# 2

# The Political Economy of Housing Development in Africa

Housing market dynamics in Africa cannot be understood without a comprehensive grasp of the political economy of the housing sector. In fact, it is important to understand the interactions between the main stakeholders that have shaped the housing production and delivery value chain, as well as what is at stake at each of the critical stages throughout the value chain. In so doing, it is crucial to explore the incentive mechanisms facing the main stakeholders in the housing value chain as well as the induced outcomes in terms of the provision of decent and affordable housing for everyone. In this chapter, we examine the incentive mechanisms with regards to the five main pillars that are crucial to building a sound housing sector and delivering decent and affordable housing for all African households (Fig. 2.1). These five pillars are (1) urbanization and infrastructure, (2) land, (3) construction, (4) informal settlements, and (5) housing finance.


El-hadj M. Bah et al., *Housing Market Dynamics in Africa*,
https://doi.org/10.1057/978-1-137-59792-2_2

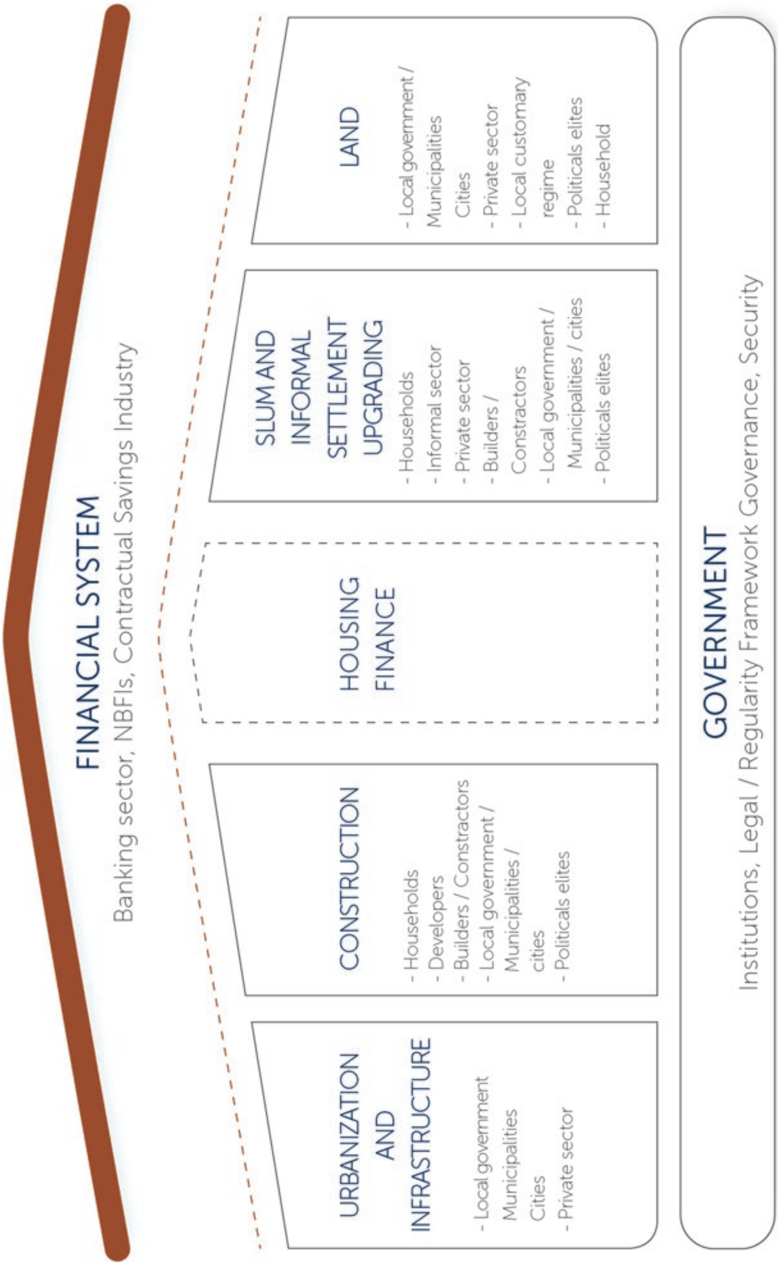


**Fig. 2.1** Housing development pillars (Source: Author)

## 2.1 Lack of Urban Planning and Strategies: Inadequate Housing Policies and Poor Infrastructure Development

The current urbanization dynamics, if not controlled, could be a roadblock to the development of the housing sector. This could prevent the achievement of Sustainable Development Goals (SDGs) 11, which seek to ensure access for all to adequate, safe, and affordable housing and basic services and to upgrade slums, as well as the achievement of the SDGs related to poverty and inequality. The rapid growth and changes in population structure discussed in Chap. 1 are both due to natural population growth and migration flows, resulting from attraction to economic opportunities and from conflicts in some countries. The urban population growth rate has been higher than the rate of economic growth, resulting in an increase in urban poverty and inequality in many countries. For instance, urban poverty rates are high in Eritrea (62 percent), Angola (62.3 percent), the DRC (61.5 percent), Liberia (55 percent), and Madagascar (52 percent). Urban inequality in Africa is the second highest in the world: the Gini index is at 0.54, well above the international alert line of 0.40.[1] Moreover, there is also a gender dimension to urban Africa's slums. According to UN-Habitat, female-headed households account for over 30 percent of slums in urban Africa, compared to 26.8 percent in the developing world. These female-led households usually suffer disproportionately from poverty, have lower average earnings than men, and so on (Buvinić and Gupta 1997; Cohre 2008; EC 2008; UN-Habitat 2003).

Urban dynamics in Africa have led to cities being built back to front—buildings first and services afterward. Many African cities lack basic infrastructure and social services such as quality housing; reliable electricity, water, and sanitation services; and efficient transport systems. Addis Ababa has the least-developed urban infrastructure, with an index of 0.521, followed by Lagos at 0.576. At the other extreme, cities such as Durban are performing better; it has the highest infrastructure development index, at 0.996. Moreover, poor drainage systems make African cities prone to flooding during raining seasons. In 2014, heavy rainfall in

Abidjan clogged drainage systems, damaged roads, and killed 23 people living in the city's slums. There is therefore a need to redesign city sewerage and drainage systems to meet current rising demand. This is essential to improving the livability of Africa's cities.

Limited transportation infrastructure has made many cities heavily congested, lowering the quality of life of urban dwellers and the ease of doing business, thereby reducing productivity. Similarly, low urban electrification rates in Africa, ranging from 4 percent in South Sudan to 100 percent in Mauritius with a continental average of 68 percent is also a serious threat to African firms' productivity and competitiveness (IEA 2015). Moreover, it is well known that the unreliable power supply affects the delivery of quality health care services and people's well-being.

Therefore, it is clear that the current urbanization processes around the continent have generated dysfunctional cities with poor service delivery, notably with respect to decent and affordable housing and infrastructure. Such unsatisfactory outcomes reflect the lack of adequate incentives and mechanisms to enable relevant stakeholders, particularly governments which are responsible for urban planning and strategies, to take appropriate measures to ensure that the urbanization process, in tandem with the housing sector development, can be harnessed for Africa's structural transformation.

