have been spent on the acquisition of expensive capital goods on which modern civil engineering and public works have come to depend heavily. Moreover, the problems of maintaining such equipment and the need to create continuous work to justify its depreciation would be avoided. Manual labour has operational advantages for small and scattered projects because of its great flexibility. In these cases it is bound to be more effective, often more economical and sometimes the only feasible method.

70. Labour-intensive methods have their disadvantages, especially when the project is large. The rate of output is low and the method can rarely attain the high rates of output possible with machinery, even if it can compete in terms of cost. The deployment of the labour force raises serious problems of organization. Important investments of a non-productive character such as workers' temporary housing, health facilities and welfare amenities might be required. Finally, it should be noted that machinery is irreplaceable in certain types of work such as breaking up of hard materials, lifting of materials through great heights, excavation under water, etc.

71. These arguments stress the point that it is not possible to be definitive a priori as to the choice of methods. The choice has furthermore to take into consideration the ultimate objective of increasing labour productivity. In the limited context of public works, productivity can only be increased by increasing output per unit of time through the use of up-to-date production techniques. But this principle evidently runs counter to the objectives of labour-intensive methods, and moreover it assumes that a transformation of the economic and social structure has taken place, and consequently also of employment.

72. Yet in developing countries the stress is laid on the problems of unemployment and under-employment. The question of productivity in public works must be examined within the wider framework of economic and social development, and not only from the point of view of immediate returns. Confronted with the dual objectives of promoting employment on one side and increasing productivity on the other, and convinced that both are vital to development needs, developing countries must aim at reconciling these apparently conflicting objectives. The prospects for increased productivity of labour-intensive methods are, in the face of the prevailing low-level of productivity, considerable. The objective of improving productivity could be partly satisfied through actions that would eliminate prevailing wastage of resources from badly organized work, badly organized sites, and a poorly utilized labour force. In the short-run, therefore, there need not exist a clash of objectives; and in the long-run it could be envisaged that the desired transformation of economic and social structures and, inter-alia, employment opportunities would have taken place.

73. The industrialization of building is bound to attract the increasing attention of government policy matters. The magnitude of estimated demand is of such an order that vast expansions of the capacity of the construction industry would have to be realized to cope with it. Further, it has been seen that the expansion of the supply factors

is a time consuming process, since it involves the major development of the building materials industry, the training of skilled manpower, the reorganization of the contracting business, and the development of planning and research facilities. Under these circumstances, the demand pressure would very likely give rise to an inflationary tendency.

74. The need to economize on limited supply of resources and the desire to reduce construction costs, on the one hand, and the assurance of a sustained housing and building programme, on the other, might convince governments to start industrialization of building at least on a limited scale. Industrialization of building in the sense of mass production of prefabricated elements would in all probability prove the only means of coping with the estimated construction needs in the eighties. But the change to full-scale building industrialization must be planned within the framework of general economic development.

75. These then are some of the arguments for centralizing the planning of the construction industry. Neither the technical problems, nor the economic choices, nor the social objectives should be treated in isolation. A sound and dynamic policy for the construction industry can only emerge from a complete and profound study of every factor and its relevance to the overall objective. The present structure of government departments dealing with construction (public works ministries, housing ministries, etc.) reflecting as they do the pattern of industrialized countries, falls short of satisfying the short and long-term needs that arise out of rapid economic growth. A major reorganization of existing government departments or, alternatively, a new centralized agency is felt to be timely and justifiable. Such a department charged with the overall and specific problems of the construction industry could be instrumental to a dynamic and balanced growth of this important economic sector. As it would be knowledgeable of all aspects of the construction industry, the centralized national agency would not only facilitate international co-operation but also make it effective in such important areas as exchange of know-how, applied research, and skilled manpower. In this way, the elaboration of short and long-term plans and policies would be facilitated and follow-up actions.

76. It is through far-sighted comprehensive planning and co-ordinated attack on all the problems influencing the construction industry that the central objectives of (a) reducing construction costs and increasing the performance of the industry and (b) maximizing the contribution of the construction industry to overall economic and social progress, could be achieved.

77. The proceedings of the Regional Meeting on Administration in Housing in Africa^{1/} revealed a lack of communication between officials directly responsible for human settlements affairs and those officials responsible for economic and social planning and financial affairs. The tenor of the discussions at this meeting amounted to complaint by those officials directly responsible for human settlements affairs. In the majority of cases they stated they took no part in the drafting of the chapter of the national development plan dealing with human settlements, and they were not in the majority of cases consulted about the allocation of resources of the gross national product. It appears that this is an issue of a controversial nature which will have to be ventilated in a constructive way during the HABITAT: UN Conference on Human Settlements.

78. With regard to the use of capital and accounting procedures mentioned above, difficulty has arisen from the practice that was common in former colonial territories. This entails the lack of accounting procedures with regard to the capital element of finance. Generally speaking, no attempt is made to repay capital invested; it is in fact initially written off (when provided from surplus revenues), or becomes a charge against general revenues. In these circumstances, not only is the full extent of subsidies never revealed, but major items of capital expenditure are charged to current account. This practice has also been followed in some local government schemes.

