Housing for the Urban Poor: Towards Alternative Financing Strategies for Low-Income Housing Development in Ghana

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Abstract

This article aims to provide an understanding of the housing market situation in Ghana, the financing instruments available and the challenges faced by low-income households in accessing housing finance. The gap between income and house prices is shown to be huge across different groups in Ghana. It is also demonstrated that conventional mortgage finance is inaccessible to low-income households due to high payment-to-income ratios, lack of cash for down-payments and long repayment periods. Three alternative housing finance strategies are proposed: first, practical approaches to financing housing development through the spatial planning system; second, strategies to develop and make housing microfinance accessible to low-income households; and third, strategies to mobilise labour for housing development at reduced costs through community-based initiatives. Together, these alternative strategies could provide sustainable and affordable housing finance options for low-income housing development in Ghana.

Keywords: housing finance, housing microfinance, planning system, urban poor, incremental housing, affordable housing, Ghana

Introduction

The problem of housing finance in many emerging economies manifests in two major ways in the supply and demand sides of the housing market. On the supply side, the production of new housing and refurbishment of old stock requires huge capital investment due to the high cost of critical inputs such as land, labour, building materials and ancillary infrastructure. On the demand side, households' consumption of decent accommodation is constrained by rising housing unaffordability relative to incomes and limited access to affordable housing finance options, particularly for the larger mass of the population who work in the informal economy.

In most developing countries, housing finance represents less than 10 per cent of all financial transactions despite the enormous absolute housing deficits and the need to improve existing stock (Datta and Jones, 2012). In the wake of the financing challenges, however, there is a general consensus that housing is a good thing; an essential social good whose consumption can enhance the overall wellbeing of society. Housing is also considered an important tool for wealth creation and poverty reduction in the long term at household level (Moser, 2007). Housing-related taxation, if effectively managed, also has the potential to provide a significant amount of internally generated revenue to local economies.

Recognising the unique qualities of housing and the associated socio-economic benefits, a number of financing strategies aimed at encouraging housing production and consumption have been developed and implemented over the years in many countries. Notable among these conventional housing financing systems are subsidies and benefits of various forms, mortgage finance and housing tax reliefs. Nonetheless, in most developing countries, sustainably viable institutional housing finance systems are either non-existent or not well developed and inaccessible to poor households (Datta and Jones, 2012; Okpala, 1994).

In Ghana, housing finance assistance exists only for a small proportion of formal sector workers, mostly top civil and public sector workers, either through the direct provision of accommodation or through cash transfers in the form of accommodation allowance. Informal economy workers, who constitute 86.1 per cent of the total workforce (Ghana Statistical Service, 2012), do not have access to similar housing finance arrangements. Overall, the use of mortgages is extremely low due to the undeveloped nature of a mortgage system, the housing market and the financial markets required to support the industry (Bank of Ghana, 2007). Moreover, the few financial intermediaries such as the Homes Finance Company (HFC) and Ghana Homes Loans (GHL) target high-income households, the majority of whom are employed in the formal economy.

Given the competing claims to public expenditure from various sectors such as health, education and defence on the one hand, and cuts in public spending on the other hand, the continuous decline of state involvement in housing delivery is almost inevitable. Since the 1980s, the state has played a limited role in the direct provision of housing in Ghana (Arku, 2009; Yeboah, 2005). Consequently, there is a wide mismatch between housing need and supply; recent estimates indicate that although some 1,232,835 units of housing need is unsatisfied, with an annual estimated demand of 133,000 units, only 25,000 units are supplied annually; the estimated unsatisfied annual demand is 108,000 units (Home Finance Company Limited, 2002 cited in

Boamah, 2010).

The declining state involvement in housing production, the failure of conventional housing finance options to support low-income households, and the dearth of alternative financing strategies to complement the incremental self-build practices continue to constrain low-income households' ability to meet their housing needs. The need therefore for innovative, sustainable and accessible housing finance strategies that are well adapted to local conditions cannot be over-emphasised. The aim of this article is two-fold. First, it examines the nature of the housing market in Ghana, the challenges faced by low-income households in accessing existing housing finance tools as well as Housing for the urban poor 447 the potential challenges of reproducing other conventional finance models. On the basis of the challenges identified, the article proposes three alternative non-conventional finance strategies that can be used to finance housing for low-income urban households in Ghana.

Methodology

Data for this article was obtained from multiple sources. First, an interview guide was designed and used to obtain information (qualitative and quantitative) from key participants on the supply side of the housing market in Ghana. Ten (anonymised) private real estate developers in the country's two major cities, Accra and Kumasi, were selected and interviewed. In selecting the real estate developers, an internet search was first conducted to compile a list of the major companies in the two cities. From the company websites, phone numbers and email addresses were obtained for follow-up contacts to arrange for interviews. Data from these estate developers was gathered through a combination of personal and phone interviews. The primary aim of the interviews was to obtain information on the nature of the private housing market in Kumasi and Accra. The interviews in essence, focused primarily on the areas of operations of these real estate developers, the types of residential development supplied, their target market, house prices and the existing financing arrangements provided to their clients either directly or through intermediary financial institutions. In addition to the interviews, relevant information made available through bulletins and on company websites was gathered to inform the study.