The current inadequate incentive system could be characterized as follows:

- *Cost to remedy inadequate urban planning and strategies is very high and potential benefits uncertain.* In fact, in most African countries, the urbanization plans and strategies were conceived following independence but with a strong influence and inheritance from colonial times (see Chaps. 1 and 4). It is also important to note that, as reported by Parnell and Simon (2011), some African countries do not even have an urbanization strategy. Although some countries are now trying to update their urban plans and strategies, the process in most countries has been very slow. This is due to the fact that most cities were built from back to front, which has generated numerous problems or deleterious outcomes that are difficult to reconcile in one policy or strategy and, most importantly, are very costly for governments. Those deleterious outcomes include huge housing deficits, high costs to retrofit infrastructure, inefficient transportation networks and services, urban sprawl, and related threat for food security.

- *Sound housing policies have been neglected.* Rather than leading the way with a clear and coherent vision, governments are acting as followers and implementing only minimal policy changes. Oftentimes, they underestimate the potential of the housing sector, consider it as very risky and challenging, and have neglected the fact that a dynamic housing sector and sound housing policy are needed for successful urbanization planning and strategies. In fact, the tendency to overlook the close interrelationship between urbanization processes and housing market dynamics has generated situations in which housing policies have until recently been ignored in urban planning and strategies on the continent. This has resulted in widespread shortages of affordable housing supply in Africa, especially in cities.
- *Incomplete decentralization processes and weak institutions.* In many African countries, there is a disconnect between urban planning strategies and decentralization processes. Very often, urbanization strategies and plans are not consistent with the decentralization processes, which are a more recent phenomenon for several African countries. In addition, in most countries, the decentralization process has not been designed to enable municipalities to develop their own development strategies and address issues related to urbanization plans and housing developments. Most decentralization processes have also failed to empower local governments to mobilize financial resources independently from central governments. This is a huge impediment to the financing and development of infrastructure in most cities. Moreover, even in some countries where the decentralization process is fairly advanced, the central government still does not really enforce decentralization laws and is reluctant to provide the necessary conditions for local governments and municipalities to thrive. This is in most cases a translation of unnecessary political tensions that often exist between the ruling party and the opposition, which generate frustrations and conflicts. The other challenge facing municipalities and cities as well as central governments is the lack of capacity (institutional and technical) to deliver on their mandates related to urbanization and housing development.

- *Diverging interests, lack of coordination, and conflicts:* In most African countries, different ministries (Finance, Urbanization, Housing, Decentralization, Infrastructure, etc.) as well as different spheres of government are involved in the urbanization and housing development process. Most often, the roles of these institutions are not clearly defined. As a result, these institutions tend to work in silos focusing on the same issues, while using different teams, agencies, resources, and approaches. This, together with the fact that they have unaligned interests and incentives, has generated a lot of frustrations, conflicts, redundancies and lack of coordination. This is the case when the decentralization process is not complete and the appropriate mechanisms for transparency and accountability are lacking, thereby allowing the central government through national fiscal administration to undermine local governments' capacity to play their roles (UN-Habitat 2009). In such an environment, which is plagued by inefficiencies, redundancies, and political tensions, it is difficult to implement any housing development plan or strategy.

Therefore, it appears that the incentive systems related to the urbanization process is not adequate for governments to take necessary policies and actions. It is also not conducive to attract the participation of the private sector, which faces high-perceived and real risks, and is discouraged by high cost of doing business. This has resulted in a worsening of the housing infrastructure financing gap (see Chap. 3) and constitutes a serious disadvantage in a context where housing infrastructure must compete against other types of public infrastructure (energy, roads, information and communication technologies [ICT], etc.) for scarce long-term financing. Moreover, as discussed in Chap. 1, this situation undermines private firms' productivity and their ability to take advantage of the economies of scale associated with large agglomerations.

## 2.2 Poor Land Governance and Administration

Land is one of the most important pillars of the housing value chain and can account for a sizeable share of housing cost (see Chaps. 4 and 5). The cost can even be prohibitive, when one takes into account all the transaction costs and time required to secure land tenure. The political economy of land in Africa is complex, as it involves not only economic, financial, and institutional factors, but also has emotional and cultural underpinnings. In fact, the land issue has been exacerbated by inadequate urban planning and strategy, which has disrupted the urban-rural balance and landscape. Most of the urban expansion in Africa is occurring through rapid, unplanned, and low-density occupation of peri-urban and rural land. This urban sprawl reflects governments' (at both central and local levels) failures to drive the urbanization process and shape urban expansion according to its vision and strategy. This approach has also generated divided cities, resulting from a twin development process—formal and informal settlements developing in parallel as discussed in Chap. 6 (Fig. 2.2).

### 2.2.1 Complex and Unclear Incentive Systems Based on Multiple Land Tenure Regimes

A majority of urban residents are unable to access or afford land or housing in the formal sector and are stuck in "informal" settlements. The twin development process in land occupancy is a consequence of a complex and unclear incentive systems based on multiple land tenure regimes, of

**Fig. 2.2** Africa's divided cities

which the most popular are the formal land right regime and the customary or informal land right regime (see Chap. 4 for more detailed discussions on land issues). Even though in most countries land belongs to the state by law (under constitutional arrangements), in the face of governments' failures and weak capacity, local chiefs and communities have managed to enforce customary land rights that allow them to claim ownership of land. This has exacerbated the difficulties of accessing land in some countries, such as Côte d'Ivoire, where a formal transaction on land in the Abidjan area involving land administration officials cannot be considered as settled as long as the local chiefs and communities have not been compensated through the "land purging" system agreement with the government as discussed in Chap. 4.

According to Kakai (2012), in Benin, the dual land tenure regime also exists, and in practice, the impreciseness of these two types of rights leads to land insecurity, with probably greater recourse to the customary land right, "which makes the land vulnerable and subject to all sorts of misappropriation (pp. 2)." This multiplicity of land tenure regimes and its corollaries in terms of lack of efficiency and security constitute a set of incentives that enable counterproductive and deleterious behaviors such as speculation, corruption, and rent-seeking actions. This to some extent explains the low level of housing development and the difficulties of providing decent and affordable housing, given that the uncertainty and insecurity of land rights makes it difficult to enforce property rights on acquired land for new construction. This system of inadequate incentives, therefore, crowds out private investors from the housing sector, complicates land assembly for new housing projects, and contributes in making housing prices out of reach of the majority, as the formal land supply is constrained.

### 2.2.2 No Incentives for Governments to Harness the Potential Benefits from Land Value Capture

Government failures related to urban planning and strategy as well as land tenure discussed above suggest that the incentive systems in place in most African countries are not sufficient for governments to be cognizant of opportunities related to land value capture, which will eventually enable them to put in place the necessary measures to harness them (see Faye et al. 2013). The limited capacity available in both central and local governments—including weak land administration systems, dysfunctional cadaster systems, outdated equipment to map available land for urban development and housing, out-of-date land registries, and lack of computerized land titling systems—prevents governments from having a good idea and measurement of the amount of land available for different purposes and its value in light of factors such as geography (spatial location, population density), agro-ecology (arable land or not), and economy (distance to central business district, proximity to markets, major infrastructure, and connection to electricity). Even if these information and data exist, it is not comprehensive and not available to government officials. Moreover, these officials do not have the required skills to analyze the available information most of the time. This situation tends to distort government officials' views regarding the positive incentives inherent to harnessing land value capture.