79. The capital finance for some local authority building has come from private sources such as insurance companies, and from public loans floated by the authorities (examples of both in Nairobi). Some countries have received capital from external sources in this respect, but in general capital finance has to be allocated from the capital budget of the local authorities, just as would be the case for the Central Government.

80. The use of capital is also affected by subsidies which are in most cases attached to the house rather than to the family occupying it. If subsidies are essential, it is considered they should be attached to the family. In housing, subsidies are used where it is considered that people are unable to afford a fit standard of accommodation from their regular income. They are, therefore, involved in income redistribution policy. Broadly, subsidies may be said to have four types of effects:

- (a) they form a commitment which has to be met from current Government expenditures,
- (b) they affect the consumption patterns in relation to housing expenditure, and if given only on rental accommodation would tend to decrease the incentive to owner-occupation,
- (c) the structure of the housing stock in terms of construction cost will, in the long run, differ from the 'free market' system depending on expenditure patterns,
- (d) in the long run the subsidy system may lead to a change in peoples' attitudes to their housing, so that subsidies cease to be an expedient for raising standards, but are taken for granted by the recipients - thus other types of income redistribution policies may be preferable.

81. In Africa, the proportion of the population that receives the benefit of subsidies is very small. Quite apart from the higher income group subsidies already mentioned, the remainder of the subsidised groups would usually be in the urban population, or if not then accommodated in employers' housing. Subsidies are therefore only likely to affect that part of the population that is in regular employment. The types of accounting systems used, including no allowance for capital costs, of the payment of housing allowances in addition to basic salaries, often do not allow an accurate assessment of the extent of housing subsidies. Additional forms of subsidies, apart from those on rents, may be preferential taxation measures, the provision of serviced plots and other services at less than cost, interest charged on loans at less than commercial rates, etc. This means that the assessment of any one country's housing market in terms of the impact of subsidies may be very difficult.

82. From the foregoing it will be seen that in the field of housing finance both the public and the private sectors are inextricably linked. This is more so in the developing countries of Africa because governments have had to take the initiative and have often been concerned in "pump priming" operations, with considerable capital investment in both statutory executing agencies and local government authorities.

83. ECA secretariat believes that particular regard should be taken to the efficient use of government funds invested in housing and urban development so that the maximum development can be accomplished with the resources available. We have already formed the conclusion that the bulk of housing for rental purposes will be in the private sector so we are recommending that Government and Local Government Authority activities should be directed primarily to those people who wish to become owner-occupiers for the following reasons: A preliminary analysis of the operations of house-building agencies shows that operating expenses are out of proportion to the number of houses built. Loans made available by Governments cannot be serviced by these agencies because of the diminishing revenue caused by inflated operating costs particularly in management work. Money is tied up for long periods, 30-40 years, in rented housing and for hire-purchase housing, and the Governments are being plagued to provide more loan capital to begin the same process all over again. African Governments cannot afford this process unless efficient use of the funds provided is established and maintained from the outset. It is considered that house-building agencies should rather develop more land which can be made available to persons willing to build their own houses with loans provided through adequate housing credit facilities.

84. Casting a shadow over all the issues depicted in the foregoing programmes, in both the private and public sectors is inflation. Inflation hits African economies in two ways: first, there is the inflationary tendency on a national basis and, second, there is imported inflation caused by the wage-price spiral in the industrialized countries with which they have trading arrangements. World-wide inflation and unsettled financial conditions affect developing countries in a variety of ways. Developing countries are slow to feel the full impact of inflation but are among the last to attempt to control it. The general adjustment to inflation in industrialized countries produces a fall in demand which reduces their imports from the developing countries. In short, prices for primary commodities fall and prices for manufactured products rise, e.g. iron ore and steel.^{1/} Nearer to the people themselves insofar as it affects human settlements is the same situation in regard to food, energy, and building materials (of which steel is important). The import element of building materials was stated in 1973 to be of the value of US\$600 millions in the African continent. No doubt this figure has increased widely since that time because of the conditions described above. Here is a classic case for import substitution to get reduction, but only in cement and cement-based products has there been any wide-ranging change.

85. Despite the fundamental issues raised in the preceding paragraphs related to organizational and financial matters in the public sector, some considerable progress has been made in regard to establishing and improving financial institutions. The secretariat of ECA has over the past years been carrying out a programme of technical assistance activities in this field.^{2/} The efforts of the secretariat have had a multiplier effect in that support has been secured from bilateral and multilateral

^{1/} UNCTAD Document TD/B/C.1/142 of 21 October 1974.