Quality data on housing finance in Ghana is either non-existent or very difficult to obtain. This is due in part to the undeveloped nature of the property industry in general as well as the housing market and the financial institutions needed to support the market. In view of this, the study relied on market information from secondary sources. Relevant information was obtained from the HFC and the GHL, the two main financial intermediaries in the housing sector. Specific information obtained from these financial institutions included the different types of mortgages provided, the eligibility criteria and target market, the arrangements for repayment and the general processes by which mortgages are accessed. All this information was made readily available on the websites of the financial institutions. The information obtained was used to corroborate data on existing housing finance instruments derived through interviews with the real estate companies.

Basic aggregate statistical information were obtained from the 2010 National Population and Housing Census report, published by the Ghana Statistical Service in May, 2012 as well as the Ghana Housing Profile, UN-Habitat, 2011. Secondary source information on the housing market was also obtained from the most recent Bank of Ghana sector report; The housing market in Ghana, published in November 2007.

Conventional housing finance: an overview

Financing housing through subsidies

In principle, a housing subsidy is intended to meet the difference between rent or house price charged and the amount necessary to cover expenditure on housing services (Malpass and Aughton, 1999). Subsidies enable households at least to meet minimum housing quality standards in order to mitigate the potential negative consequences associated with poor housing. Moreover, the provision of housing assistance may aim at addressing economic and social objectives such as lessening the impact of variations in supply and demand, reducing the impact of discrimination in the housing market and promoting positive externalities and neighbourhood redevelopment (Ellen et al., 2003).

Housing subsidies may target the production side (bricks-and-mortar) of the market. A common approach is for the state to channel a given amount that is either equal to or a proportion of the unsubsidised costs of housing to landlords in order to achieve the required level of affordability for targeted households (Hills, 1991). In the UK, for example, 'bricks-and-mortar' subsidies are provided to local authorities and registered housing associations in order to support their provision of council housing and affordable accommodation in the rental sector.

Besides 'bricks-and-mortar' subsidies, demand-oriented subsidies can be provided directly to targeted households. These are often means-tested. The amount claimed may vary with household income, size and composition as well as rent liability. In the UK for example, demand-side subsidies/benefits target low-income households in rented accommodation, and are provided either by the state or through non-profit housing associations. Different models of direct capital subsidies also exist in Latin American countries to provide up-front grants to households (Ferguson and Naverrete, 2003). Pioneered by Chile in 1977, direct housing capital subsidies have been adopted by several other countries including Costa Rica under the Family Housing Certificates initiative; Colombia through the Family Housing Subsidy system and El Salvador under the Contributions for Housing Programme. The experience as well as the challenges of direct capital subsidies in these countries are well documented in the literature (see for example, Gilbert, 2004; Gilbert, 2000; Gonzales Arrieta, 1999). Similarly, under the Baan Mankong programme in Thailand, infrastructure subsidies and soft housing and land loans were provided by the Thai government to poor communities for home improvement and to achieve tenure security (Boonyabancha, 2005).

There appears to be no consensus in the literature on the most effective means of channelling subsidies. In the USA, demand-oriented subsidies are considered more cost effective than supply-oriented programmes (Ellen et al., 2003; Zeidel, 2010). In the context of developing countries, however, it is argued that subsidy targets through one-off grants is more effective both administratively and financially than recurrent dispersal (Datta and Jones, 2012).

Mortgage finance

In mortgage lending, a prospective house owner is granted a loan by the lender; typically 80 per cent of the price of the house is used as collateral. A developed mortgage market has a primary market, where transactions between financial intermediaries in the housing market originate, and a secondary market, where existing mortgages are bought and sold (McDonald and Thornton, 2008). Specialised mortgage lending operates through government regulated or owned banks, while secondary mortgage market systems are achieved through securitisation (Green and Wachter, 2007). Fixed-rate mortgages and adjustable-rate mortgages are the most common types of mortgages.

Housing finance through mortgage loans depends on an interplay between various demand and supply factors. Important demand factors include the need for debt finance, interest rate and house prices while supply-side factors include the availability of funds, the willingness of financial institutions to lend, interest rate charges and the overall structure of the capital market (Li, 2010). Mortgages are widely used in developed economies to finance owner-occupier housing. In the Philippines however, the Community Mortgage Program exists to assist organised communities to obtain long-term mortgage loans from the government on concessional terms and used to secure tenure of residential land (Cacnio, 2001; Lee, 1995).