The lack of capacity in governments to assess the fair value of land has been a huge impediment to governments' ability to capture the significant potential for domestic resource mobilization related to land value capture, through land and property taxation, for instance. Moreover, the capacity dearth associated with the above-mentioned failures has undermined governments' efforts to harness the potential related to land value capture. Consequently, governments have until recently neglected the required land reforms, particularly in urban areas. Given the inadequacy of incentives in place, governments are more or less taking a *laissez-faire* approach when it comes to implementing land reforms. This is often guided by the misleading view that they have nothing to lose in the short term, whereas they are in fact missing an opportunity to mobilize a substantial amount of resources that could help build urban infrastructure.

### 2.2.3 The Incentive Mechanisms in Place Facilitate Speculation and Poor Governance

The failure to get the land tenure system right not only constitutes an opportunity cost with respect to the land value capture, but also has generated situations wherein the poor governance mechanisms encourage speculation and wrongdoings (e.g., corruption and money laundering). Across the continent it is common to hear the story of landowners or impostors who have managed to sell the same piece of land to several buyers. Anecdotal evidence paint pictures of people carrying bags full of cash in order to purchase large tracts of land that is worth several hundreds of thousands of US dollars. These wrongdoings are possible only because the incentive system in place does not work and the required capacities, checks and balances, including an appropriate land governance system, are missing.

Among those taking advantage of weak governance systems are bureaucrats and government officials who are aware of the weaknesses and the possibilities of cheating the system. Kakai (2012) demonstrates that in Benin, "in the absence of a rigorous legal framework for land appropriation, land rights implicitly give rise to the monopolizing of land by politico-administrative players and citizens who have a fixed position in the administration and in other spheres of activity." The author also demonstrates that the land governance issue can take several forms through rent-seeking activities and corruption of urban elites, policymakers, and, more generally, players in the political arena. In Kenya, Transparency International found that the likelihood that people visiting the Ministry of Lands might be asked to pay a bribe was 65.7 percent, with 36.3 percent of those who declined to pay a bribe refused service (TI 2005). Molen and Tuladhar (2006) assert that "the [then] Minister of Lands and Settlements of Kenya [stated] that since independence land has been used as a payback system for political supporters, though limited to certain groups of people."

### 2.2.4 Shady Private Investors Are on the Lookout for Speculative and Rent-Seeking Opportunities in Countries Where the Land Governance System Is Weak

While such a system poses serious obstacles to doing business and the effective participation of the private sector—including banks, which consider land and housing development risky—speculators from the private sector in collusion with corrupt bureaucrats or government officials remain highly involved in such activities, to the detriment of the end buyer. Owing to ignorance about the fair value of land, the complicity of some government officials or politicians, and the absence of proper land governance systems, some private companies (both foreign and national) involved in agribusiness, housing development, and construction are acquiring large pieces of land at ridiculously low prices (e.g., reportedly, prices as low as US$0.04/hectare in one African country) for speculative purposes and realizing disproportionate capital gains, to the detriment of local communities (see Faye et al. 2013). Such economic agents would be opposed to land reforms and would associate with corrupt politicians to ensure they continue their illegal activities. Findings by Transparency International show that one in five people globally reported paying a bribe for land services (TI 2013). In Kenya for instance, the average bribe paid for land services is US$100 (TI 2012). It is important to note that according to Transparency International (2011 and 2015), some land developers and speculators specifically target countries with weak governance and collide with local elites to perpetrate corruption and rent-seeking activities to the detriment of the poor in these countries. In the same vein, the 2004 Ndungu Report by Southall (2005) provides a detailed overview about land and graft in Kenya. It talks about the "unbridled plunder" of urban, state, and ministerial lands; of settlement schemes and trust lands; and of forestlands, national parks, game reserves, wetlands, riparian reserves, and protected areas—all facilitated by the extensive complicity of professionals (lawyers, surveyors, land valuers, land registrars, etc.).

### 2.2.5 Poor Governance Incentive Mechanisms Translate into Conflicts, Civil Unrest, Political Instability and Promote Informal Settlements

At the household or individual level, this generates frustrations, discontent, and resentments. It is well known that most Africans have a special attachment to their land. Ownership of land gives a sense of belonging to a certain community and, most of the time, confers respect from other members of the community. As discussed in Chaps. 3 and 4, the majority of potential land buyers are unable to afford a mortgage from the formal banking sector or to get a loan without collateral based on a formal titled and registered land. Therefore, people are denied one of the basic rights granted by their fundamental laws, which is a right to decent shelter. Still the majority in need keep trying to fulfill their aspiration for a decent housing of their own. Yet if they are not cautious, many households or individuals may lose their meager resources and savings while trying to acquire a piece of land from impostors operating within a customary land regime. Besides, such discontent and frustration could also incite violence. In Mali, for instance, weak land delivery systems and poor land governance have contributed to social unrest and political instability, which precipitated the ousting of President Amadou Toumani Touré in 2012 (Durand-Lasserve et al. 2015).

Besides failing to take appropriate measures to resolve frustrations and discontents through a profound overhaul of the land governance systems, politically connected individuals usually leverage their personal relationships and networks to secure protection from some politicians, bureaucrats, or power brokers (such as traditional authorities, politicians, bureaucrats, and the police) to occupy land in the public domain and manage to acquire a degree of tenure security. This also explains the proliferation of informal settlements (see Chap. 6). These individuals could also become rent seekers or informal land brokers and speculate on the basis of fake land titles and still be protected by those to whom they offer bribes, political support, or some sort of obligation in return for protection against legal action. These informal land brokers—called "coxers" in Mali—are defined by Durand-Lasserve et al. (2015: 46) as individuals involved in customary land sales "to whom many buyers and sellers resort to transact land. They have informers in peri-urban villages to identify land that can be transacted and negotiate with village authorities; therefore, they are key players in the rural to urban conversion process. They are also aware of the 'tricks' that can be used to circumvent regular procedures and deal with the administration to make sales effective. They are often found in publicly visible places, including on the side of roads not far from plots that are for sale." Box 2.1 provides an analysis of the role that politics and social connections play in the allocation of public land in Mali.[2]

**Box 2.1 The Role of Political and Social Connections in the Public Allocation of Land: Evidence from Mali**

A list of households entitled to resettlement following a tenure regularization project that took place in a commune of Bamako District had been set up by the town council. People whose names were on the list had priority access to the land in the resettlement area. A decision allocating a parcel of land for housing was made for the benefit of Mr. X, who had recently been evicted from his plot following a tenure regularization project. His name was on a list with many other beneficiary households. Less than a week later, another decision made by the same commune modified the list of beneficiaries. The land originally allocated to Mr. X was then reallocated to Mr. Y, a high-ranking ministerial officer. Officially, Mr. X had sold the land that had been allocated to him shortly after the allocation. The justification given by the land administration was that Mr. X sold his land either because he did not need it anymore or because he was unable to pay the administrative costs and fees associated with the allocation of the plot. Many other beneficiaries of the same resettlement scheme also "resold" their plots right after allocation. Mr. X. may have been duped out of his plot, but he may also have been part of a concerted plan.

Source: Durand-Lasserve et al. (2015: 53).

## 2.3 A Construction Sector Plagued by Rent-Seeking Behaviors, Compliance Issues, Resistance to Technology, and Lack of Capacity

The construction sector is one of the pillars of the housing sector that is worth exploring if one is concerned with the political economy of the housing sector and how it affects the market's ability to deliver decent and affordable housing units. It is noticeable in this sector that the main stakeholder incentives are inadequate and most of the time misaligned.