^{2/} General Assembly Document No. A/9575, 24 April 1974.

agencies and non-governmental organizations. The secretariat has encouraged special research and discussion on the promotion of savings and loan associations, credit unions and other institutions for the mobilization of domestic savings. It established a special ECA Task Force on Financing of Housing, Building and Physical Planning which produced a report^{1/} containing recommendations on various aspects of policies and programmes, financing, land use, training and research, and suggestions for the formulation of new projects and proposals. Special emphasis was given to the importance of establishing national housing banks and housing finance institutions, and mobilizing local savings in African countries for investment in human settlements.

86. A significant aspect of the ECA experience is that excellent working relationships have been established with a number of bilateral aid agencies and with non-governmental organizations resulting in the expansion and encouragement of training and research opportunities for Africans in the field of financing for human settlements. As a result, the flow of external assistance for this sector to different African countries has been generally facilitated.

87. The work has considerably accelerated the recognition in many African countries of the importance of policies and financing for human settlements, and the establishment of appropriate institutions to deal with these matters. The establishment of housing banks and Funds has taken place in 15 African countries, the latest of which has been the Housing Bank in Tunisia which opened its doors for business in mid 1974. These institutions in the different countries do not always carry the title of "Housing Bank" but their operations are the same. Towards a rationalization of financing for human settlements, the Government of Ghana established the Ghana Construction Bank which finances and evaluates projects for infrastructure, housing and community facilities. A step on the organizational side has been taken in the Libyan Arab Republic where specialists in all the fields of competence in planning and construction activities have been located in the Ministry of Housing and Public Utilities for some time past.

88. The financing of human settlements development has been facilitated in Kenya, Libyan Arab Republic, Tanzania and Zambia by measures taken to encourage development within urban areas of unused and undeveloped land against penalty of compulsory appropriation of land. This comment is made solely in connection with facilitating the financing of human settlements, the details of land use policies and control measures are included in a separate document being made available to the African Regional Preparatory Conference.

INTERNATIONAL ASSISTANCE FOR FINANCING HUMAN SETTLEMENTS

89. There are also fundamental issues connected with international assistance for financing human settlements. These occur both in international assistance itself and in bilateral aid programmes, and in the process whereby so called "private investment" is sometimes introduced into human settlements affairs.

90. While the contributions of foreign private investment are recognized, problems arise when it functions as an enclave, unrelated to local economic planning and thus failing to perform several of its basic functions. This is because it has generally

^{1/} See E/CN.14/HOU/99

been channeled through large-scale enterprises, the home offices of which provide them with international financing and connect them to sources of technology, including plant and machinery. The shares of such enterprises are not traded on any local market thereby weakening the incentives for domestic savings, and having a bad effect on any development of a capital market. Professionals in the countries where operations are being carried out are frequently discouraged by their lack of participation in management positions. Even more serious is the problem created by the failure of foreign enterprises to promote the local processing and manufacture of products. This type of investment is often made in relatively more developed countries in creating large industries to meet both domestic and export demands. African countries faced with this situation and with a public opinion which increasingly calls for national control of major economic decisions, have taken steps through state enterprises in the production of goods and services important to the national development plan for human settlements.

91. The amount of funds expended by international and bilateral donors in the field of housing, building and planning has been regularly reported in the proceedings of the United Nations Committee on Housing, Building and Planning the last meeting of which took place in Geneva in October 1973. The details normally include the assistance being provided through the IBRD (IDA) for a system for site and services schemes in different countries. These include Botswana, Kenya, Senegal, Tanzania, and Zambia in Africa either at the preparatory or operational stage.

92. It is not intended in this paper to go into the sums involved since it is expected to show the issues involved in human settlements affairs. It is common knowledge that priorities set by governments have not placed human settlements high on the list. The issue involved is the debt service burden being carried by many African countries which means that anywhere between 5 per cent and 30 per cent of their export earnings have to be used to service debts which already encumber their economies. It would seem that the time is not far off when there must be a re-appraisal of this position whether this is in the form of rescheduling or writeoff by common consent. The attention of governments must be drawn to the valuable documentation on this topic prepared and published by the UNCTAD Secretariat in their series under the symbol TD/B/C.3/AC.8 which covers both the debt position and debt servicing^{1/}.

93. These comments lead us to consider the position regarding the establishment of an International Habitat and Human Settlements Foundation which was considered by the United Nations General Assembly at its Twentyninth Session in 1974. It is understood that this Foundation will be further considered by the Governing Council of the United Nations Environment Programme at its meeting in Nairobi, Kenya during April 1975, and again at the Thirtyth Session of the General Assembly in 1975. It is expected that a plan of operations will be presented to the Governing Council of United Nations Environment Programme in April 1975 and that one of the main objectives of the Foundation will be to assist in establishing financial institutions in developing countries on a global basis, and to provide expertise towards such an establishment. With the World Bank system for assistance in site and services schemes, the renewed emphasis on housing through co-operative housing societies and non-profit organizations, and the trend towards centralized arrangements for evaluating and financing projects in infrastructure, etc., this Foundation has a unique role to play in human settlements affairs in co-operation with the World Bank and the regional development banks.