### 2.3.1 Rent-Seeking Behaviors and Lack of Compliance to Norms and Standards

It is noted that one of the main aspirations of individuals and households in African societies is to become homeowners. This provides a sense of accomplishment for most households and reflects their attachment to their native land. However, construction costs are very high on the continent, owing to several factors that go beyond the control of households (see Chap. 5).[3] Consequently, a dominant feature of the housing market is the adoption by households of self-built housing, whereby they build their houses incrementally, using resources at their disposal, from land acquisition to finishing. The danger in this process is that some households may be tempted to cut corners to reduce costs and not comply with the building code standards, which they may consider as onerous and not conducive to affordable housing construction.

Very often, the lack of adherence to regulations and norms stipulated in the country's building codes is prevalent in many countries across the continent. However, this is more acute in countries with poor governance systems where some individuals can get construction permits without following normal procedures or, worse still, build houses without construction permits with the complicity of inspection agents or leveraging their relationships with decision-makers, politicians, and bureaucrats who will protect them from penalties for violation. Bribery or relationships with political elites and high-ranking public officials are used to ensure that laws are not enforced. This has resulted in the construction of poor-quality housing and frequent accidents such as collapsing of two- and three-story buildings and other catastrophic events related to ill-designed construction that did not meet building codes.

### 2.3.2 Resistance to Technology Change

Another element worth mentioning under the political economy analysis is that households have a certain perception of quality housing and their preferences. More often, individuals associate quality housing to the regular "brick-and-mortar" housing structure. Most households are not open to adopting alternative building techniques and materials which in general are not considered as good as the traditional building techniques. There is a general belief that the "brick-and-mortar" type of housing is a must-have and that decent housing should not be constructed using alternative building techniques and materials including prefabricated material, timber, and so on. Although these alternative building materials and techniques could go a long way toward cutting costs, it remains that the incentive mechanisms in place—including cost and taxes related to acquiring these materials, as well as their reliability and quality of provision—are not adequate to promote the uptake of such techniques and materials (see Chap. 5).

### 2.3.3 In the Absence of a Strong Political Will, Countervailing Incentives Inhibits Governments' Actions

The implementation of the required policy efforts with regards to issues discussed above is not as straightforward as it seems, given that most governments face countervailing incentives. On one hand, most governments are facing huge housing deficits, which is a time bomb waiting to explode. There is a need to provide housing at scale and in a sustainable manner. On the other hand, it is not clear that a radical reform of the construction sector will be beneficial from a government's standpoint, given the competing and entrenched interests of various stakeholders. Moreover, it may appear quite risky for governments to implement widespread reforms in the current construction sector, which has so far played a vital role in the strong economic growth achieved in the continent over the last decade. Furthermore, it is important to note that such efforts will have significant economic, policy, and legislative implications. It may entail a drastic shift in industrial and sectorial policies so as to facilitate the move from imported to locally produced building materials. This could have some economic and social consequences, including restructuring of the construction industry, layoff of some workers, and social tensions (workers on strike) that a populist government may not want to encounter. This may also involve the need to go through tedious and often lengthy legislative processes to amend building codes and adjust the legal and regulatory frameworks in the sector so as to facilitate the uptake and use of alternative local building materials.

Such legislative processes can prove to be very cumbersome with several impediments coming from pressure groups or lobbyists defending some vested interests in the construction industry. The process of amending building codes could be a case in point. As discussed in Chap. 5, building codes in a number of African countries were inherited from colonial times, often reflecting the building codes of France and Great

Britain in the 1960s regardless of local realities and affordability. As such, these codes have been serving the interests of some foreign construction companies and their representatives in the construction industry. Amending them will require going through a long and tedious process with little certainty about the outcome. In fact, it has been noticed that in some countries, lobbyists and pressure groups have representatives in parliaments which are eager to advance their interests. Moreover, some members of parliaments also have vested interests in the construction sector that would lead them to block any amendments of existing building codes.

Overall, in the absence of a strong political will, the countervailing incentives faced by governments are not conducive to implementing measures geared toward bringing down costs, at least in the short run.

### 2.3.4 Lack of Capacity for Developers and Weak Competition

When it comes to builders and developers, they find themselves between a rock and a hard place. On the one hand, they are called upon to produce at scale in order to fill the immense housing deficit. On the other hand, the predominance of self-built housing across the continent suggests that there may not be a sizeable market for developers. Most developers are unable to adequately respond to housing development challenges due mainly to the lack of capacity in terms of equity, human resources, and equipment to produce cost-efficient housing units at scale. African developers that can deliver sizeable housing projects of at least 10,000 housing units are practically nonexistent. As a result, developers are confined to delivering relatively small housing projects and are not able to harness economies of scale. Their limitations in terms of resources also prevent them from investing in innovative techniques and materials in order to cut costs. This has serious implications in terms of competition, which is weak, and in terms of affordability as the houses delivered are not cost efficient. This is the case in several African countries such as DRC and Zambia.

Another point to add to this situation is that developers, given their limited capacity and the lack of appropriate incentives, do not take much risk. Although off-plan sales are a means for developers to raise financing required for their projects, they limit affordability and expose the buyer to high risks if the project does not materialize. This explains to some extent why most of the large housing construction projects on the continent are handled by foreign construction companies such as the Chinese CITIC, and so on. Until fairly recently, the construction industry in Africa was characterized by the dominance of oligopolistic or monopolistic conglomerates, especially in the cement industry. This has been the case in Ethiopia, Sénégal, and other countries, which has contributed in maintaining the *status quo*, while undermining affordability. Recent privatization and the liberalization of the cement market in different countries have triggered competition with private companies entering these markets. Dangote Cement, with operations in 10 Africa countries, illustrates this point.

## 2.4 Lack of Adequate Incentive Mechanisms to Handle Slum Proliferation

Slum proliferation is a salient feature of Africa's dysfunctional urbanization process (see Chap. 1). This has brought about the twin development process referred to earlier—formal and informal settlements developing in parallel and generating the proliferation of slums in Africa (see Chap. 6) with their related socioeconomic and environmental problems (e.g., high rates of crime, public health issues, unemployment, and environmental degradation). With an average annual increase in the slum and squatter population of about 4.5 percent, sub-Saharan Africa has the highest rate in the world. Over 200 million Africans live in slums, and cities accommodate 72 percent of all slum dwellers in the continent. More specifically, in the Central African Republic, 82 percent of households in the capital and large cities live in slums, whereas in Chad virtually all households live in slums, in both large and small cities. It is noted that the bulk of the countries in sub-Saharan Africa display significant levels of slum prevalence in capital and large cities as well as small cities (30 percent and 41 percent, respectively, in Ghana) and (23 percent and 47 percent, respectively, in South Africa). The number of countries experiencing low or moderate concentrations of slums in capitals and large cities, as well as in small cities and towns, is limited (e.g., Zimbabwe [7 percent and 4 percent, respectively] and Morocco [12 percent and 14 percent, respectively]).

### 2.4.1 Slums as a Source of Political and Economic Benefits

The persistence and proliferation of slums, despite their large negative socioeconomic impacts, is related to the inadequacy of the incentive systems in place. Underinvestment and ineffective legislative and regulatory control in urban areas continue to foster favorable and profitable conditions for political and economic opportunists in slum areas. For example, it is noted that squatters on public land can in some countries acquire a degree of tenure security by offering money or political support to local decision-makers and power brokers (such as traditional authorities, politicians, bureaucrats, and the police) in return for protection against eviction. According to UN-Habitat, in informal settlements with inadequate water infrastructure, informal service providers make inordinate profits selling water at inflated prices. Deficiencies in public transport systems have also given rise to a multibillion-dollar informal transport industry, which, in many African cities, is controlled by politicians and senior police officers. Hence, poor urban management, resource deficiencies, underinvestment in infrastructure, and the absence of effective urban governance all combine to perpetuate informality and slum development, and enable powerful and influential groups to benefit from the status quo (UN-Habitat 2014).

In fact, some of the key stakeholders involved (e.g., slum dwellers, public authorities, private entrepreneurs, and even NGOs) have a vested interest in keeping the *status quo*. This echoes the idea according to which "urban underdevelopment—including slum proliferation—has proven politically and economically beneficial to a wide range of actors in African cities" (Fox 2013: 3).

Given the configuration of the housing sector, the high level of housing deficits, and the affordability issues observed in African cities (see Chap. 5), slums or informal settlements are the only reasonable option for the poorest of the poor. They pay an unduly high price for very low-quality rental housing. According to UN-Habitat (2003), "The majority of slum dwellers earn their living from informal sector activities located either within or outside slum areas, and many informal entrepreneurs [operating from slums] have clienteles extending to the rest of the city." Most slum dwellers are people struggling to make a living, within the context of extensive urban poverty and formal unemployment. The fact that their working places are within the slum or well connected to the slum makes it difficult for them to move out of the slum. This explains why it is very common that slum dwellers displaced to some remote areas without economic opportunities tend to come back to their original settlements (see Chap. 6).

It is noted that the inefficiency of the governance and spatial planning systems as well as the infrastructure inequalities inherited from colonial administrations created slums together with opportunities for postcolonial political and economic entrepreneurs to develop power and patronage networks, and take advantage of rent-seeking opportunities (Fox 2013). This situation exposes slum dwellers to rent seekers including the landlords or economic entrepreneurs who own the land and are renting it out to slum dwellers. During our field visits in different countries,[4] it was evident in our discussions that the owners of land where Kibera, the largest slum in Africa, is sitting include medical doctors, some civil servants, political elites, and some other wealthy individuals who have their housing elsewhere in town and use that piece of land as a source of additional revenues.

Besides, it is important to note that the political and economic elite taking advantage of those at the bottom of the pyramid do not have incentives to stop slum development, knowing that there is little chance that they will get back their land and put it to productive use. They are aware of the fact that for political reasons, the unpopularity and costs related to taking displacement measures, and the resistance of slum dwellers to moving out of slums, it will be very difficult and costly in terms of timing and procedures to get back that piece of land and put it to a use that will generate the same kind of revenues. The trade-off for those landlords is therefore straightforward: they would keep the slum dwellers as tenants and pocket their rents, rather than embark on tedious and lengthy procedures of eviction that will only generate costs to bear without any assurance that they will reap some benefits in the near term.

In general, public authorities from the central government as well as many city authorities turn a blind eye to urban sprawl and to the proliferation and expansion of slums and informal settlements for pragmatic reasons and self-interest—slums are a source of low-cost labor for businesses and middle-class households. The vast majority of semiskilled and unskilled workers in the construction, manufacturing, and service sectors live in slums, as do most of the domestic workers in middle-class households. Moreover, public authorities from both central and local governments have a vested interest in slum proliferation. They have failed to put in place the required urbanization strategies, so they have no credible means to guide their urban investments and mobilize the resources required for proper urban development, free of slums. In addition, most African governments do not have the fiscal space or the capacity to embark on a vast eradication of slums, due to the heavy costs involved (e.g., compensation packages and relocation costs) in the provision of infrastructure and adequate housing. They also do not have the institutions and capacity required to successfully roll out vast relocation programs.

Political elites are also among the slums' rent seekers. In addition to being a source of cheap labor, slums and informal settlements are seen as a source of easily "bought" urban votes by both incumbent governments and opposition movements in many African countries. This is partly due to the fact that democratization has not advanced enough to provide mechanisms geared toward ensuring transparency, accountability, and responsiveness of political leaders with respect to their constituencies. These politicians enjoy and maintain a political clientele composed of a small network of people, including representatives of some communities or religious groups. They often promise slum dwellers security of tenure and/or better living conditions, through upgrading interventions, in return for their vote. However, these electoral promises are rarely realized.

Even nongovernmental organizations (NGOs) do not always have the adequate incentives geared toward eradicating slums. They most often plead for slum upgrading and rehabilitation, which in turn contribute to the proliferation of slums. This is related to the very fact that several efforts and programs geared toward moving slum dwellers out of slums and informal settlements have not been quite successful. As discussed above, the slum dwellers usually sell or rent out their new houses in relocated neighborhoods and then move back to slums. Those who decide to stay in their new houses either do not find in the new neighborhood similar work opportunities or are not well connected to city business districts or the wealthy areas where they make their living, posing the risk that they will frequently be late for work and the possibility of losing their jobs. Both outcomes could push these displaced slum dwellers, who are already at the bottom of the pyramid, into extreme poverty. This is simply not an acceptable outcome for most NGOs working in the slums, which thus prefer to promote slum upgrading rather than displacements and eradication of slums. However, due to NGOs' limited resources, their efforts do not always generate substantial outcomes at scale and they have difficulties preventing slums from growing.

## 2.5 Macroeconomic Environment and Affordability Issues

In order to have a comprehensive view of the political economy of the housing sector, it is necessary that the analysis covers the macroeconomic context in which African countries are operating so as to understand how the economic dynamics and constraints are shaping incentives and opportunities in the sector. It is also of utmost importance to discuss affordability issues that are vital for any housing finance policy geared toward catering for poor and low-income households.

### 2.5.1 A Conducive Macroeconomic Environment, But Almost No Sound Housing Finance Policies

Over the last decade, Africa has been one of the fastest-growing regions in the world (Fig. 2.3). The continent's economic outlook remains strong, with the economy projected to rebound in 2017 following the slowdown in 2016. In 2016, East Africa and North Africa maintained their lead in

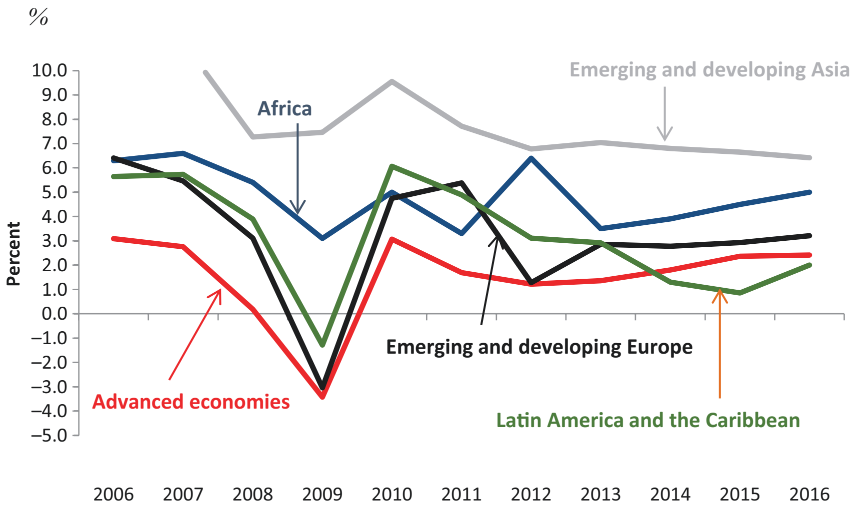


**Fig. 2.3** Real GDP growth by region (%) (Sources: AfDB, IMF)

regional growth with a real gross domestic product (GDP) growth of 5.3 percent and 3 percent, respectively. Increasing infrastructure investments, structural reforms in a number of countries, and sustained domestic consumption continue to drive the continent's growth. This strong growth will continue to reduce poverty in Africa and progressively enlarge the vast swath of middle-class households which have the ability to finance housing investments.