^{1/} In particular, the external debt experience of developing countries: economic developments following multilateral debt renegotiations in selected developing countries (TD/B/C.3/AC.8/9), 19 November 1974.

94. Having commented on the different sources of funds for investment in human settlements and some of the organizational arrangements involved at the higher levels, it is thought necessary in the following paragraphs to go into a little more detail about the actual use of funds in the mortgage market. This may be valuable to governments when formulating policies and programmes for human settlements and may indicate necessary changes in existing arrangements.

SOME ASPECTS OF THE HOUSING MORTGAGE MARKET IN AFRICAN COUNTRIES

95. Considering the vast number of problems which could be fitted under the heading: "Mortgage Market", it would be useful to set out what this section intends to cover. First, the aim is to characterize the mortgage market, as it operates in African countries and to make some qualitative statements. Secondly, the main objective is to suggest ways and means by which the mortgage market would be better able to serve its purpose, which is to provide more and better houses.

96. It should also be made clear from the beginning that if the purpose of the mortgage market is to provide more and better houses, it may well be necessary to introduce unorthodox ways and means in order to achieve this goal. In fact, the extent to which we are prepared to adopt unconventional thinking is a measure of the importance and seriousness we attach to this goal. Only where it is relevant on what potentials the mortgage market holds for future development will there be references to history or particular national characteristics.

Conceptual framework and context

97. By definition MORTGAGE means security, and in this way it is most often thought of as security for a loan to build a house, where the property becomes the security. Thus the mortgage market is a market for which loans with its corresponding securities, and as such it becomes an integral part of the larger market for securities and therefore highly influenced by it.

98. As the prices of property directly relate to the value of the security, the property market will also influence the movements of the mortgage market.

99. The fact that what follows is dealing specifically with the mortgage market in an African context does not mean that it is different in principle from other mortgage markets. It does mean however, that certain aspects of its future development may not necessarily follow those of the same markets in Europe and United States, because in Africa we are dealing with conditions somewhat different from the more sophisticated financial markets, and because there may be certain mistakes developing countries may avoid by studying the systems of mortgage financing as they have developed elsewhere.

100. Apart from the definition of the mortgage market given above, other expressions which are used ambiguously even among professional should be defined as they are used in this section.

101. Low-cost housing means housing (family) units costing US\$1,500 or less inclusive of technical services but exclusive of the price of land. Low-income groups means family units making between \$50 and \$150 per month. Those making \$50 and below per month are referred to as very low or lower low income groups. A subsidy means anything which makes the official price of a commodity (dwelling unit) less than the free market price. An economic rent is used here as it is commonly - and wrongly - used as the rent which equals the amortization payments plus maintenance cost and not including the so called "opportunity cost" which the same term does include as used in economic textbooks.

THE PUBLIC SECTOR AS A MORTGAGE HOLDER

Government Housing Schemes

102. The public sector deserves mention in a section on the Mortgage Market, to the extent it finances houses for private occupancy - even if the occupants are civil servants - and even though these houses may actually be constructed by the public sector and no formal mortgage registered. In cases where the occupier is eventually to own the house an arrangement known in the English terminology as "tenant-purchase agreement" is drawn up. For practical purposes this arrangement functions similar to a regular mortgage loan, with the exception that the occupier does not receive his title deed until the purchase price has been paid in full. As opposed to houses and flats for rental the tenant-purchase arrangement is becoming more popular in many parts of Africa, because on the one hand it satisfies a growing demand for home-ownership, and on the other hand it relieves the public authority for continued maintenance responsibility at a time when this becomes a real economic burden.

103. The tenant-purchase agreement has an added advantage namely that the relatively high cost of registering the title deed on a low-cost house is postponed till the end of the payment period, so that it does not coincide with the down payment at the start of the agreement where also cost of furnishings fall due.

104. It is beyond this section to discuss the issue of Government's responsibility or otherwise to house civil servants, but in terms of money and number of housing units this becomes a contribution to the housing market, which cannot be ignored. Suffice it to say that this carry-over from colonial times enjoys obvious support from civil servants, most of whom are in the better half of the income distribution and as such among those who are in a position to contribute to a house of their own provided a mortgage arrangement was available to them and provided their net remuneration was not reduced.

105. In some countries home-ownership among civil servants has been recognized as desirable and included in the practical implementation of the development plan for housing. The down-payment is reduced to 5 to 10 per cent and a housing allowance is paid in lieu of a house allocation. In such cases Government itself can be the mortgage holder or it can refer the individual to a financial institution to which the Government has given an undertaking to guarantee the loan.

Local Council Housing Schemes

106. Because it is recognized that housing is partly a public responsibility, the housing plan for most countries in Africa includes the actual construction of houses for the lower income groups. This can either be centrally organized by Government directly, or it can be left to local authorities, which then receive funds and technical assistance for this particular purpose from the central Government.

107. The typical council-built houses or flats are for rental and as such aimed at the low, but not the very low, income groups. This is so because the authority in allocating these dwellings to only a fraction of the many applicants, is anxious that the rent will be paid - even if only an economic rent is charged. Thus they usually apply the rule of thumb of the 25 per cent of income for "lodging" and will exclude initially all those with an income less than four times the rent. Because of being low-cost units and, perhaps more so, because of the rental basis of occupancy, the council houses soon require considerably more maintenance than envisaged. Apart from this it

is the rule rather than the exception that these units are sublet in total or in part, because such is the shortage of decent housing. This is not allowed, but virtually impossible to prevent.

108. Fortunately, the tenant-purchase agreement referred to earlier is finding its way into Local Council Housing as well.

109. At this point it ought to be suggested, that even though this is a very encouraging step it is still not as beneficial to the occupier - and say to the local council and the country as such - as a regular mortgage arrangement would be. Granted there are the advantages mentioned earlier, but the legal fees, tax and other charges could certainly be either included in the loan to be obtained or waived in order to obtain the liberty to actually own, and thus alter or even sell the house. The latter privilege is important from a capital mobilization point of view in that a person should always be allowed to liquidate fixed assets in order to use them for something else of a higher preference. The local as well as the central authorities, if they were the mortgage holder, would be in a position to set not only the percentage of the purchase price they would offer for loan, but they could also decide on an individual basis the monthly payments to be made. For instance the 25 per cent of income. At a given rate of interest it would only mean a shorter or longer repayment period. This point should be emphasized because it shifts the subsidy in public housing from the housing unit to the individual. The advantages of this shift should be obvious as to social justice and mobility of families, who in the past were "tied" to a subsidised house, because they could not afford to move.

THE PRIVATE SECTOR MORTGAGE MARKET

Characteristics of the private housing sector

110. In view of the relatively large part the public sector plays in the provision of houses, it is tempting to ask whether this is intentional or accidental. There seems to be no intention of forcing the private sector out of housing - in fact it is the general policy in West Africa to encourage the private sector to build more. But as long as the private sector is not able to cope with the growing demand for housing, the public sector must do its part in the interest of social development and political stability.

111. This explanation raises the question of why the private sector does not meet a greater part of demand, and if the public sector, rather than build its own houses, could more effectively use its resources to encourage private enterprise to produce more, better and cheaper houses. The fact of the matter is that the private sector does meet the demand, namely by housing those with a strong enough need (effective demand) in overcrowded conditions in existing houses or by adding to the so-called uncontrolled settlements or 'shanty towns'. This is not an acceptable solution. Despite the dislike for this kind of development, indeed, in spite of the efforts and

1/ Should the individual be able to increase his monthly payments, and wish to do so, he will of course be given the corresponding rebate in the interest element.
(Example from Sudan).

Research on the "Preference of alternative repayment arrangements of present and potential mortgage borrowers" shows an inverse linear correlation between income and length of repayment period.

money spent to prevent and destroy these settlements they keep growing at a rate, which must impress any developer be he private or public. Why cannot this display of capital, entrepreneurship and skill be channelled into something bigger, better and cheaper (for the occupier)? The answer is that it can.

Mortgage market characteristics

112. Unfortunately the tradition of investors in Africa has been that of making quick and big returns, because uncertainty was the only sure thing. This attitude has shown itself also in the field of financing of housing, i.e. the mortgage market. It is typical that the oldest Building Societies and Insurance Companies concerning themselves with mortgage loans were very conservative in their lending policies. Conditions: Substantial houses, preferably a European owner, a 60 per cent of valuation loan and 10 years to repay. This would obviously not solve the housing problem for the majority of people. Later on, especially after independence, new societies and institutions came into being, which have a somewhat different outlook. These were institutions based either on a co-operative principle as the building societies, or government assisted lending institutions which were to concentrate on medium and low-cost housing.

113. The difference between the two is that in the case of the former, there is a strong obligation to safeguard the funds (deposits and shares) of the members, whereas the government sponsored institutions have only their budgets to consider, though it is the ambition of any manager to show that his organization is gaining, not losing.

114. Loans for low-cost housing have always been considered to be administratively more expensive, because of the default rate and processing cost just as high as loans ten times the amount. This may be so, but it is difficult to see why this could not be taken care of by differentiating the interest rate for various types of loans, just as it is done for various kinds of deposits in the same institutions. The reason is more likely to be that as long as there is excess demand for money also for more expensive houses, these are favoured.

115. Another characteristic of the private mortgage market is its fear that the security may depreciate so rapidly that the value may fall below the balance of the loan. This is hard learned experience. Furthermore, such situations are usually accompanied by the extraordinary withdrawal of funds by the depositors, because they want to convert paper money into gold and other valuables. The result of this is that mortgage-loans for the private sector are usually around 60 per cent of valuation and a short repayment period as mentioned above. This represents a prohibitive barrier to many would-be home owners.