It is important to underscore the fact that the successes achieved by African governments over the last decade in terms of macroeconomic stability and in sustaining high growth performance have laid foundations that are conducive to developing sound housing development policies in accordance with their aspirations of economic structural transformation. That macroeconomic stability and performance is an opportunity to leverage, as it provides the right incentives for investors and the development community to get more involved in the housing sector.

Most importantly, until very recently, several African governments have neither elaborated their financial sector development policies and strategies in general nor developed financial inclusion policies to ensure that the financial systems are designed to contribute to an inclusive model of growth. As a result, given the lack of explicit policy measures and incentives for financial institutions to support the financial inclusion agenda of governments, some financial institutions, particularly foreign-owned institutions, have made little progress in adapting their processes and risk management frameworks as well as in terms of innovation to contribute to that objective.

Similarly, most African governments do not have detailed and explicit policies and strategies to support inclusion in housing finance. In the majority of countries, there are no specific measures or incentives for financial institutions to get more involved in housing finance and adapt their underwriting procedures, for instance, to cater for people with low or irregular income. Financial institutions—particularly foreign banks, whose domination has been stronger, as has their share in the financial system assets in most African countries (Beck et al. 2011)—perceive the housing sector as risky, and, by and large, they consider that there are no incentives to attract them to this segment of the finance market. As a consequence, these banks remain in their comfort zones and niches (which consist mostly of foreign and multinational companies and some large local businesses) and concentrate their portfolios on governments' papers and international assets. These patterns can also be observed among African domestic banks (Beck et al. 2011).

### 2.5.2 A Segmented Market and the Housing Affordability Challenge

The major challenge facing households is the issue of housing affordability. Defining affordable housing is a difficult task, given the large and heterogeneous market dynamics within and across African countries. However, a commonly accepted definition for affordable housing in developed countries such as the United States is that the cost of housing should not exceed 30 percent of a household's gross income. The following discussion further explores the concept of affordable housing in Africa and some techniques used to measure affordability.

Two significant components of housing affordability are household income and housing costs. Using data from EIU Canback, an analysis of Africa's 233 million households shows that 35 percent of households, or 81.5 million families, earned less than US$1500 in 2015, while just 24 percent of households earned over US$5500. As Africa's economic growth accelerates, we project the number of households earning over US$5500 per year to reach 90.5 million households in 2020 equivalent to 31 percent of all households. During the same period, we expect the number of households earning less than US$1500 per year to decrease by 10 percent. These projections include income earned in the informal economy, which employs the majority of African families.

The housing affordability rule of thumb for some lenders is that home prices should not exceed 2.5 times a household's annual income. Using this approach, a substantial number of African families cannot afford an entry-level home supplied by the market. This translates to 81.5 million African households that can only afford a house that costs US$3000 or less. Another 39.1 million households can afford homes that cost between US$3000 and US$5000, while only a meager 15.7 million households—6.7 percent of all African households—can afford homes supplied by the market, at an average starting price of US$28,000.

Across Africa, households in the lowest income quartile are severely overburdened by high housing costs (see Chap. 5). In 2014, Kenyan mortgage lenders cited the high cost of housing as the main obstacle to mortgage market development. The combination of high property costs and low household income suggests that a majority of African households cannot afford to purchase an entry-level home supplied by the market (see Chap. 5). When we include the affordability-killing effect of high interest rates and the transaction costs of obtaining mortgage loans, housing becomes virtually out of reach for low-income African households. Overall, it comes out fairly clearly that the housing finance market is segmented into three major groups: (1) the top-tier and higher-middle-income group, which can cater for itself; (2) the low-middle-income group, which still faces challenges to access decent housing (e.g., the "gap market" in South Africa); and (3) the low- and irregular-income group, which is excluded from the system and contains the majority of slum dwellers (Fig. 2.4).

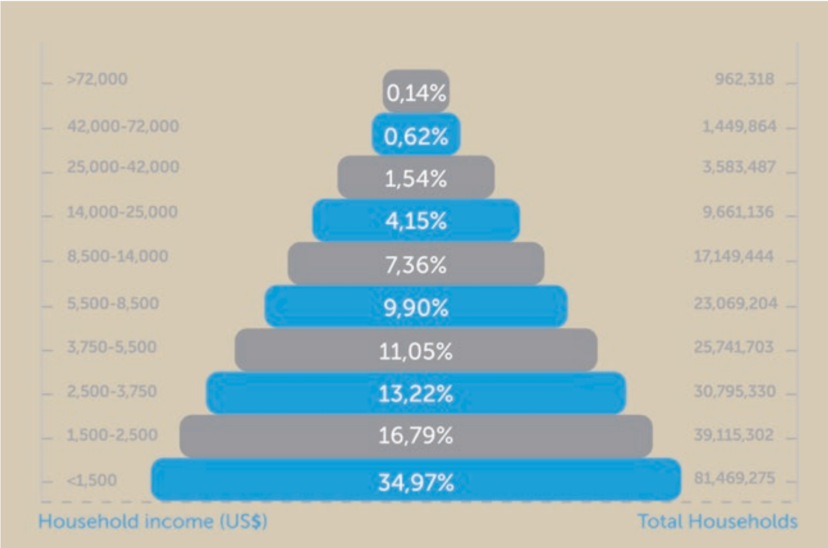


**Fig. 2.4** Household Income Distribution in Africa, 2015 (Source: Author's analysis using Canback Global Income Distribution Database)

The maximum house value that the various income segments in Africa can afford varies widely across regions. Although there are many underwriting standards and qualifying ratios to measure housing affordability, we use a conservative approach in estimating the home prices that should comfortably fit the household incomes of most Africans. Given the low-income levels of many families, we assume a housing expense ratio of 0.28 for our analysis, meaning that mortgage payments should not exceed 28 percent of gross annual income. We use a debt-to-income ratio of 36 percent of household income. This means that the total debt payment of households should not exceed 36 percent of their gross income. Finally, to arrive at the affordable home price, we assume a 15-year mortgage at current interest rates (see Fig. 1.4 in Chap. 1). Note that our working assumption is that the home values do not include a down payment, property tax, home insurance, or any other fees that lenders may charge.

The house-price-to-income ratio is another common metric used to assess housing affordability. The ratio is calculated by dividing the house price by the median income of a country.[5] Using the ratio of house price to income as an indicator of affordability shows that house prices are still out of reach for a vast swath of African families, particularly in sub-Saharan Africa. Figure 2.5 shows the degree to which housing is affordable in various regions. In North Africa, the price-to-income ratio for a 40 $m^2$ house ranges from a regional low of 1.0 in Tunisia to a high of 2.7 in Algeria. Similarly, an 80 $m^2$ home is more affordable in North Africa, with ratios of 2.0 in Morocco and 2.4 in Tunisia. In stark contrast, housing in Southern Africa is severely unaffordable, with a ratio higher than 15 for a 40 $m^2$ house in Malawi, Mozambique, and Zambia. Even more troubling is the price for an 80 $m^2$ home, with ratios ranging from 35 in Zambia to 80 in Mozambique.