116. Fortunately there are many signs that this is changing. Loan offers are increased and repayment periods lengthened. Stability is the main factor in this process and one may close the circle by saying that home-ownership is one of the main factors in stability.

Mortgage market deficiencies

117. One would tend to think of a Mortgage market as an official trading centre, a bourse or clearing house where mortgage holders (lenders) would meet with buyers and sell their securities to interested investors, so that they may raise more money for additional loans (mortgages).

118. This is not how the mortgage market functions in Africa, and perhaps this is one of the major deficiencies. In other words, the institutions which lend cannot generate additional capital on the strength of their securities. In the Scandinavian countries, private investors will buy "first class"^{1/} mortgages as a long term investment with a high yield, because they now obtain the same interest rate as the institutions was charging, which is most likely 2-3 per cent higher than the highest deposit rate of the same institution. Insurance companies are perhaps the major buyer in these markets, which makes some sense in that they are not really set-up as a financial mortgage institution but to do insurance business. Still they have a capacity and interest in making safe, high yielding long term investment.

119. It is also a deficiency that the institutions which lend to the production of houses do not often enjoy the same privilege as those institutions lending for the production of e.g. furniture, not to mention agricultural products of a great variety. The banks have access to a Central Bank as "the lender of last resort" or "the bankers bank" where they rediscount their bills and crop advances. Why not the mortgage institutions? One ready answer would be that mortgages are long term, bills are short. So..... this is not traditional business. This argument may hold for private commercial banks, but it does not hold for a Central Bank, which, fortunately, in most countries is a close relative of the Ministry of Finance or the Government as such. It could well be said that as long as the Central Bank is not actively influencing this important flow of funds which housing finance represents, it is operating without one of its major policy instruments.

Subsidiary Mortgage Markets

120. By a subsidiary market we mean second, third etc. charges on land as opposed to the first charge. It may be considered a deficiency in the mortgage market that a market for a second charge against the security is not officially institutionalized. Such a market does exist, but it is extremely difficult to get any information about its magnitude. The way it normally functions is either as a loan from the former to the new owner of the property changing hands (or from the contractor to the builder in the case of new construction), or it is the simple advance from a money-lender to the property owner. In this latter case the loans are usually not more than 20 per cent of the value (a first charge normally being 60 per cent) and the interest is 10 per cent added on to the advance from the start (giving a real interest of about 16 per cent when the loan is to be repaid in five years).

121. Legally the second charge does not enjoy the same kind of protection as the first, i.e. the granting of subsequent charge and the potential repossessing of the property can only be done with the consent of the first mortgage holder. This is an awkward system, which ought to be changed. In the most developed countries the first mortgage holder does not have to consent to the extending of a second and subsequent charges and leaves the right to repossess the property to any mortgagee who can prove default on the part of the mortgagor, of course, with the reposessor now being fully obligated to all other mortgage holders. If several mortgagees should experience defaults at the same time - which is often the case - then the right to repossess and/or sell by auction lies with the holder of the highest charge - again with the obligation vis-a-vis the lower charges. This system has worked well for a long time in the Scandinavian countries and has created a mortgage market consisting of both 1st, 2nd, and 3rd and 4th charges which enjoy the confidence of even the most conservative investors.

^{1/} "first class" usually means a mortgage loan which has been reduced (by repayment) to less than 50 per cent of present valuation. Similarly there are 2nd and 3rd class mortgages with smaller differentials.

122. It is unlikely, of course, that the property will be charged with more than 100 per cent loans, and there is no contradiction in letting one and the same institution do all the lending on one charge.

123. The interest of the first mortgage-holder in subsequent charges is obvious. His mortgagor will be better off financially than before. The result has been a boom in housing and a very high degree of house-ownership. Needless to say that capital appreciation rather than depreciation on housing has been the rule.

The Non-Mortgage Housing Market

124. Mention should be made about that part of the private market, which is the largest in terms of numbers, but not necessarily in value, namely the houses built entirely by privately financed operations whether by self-help or by contractor finance. It is estimated that in Kenya, 7,500 units have been built yearly in this category. These figures refer to the urban areas.

125. It is generally agreed that the standard of the above mentioned 7,500 houses leaves much to be desired - many are decidedly sub-standard. It is also a fact that none of the owners of these low-cost houses appear on the official mortgage market for the simple reason that there is no one catering to this market.^{1/} This does not mean that all these units are built entirely by self-help. It is very common to find entrepreneurs (individuals or companies) putting up a series of units for rental purposes. The return is staggering: 50 per cent and upwards! At such returns it is not difficult to raise money even in the private market and this explains the boom in sub-standard housing, which has taken place mostly in and around the large cities, referred to earlier as shanty towns. To prevent this development by destruction of houses can only add to the shortage thereby pushing prices of accommodation even higher, apart from the "developers" need to regain his investment that much sooner due to the increased risk.

126. Indignation has been displayed over the high returns but the methods employed to eliminate the "exploiters" have produced the exact opposite results of what was intended.