In a sample of 27 African countries, North Africa is rated the most affordable region with an average price-to-income ratio of 1.9 for a 40 $m^2$ home and an average ratio of 3.3 for an 80 $m^2$ house. The least-affordable regions on the continent are Southern Africa, with average ratios of 17.7 and 55.7 for a 40 $m^2$ and an 80 $m^2$ home, respectively, followed by Central Africa (11.3 and 24.5), East Africa (9.3 and 22.3), and West Africa (8.2 and 21.6).

## 2.6 Conclusion

This chapter describes the main incentive mechanisms that are offered to the main stakeholders throughout the housing delivery value chain. According to the discussions above, inadequate incentive mechanisms are part of the root causes of the deleterious outcomes generated in terms of housing development. However, this situation also provides an opportunity for the main stakeholders to take necessary actions to reverse the patterns. This would require strong commitment of the major stakeholders and actions to be taken on several fronts. This section will discuss briefly some of the recommendations geared toward getting the incentive mechanisms right. More substantive and detailed discussions on the critical issues are provided in each of the subsequent chapters of this book.

As per urban planning and strategies, a well-planned urbanization strategy with sound housing policies would require putting in place adequate incentives to enable the main stakeholders such as governments

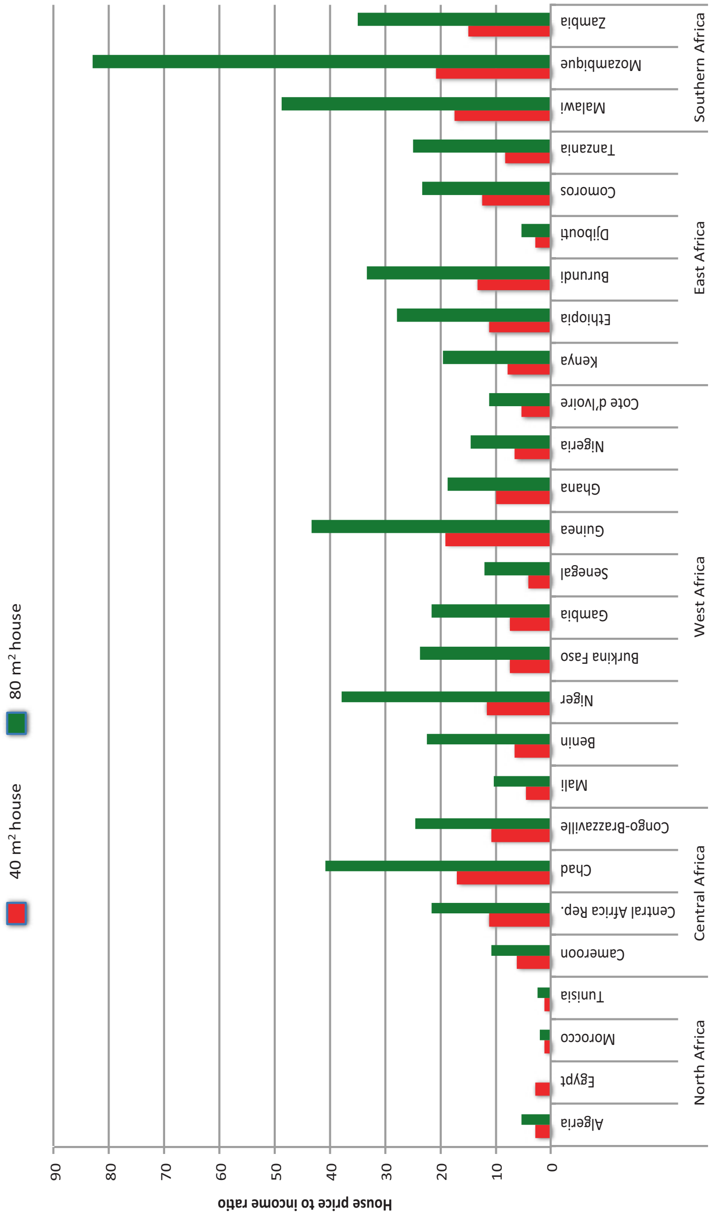


**Fig. 2.5** National housing affordability in 2015, by region (Source: Author's analysis)

and private sector to be in a position to harness some of the potential benefits that urbanization and housing development offer. This would require making necessary adjustments in the urban planning and strategies in order not only to correct the mistakes from the past, but also to enable stakeholders to maximize and reap the potential economic benefits of housing development. These include:

- *Economies of scales and positive externalities related to cities.* Africa's urban dynamics, if well managed, could be designed in such a way that cities provide facilities to promote efficient and productive economic activities, while putting in place the necessary infrastructure, service delivery mechanisms, and well-functioning institutions to allow the flow of capital, skilled labor, and technology. These conditions, together with the effects induced by agglomeration dynamics and infrastructure spillovers, will generate not only economies of scale through larger markets, with growing spending power, and a sizeable number of jobs, but also linkage effects (both backward and forward), which are important drivers of structural transformation.
- *Urban middle class, a big asset:* Cities should invest in basic infrastructure and in human capital in order to meet the increasing social demand fueled by a growing middle class. In Africa, it is reported that consumer spending is expected to increase from US$680 billion in 2008 to US$2.2 trillion by 2030, spurred by the increase in size of the middle class. Such a pattern suggests that the urban middle class can be one of the drivers of urban renewal. Harnessing such an asset could go a long way toward reducing the share of Africans living below the poverty line to (33 percent) by 2060.
- *Cities as champions for promoting clean energy and environmentally friendly construction.* In African countries, a great proportion of households use kerosene, charcoal, or wood for cooking. This suggests that there is room to bring in innovative, environment-friendly solutions to bridge the energy gap while substantially contributing to the dynamic development and transformation of African cities. Smart investments in clean energy could help Africa's transformation leapfrog the energy deficit. Similarly, given the high cost of current construction materials, there is also a need for cities and municipalities to

revisit their legal and regulatory frameworks for the construction sector to promote and advocate for the local production of alternative construction materials that are cheaper and environment friendly (see Chap. 5). Moreover, wastewater and storm water management systems can be used to provide solutions to climate-related challenges faced by cities, and especially affecting the urban poor.

When it comes to land policies and governance issues, it is obvious from the discussions above that there is a long way to go to get the incentives right. The complex and unclear incentive systems based on multiple land tenure regimes have provided room for speculation and wrongdoings (e.g., rent seeking and corruption). This does not provide any incentives for governments to harness the potential benefits from Land Value Capture, but, most importantly, this entails frustrations and discontents from the majority which translate into conflicts, civil unrest, and political instability and promote informal settlements. Curtailing such deleterious outcomes would require profound land policy reforms, including revisions of regulatory and legal frameworks, with a view to reconcile the multiplicity of tenure regimes and strengthening land governance and administration systems (see Chap. 4 for more detailed discussions). The land reforms should also provide the right incentives that outweigh the potential benefits that could derive from political instability, social tensions, and civil unrest. This would require a significant amount of political will as land policy reforms can tend to be very costly in terms of social and political capitals. In other words, this will generate a lot of resistance from politicians, elites, and businesspeople who may have a vested interest in keeping the situation unchanged.

On the side of the construction sector, the need for a strong political will is even more acute, given the countervailing incentives faced by governments. Solving the construction cost conundrum requires putting in place the right policy measures and actions. A benevolent and proactive government could try to maximize the well-being of its population while putting in place the conditions for the provision of decent and affordable housing. In so doing, government could adopt measures to enforce construction standards, cut construction materials' import bill, and promote import substitution while providing the right incentives for the use of alternative techniques based on local building materials. Another possible policy measure could be for government to ban anticompetitive and rent-seeking behaviors, if any, and support private-sector engagement in the construction sector. It is also expected that governments together with some partners from civil society and NGOs would play an important role not only in raising awareness and educating the general public on new building techniques and materials, but also in supporting research and development focusing on building materials and techniques. This could bring about mentality changes, which, combined with efforts to strengthen technical, managerial (through education and Technical and Vocational Education and Training [TVET]), and financial capacity for developers, would definitely provide better incentives for stakeholders to engage and deliver positive outcomes from the construction sector (see more discussions in Chap. 5).

The political economy of slums is very complex, and all boils down to how to reconcile the divergent interests from different stakeholders while ensuring that their expected political and economic benefits are secured. Political will is key. Governments should take bold and decisive actions, but one should not underestimate the power of local networks and stakeholders who have vested interests in maintaining the status quo. Chapter 5 provides some recommendations on how to change the incentive mechanisms and curb slum proliferations on the continent.

It is noted that the macroeconomic stability and performance recorded over the last decade constitutes a great opportunity to get stakeholders, particularly investors involved in the housing sector. In so doing, policymakers, in particular monetary authorities and central banks, should continue to maintain inflation at manageable levels to ensure that financing can flow in and support the development of the housing sector. However, while trying to keep inflation at a relatively low level, they should not overlook the fact that they also need to manage the interest rates. In other words, the objective of setting targets for inflation should not be the only objective, if policy makers are concerned with supporting structural transformation and the development of investments in the productive sector, including construction and housing. The interest rate is an instrument that central banks can use to directly affect the credit market in general and indirectly affect the housing finance market through housing loans. Besides, it is noted that a fundamental element of political economy of housing development is the affordability issue. Regardless of the definition one may adopt, it turns out that housing is out of reach for the majority of households in the continent. Therefore, more efforts will be needed from financial authorities and governments to devise the appropriate financial sector policies that support housing finance and affordability while incentivizing banks and nonbank financial systems to promote financial inclusion schemes that bring housing finance down-market and accessible to the majority of people in need.

## Notes

1. As defined by UN-Habitat, the International alert line denotes the Gini coefficient value above which inequalities have negative social, political, and economic consequences.
2. Box 2.1 is entirely quoted from Durand-Lasserve et al. (2015).
3. Chapter 5 provides detailed discussions on construction cost and its main driving forces.
4. This is anecdotal but depicts faithfully the stories heard during our fact-finding missions, particularly in Kenya.
5. We use the following affordability rating scale in our analysis: 3.0 and under—affordable; 3.1–4.0—moderately affordable; 4.1–5.0—unaffordable; 5.1 and above—severely unaffordable.

## Bibliography

Beck, T., M. Munzele, I. Faye, and T. Triki. 2011. *Financing Africa: Through the Crisis and Beyond*. Washington, DC: World Bank Publications.

Buckley, R., L. Chiquier, and M. Lea. 2009. Housing Finance and the Economy. In *Housing Finance Policy in Emerging Markets*, ed. L. Chiquier and M. Lea. Washington, DC: World Bank.

Buvinić, M., and G. Gupta. 1997. Female-Headed Households and Female-Maintained Families: Are They Worth Targeting to Reduce Poverty in Developing Countries? *Economic Development and Cultural Change* 45 (2): 259–280. Retrieved from http://www.jstor.org/stable/1154535.

Centre on Housing Rights and Evictions (COHRE). 2008. *Women, Slums and Urbanization: Examining the Causes and Consequences*. Geneva: COHRE.

Durand-Lasserve, Alain, Maÿlis Durand-Lasserve, and Harris Selod. 2015. *Land Delivery Systems in West African Cities: The Example of Bamako, Mali,* Africa Development Forum Series. Washington, DC: World Bank. doi:https://doi.org/10.1596/978-1-4648-0433-5. License: Creative Commons Attribution CC BY 3.0 IGO.

EC. 2008. *Manual for Gender Mainstreaming, Social Inclusion and Social Protection Policies*, Employment, Social Affairs and Equal Opportunities Directorate. European Commission. http://ec.europa.eu.

Faye, Issa, Ousman Gajigo, and Emelly Mutambatsere. 2013. *Large Scale Agribusiness Investments and Implications in Africa: Development Finance Institutions' Perspectives*, Working Paper Series N° 193. African Development Bank, Tunis, Tunisia, December.

Fox, S., 2013. *The Political Economy of Slums: Theory and Evidence from Sub-Saharan Africa*, International Development Working Paper No. 13-146. London School of Economics and Political Science, London.

International Energy Agency (IEA). 2015. *World Energy Outlook 2015*. Paris: International Energy Agency (IEA).

Kakai, Sèdagban Hygin F. 2012. *Government and Land Corruption in Benin*, LDPI Working Paper 12. http://www.plaas.org.za/sites/default/files/publications-pdf/LDPI12Kakai.pdf

Kayizzi-Mugerwa, S., A. Shimeles, and N. Yameogo, eds. 2014. *Urbanisation and Socio-Economic Development in Africa: Challenges and Opportunities*. London: Routledge.

Parnell, Susan, and Ruwani Walawege. 2011. Sub-Saharan African Urbanisation and Global Environmental Change. *Global Environmental Change* 21 (Supplement 1): S12–S20. http://www.sciencedirect.com/science/journal/09593780/21/supp/S1.

Southall, R. 2005. The Ndungu Report: Land and Graft in Kenya. *Review of African Political Economy* 32: 142–151.

TI (Transparency International). 2005. *The Kenya Bribery Index 2005, Transparency International Kenya. https://tikenya.org/wp-content/uploads/2017/08/TI-Kenya_The-East-African-Bribery-Trends-Analysis_2005.pdf*

———. 2012. *East Africa Bribery Index 2012, Transparency International Kenya*. www.tikenya.org/index.php?option=com_docman&task=doc_download&gid=134&Itemid=146.

———. 2013. *Global Corruption Barometer, Transparency International. https://www.transparency.org/gcb2013/report*

TI and FAO. 2011. *Corruption in the Land Sector*, Working Paper #04/2011. Transparency International and the Food and Agriculture Organization, Berlin.

UN-Habitat (United Nations Human Settlements Program). 2003. *The Challenge of Slums. Global Report on Human Settlements 2003*. Nairobi: United Nations Human Settlements Program.

UN-Habitat. 2009. *Global Report on Human Settlements 2009: Planning Sustainable Cities*. Nairobi: United Nations Human Settlements Program.

UN-Habitat. 2014. *The State of African Cities 2014: Re-Imagining Sustainable Urban Transitions*. Nairobi: United Nations Human Settlements Program.

Van der Molen, P., and A.M. Tuladhar. 2006. Corruption and Land Administration. In FIG 2006: *Proceedings of the Conference: Shaping the Change, XXIII FIG Congress*, Münich, Germany, October 8–13. Frederiksberg: International Federation of Surveyors (FIG).