127. The alternative is to make enough permanent land available for these lowest income groups. It is important to provide them with small loans (say US\$150.- per unit in kind rather than cash) in order to improve their standards. The terms of such loans could be well above the normal terms, and the recipients would still be vastly better off. The only way to lower prices and eliminate the exploiters is by increasing the supply of houses relative to the demand.

PROSPECTS FOR THE HOUSING AND MORTGAGE MARKETS IN AFRICA

Incentives - technical and financial

128. Going back again to the essence of the matter. What we are concerned with is demand and supply of housing. The scarcity of supply relative to the demand is our

^{1/} Secretariat note: it has already been recommended to the Government of Kenya that there is room for a separate housing credit institution to cater for people in the lower-income groups, and for other similar organizations to orient their operations to include these persons.

problem. We can dispense with demand, because there is very little we can do about it other than perhaps try to spread it to parts of the country designated as growth-areas, hoping that this will relieve the pressure on the large urban centres. Rural housing is therefore important, but that again takes us back to the supply side. It is generally recognized that the technical problems in producing houses is not the constraint, because there is a wealth of skill, tradition and desire to build. In addition there are local materials well suited for the purpose. Sophisticated technical solutions have so far not proven other than to be more expensive and less labour intensive and usually with a high import content.

129. It is financing which is generally put forward as the major constraint. Some people are of the opinion that the problem is not that there is insufficient money for housing, but that the organization and the incentives are not strong enough. We have already dealt with parts of the organization and explained some of the deficiencies in the mortgage market.

130. Incentives are traditionally offered by the public sector in terms of subsidies direct or indirect in order to reduce the rent of public housing. Unfortunately the effect of that is to increase the demand for these houses; it is not increasing the supply. Likewise with well known incentives such as cheap loans, housing allowances and housing privileges. All these do not increase the net flow of funds into new houses; quite the opposite. It puts pressure of demand on existing houses, forcing up the rents and prices. What is needed are incentives, which mobilize more capital both in terms of cash and self-help efforts for new houses, and, which is just as important, incentives in terms of serviced sites for these houses^{1/}. There is a direct relationship between sites and self-help. This has been proven time and again in Africa and elsewhere. There are two main reasons why this particular incentive is effective. First, as a rule the services cost only about 1/10 of the price of the finished structure^{2/} which means that ten times as many houses will result with the same amount of public money spent.

131. That the houses will be built is certain provided the requirements as to standards and building time are liberal, i.e. will allow minimum standards and at least two years for compliance with these. Further incentives would be to make materials, type plans and technical assistance available on the site.

132. If site-and-service schemes are only allocated to the very poor they may never appear as borrowers on the mortgage market, but this may also hold true if these plots were allocated to the "not so poor". Those are the persons who would normally be considered for council houses.

133. They too are able to raise money privately as long as it is for a tangible asset, which not only gives shelter for oneself and for paying lodgers, but also tends to appreciate rather than depreciate in value. The same argument would hold true, even more so, the better off people were financially.

^{1/} A planned lay-out with serviceable sites may in many cases suffice initially but it is naturally a public responsibility just the same.

^{2/} This proportion emanates clearly from a survey of site-and-service schemes recently carried out by the Housing Research Unit, University of Nairobi.

134. For all groups of income it would naturally be an advantage if mortgage loans were available. For the higher income groups they are. But for the person earning 30 dollars a month and who has a serviced plot on which he wants to erect a house costing 1000 dollars, there are no loan possibilities, only friends and the money lender. He may well be a saver with one of the banks or building societies with a balance of the order of 100 dollars, but still they would not consider him for a mortgage. If this same man had a fair chance of obtaining a mortgage loan of say 80 per cent of the value of his proposed house from those same institutions, then this would undoubtedly be incentive enough for him to save twice as much, before he applied for his loan.

135. This incentive opens up some perspectives for increased savings. If the private institutions say these loans are too risky and administratively expensive as long as there is other business to be had, then there are two alternatives. Either the public sector creates an institution to cater for these loans, and for these savings, or else the existing institutions reorient themselves and take up this challenge. This reorientation could be helped along with moral and tangible support from the public sector. Moral support in the sense that they are permitted to charge higher interest rates for these loans. Tangible, not financial, support in that they receive Government funds on deposit for this particular purpose or even a Government guarantee, the cost of which may or may not be charged to the individual loans.

136. Other incentives would be to grant better loan terms for new than for existing houses. Likewise to give better terms for owner-occupation than for rental purposes. Tax incentives have often been advocated in this connexion.

137. This is a delicate policy instrument. If for instance, tax reductions are obtained by a rapid depreciation of the property value, then there is a tendency to build houses more expensive than necessary. In fact any tax incentives which increases the demand for houses without increasing the funds available for housing is defying the purpose. Two examples of tax incentives, which support the purpose could be the following:-

1. 10 year tax holiday on the notional rent of owner-occupied houses which are being constructed after today (opt.: at a cost of and less).
2. A surtax imposed on all undeveloped land with easy access to water and sewer mains.

New trends and new institutions

138. If new trends are to be suggested for the increase of the supply of houses it would be towards an acceptance of smaller individual loans with the corresponding higher cost. Incentives to bring this about would be a higher rate of interest, which, even if it is not off-set by a lengthening of the repayment period would still be infinitely better than what people pay for rented accommodations on the free market at the moment. It should also be accepted that the small borrower, who must put up a part of the cost himself, would be allowed to do this by way of his own self-help efforts (such as digging the foundation or making blocks).

139. The trend towards owner-occupation is supported in housing policies of all countries in the region, yet there is still the practice of building public housing for rental purposes. At the same time many local authorities complain of the difficulties in collecting rent and of high maintenance cost. To raise the rent is

difficult, but an alternative would be to offer these houses for sale. This could be done on very easy terms to the occupants, and it would seem to serve the double purpose of expanding owner-occupations and elimination of a liability, (overheads and maintenance costs), which would release money for new housing.

140. It is not the purpose here to discuss new institutions to be set up. Partly because in some countries there may already be existing institutions which very easily could incorporate the suggested new features of housing finance, and partly because this is the subject of another section of this paper.

141. In some African countries housing co-operatives have shown some measure of success, particularly in connexion with site- and services schemes. This collective responsibility of such groups makes it more encouraging for lenders to advance money, because the co-operative itself is capable of dealing with individual defaulters.

Effects on Policies and Planning

142. Many of the suggested incentives and new trends can be implemented without much change in existing policies and plans. However there are areas where the policy and planning are the major constraints on the housing development. If, for instance, the policy is to provide houses for the various parts of the country in relation to their expected growth rate and commensurate with the distribution of income groups, then the plan may be a constraint to development if it sets out to build a certain number of houses in each of the cost brackets instead of first laying out (and service) the total number of plots envisaged. This is so, because in the former case the targets may not be reached for a variety of reasons (technical, administrative and financial) whereas in the latter case it is not only likely that the private sector will finish these units faster, but also at a considerable saving to the public sector.

143. Likewise, if the policy is that the public sector should build what the private sector does not seem to be able to produce in order to fill the gap between demand and supply of decent houses (conforming to some defined standard) then the plan should emphasize the incentives vis-a-vis the private market, and not be preoccupied with filling the gap, before it is established.

144. If policy advocates owner occupation then there is enough reason for selling publicly owned houses which are not absolutely necessary for institutional purposes (hospitals, prisons, border guards, etc.).

145. In line with this is the policy on subsidies, which in the majority of cases do not benefit the individuals, for which they were intended and defy the ultimate objective of providing more and better houses.

146. There is one effect of a changed policy with more emphasis on housing, and that is the way other sectors of the economy are affected. If there is an increased flow of scarce resources into housing will not other sectors suffer? On balance, the answer is no. It is beyond this section to analyse this problem in detail, but as far as labour, land and materials are concerned there is no better alternative use. The question is more potent, when it comes to the allocation of public and private funds. This need hardly be a major concern in regard to low-cost houses, because the income groups involved would not have many other investment possibilities open to them. Thus if they increase their savings for housing it would have to come from their consumption, and if they raise other private funds for their housing from mortgage institutions it may only be at the expense of more expensive housing.

147. In the market for securities there is a strong need for a greater variety of securities such as mortgages. Long and short term, little and more risk with corresponding low and high returns.^{1/}

MAIN ISSUES ARISING FOR DISCUSSION

148. In the event that governments of member States will wish to subscribe to a Declaration of Principles, make pronouncements on national policy and its implementation, and give support to suggested actions on an international basis at Vancouver, the following main issues would be discussed during the African Regional Preparatory Conference. Recommendations arising therefrom would be included in the final report and would thus be available for further discussion and finalization in Vancouver:-

1. Rationalization in construction activities and machinery therefor, to streamline procedures and implementation of policies.
2. To bring together under one head those authorities directly concerned with human settlements affairs.
3. To take full account of the national debt position and debt servicing position when formulating programmes and their financial implications.
4. To take account of the methods of using capital in the public sector, particularly on the issue between encouraging home-ownership and the provision of rented housing with all its management and maintenance expenses.
5. To encourage by all means the mobilization of domestic savings for investment in human settlements, and the establishment of adequate financial institutions.
6. To encourage the improvement of conditions in uncontrolled settlements particularly in peri-urban areas in order that citizens may be able to pay due taxes to increase investment in human settlements.
7. To provide adequate financing facilities for improvements in rural housing as part of an integrated rural development programme.
8. To examine the role of commercial banks placed against old philosophy and criteria.
9. To arrange consultative machinery for financial institutions investing in human settlements, including the national or central banks.

^{1/} Edward Nevin: Central Funds in underdeveloped countries - McMillan and Co., London, 1961.