Housing tax relief

Housing tax incentives may be provided by the government to stimulate supply andpromote home ownership. A typical tax relief system works closely with the mortgage system to provide mortgage debt subsidies to owner-occupiers. In most advanced economies, homeowners are subject to capital gain taxations on the profits realized on the sale of their housing properties. There may however be exemptions such as those granted under the Private Residence Relief in the UK, and the Taxpayer Relief Act, 1997 in the USA. By making it easier to sell a house that has appreciated in price, capital gain exemptions can have significant positive impacts on house sales and provide an additional incentive for purchasing a house (Quayes, 2010; Shan, 2010). The use of housing tax relief as a financing instrument has come under heavy criticism in many developed economies. Critics argue that housing tax reliefs are inefficient as they result in significant unintended consequences such as housing market destabilisation, increased house prices and greater cyclical volatility of house prices (Noord, 2005).

The housing market and low-income households in Ghana: a situational analysis

Housing production in Ghana is realised through three main channels. These are selfbuild incremental construction by individual households, construction by the fledgling private real estate industry and provision by employers (i.e. the state and private employers).

Over 90 per cent of the total housing supply in Ghana is realised through selfbuild incremental construction by individual households. The contribution of the state and private employers to housing supply is considerably low. According to the 2010 population and housing census, housing provided by private employers and the state accounted for only 4 per cent and 2.2 per cent respectively of the total housing stock in Ghana. The share of government-owned housing has increased but marginally from 2 per cent to only 2.2 per cent between 2000 and 2010 (Ghana, Statistical Service, 2012). Thus, out of the total of 3,392,745 housing units in Ghana (as of the 2010 population and housing census) accumulated supply from the state over the years accounted for just 74,640 units. Only 6,785 new dwelling units were added to the existing stock by the state between 2000 and 2010.

Supply from private real estate developers has also not been significant. Operating under the umbrella of the Ghana Real Estate Developers Association (GREDA), real estate developers have produced just 10,954 new homes since the association came into existence in 1988 (Bank of Ghana, 2007).

Out of the total market supply, owner-occupiers constitute 47.2 per cent of tenure holding; 31.1 per cent of households live in rented accommodation whilst the remaining 20.8 per cent live rent-free in family owned accommodation (Ghana Statistical Service, 2012). Rent-free occupancy type is common in the core areas of most towns and cities in Ghana where independent households live together in traditional compound houses. Recognised as family property often bequeathed from one generation to the next, occupants in these compound houses who are members of the family do not pay rent. Additionally, it is estimated that about 1.4 per cent of total dwellings (i.e. 47,498 units) in Ghana are makeshift-improvised structures, mostly kiosks and containers (Ghana Statistical Service, 2012). Given the average household size of 1.6 persons reported by the 2010 population and housing census, it is estimated that some 121,597 of the population live in makeshift structures, mostly in the country's two major cities.

Market data (Table 1) obtained from the private property development companies interviewed showed that there were significant differences between house prices in Kumasi (the second largest city) and Accra (the capital city).

Table 1 House prices in Kumasi and Accra[1]

City	Number of bedrooms	Price Range GH¢	US$[2]
Kumasi	1	15,000–25,000	6,522–10,869
	2	40,000–50,000	17,391–21,739
	4	150,000 and above	65,217 and above
Accra	2	101,200–153,698	44,000–66,825
	2(expandable to 3 bedrooms)[3]	267,260–4,4000	116,200–180,000
	4	460,000 and above	200,000 and above

1. Table shows the common types of residential units supplied by the property developers interviewed.
2. Dollar equivalent of house prices computed using the prevailing exchange rate of US$1 to GH¢2.3 as of November 2013 when the data was collected.
3. Additional land is reserved and the house is designed such that it can be expanded to three bedrooms to suit the needs of occupants.
Source: Field Survey, November 2013

The gap between disposable income and house prices remains significant even for modest house prices. In Ghana, households in the top quintile (i.e. top 20 per cent) and the lowest quintile (i.e. lowest 20 per cent) earn an average annual income of GH¢1,544 (US$510) and GH¢728 (US$240) respectively (Ghana living standards survey, 2008). A study conducted in Accra by Konadu-Agyemang (2005), found that average annual earnings by a senior public servant in Ghana was around GH¢9,067 (US$3,000). Thus, the estimated house price to income ratio – the basic affordability measure – for a house that costs US$200,000 is 1:67 for the most senior public servants who are classified as high-income earners in Ghana. In the case of households earning the average annual income of GH¢1,544, estimated minimum house price to income ratio ranges between1:32 and 1:82 for a detached two-bedroom house in the peripheral locations of Kumasi and Accra respectively.

The systems of housing finance available to potential homeowners or renters in the two cities are discussed in the sections that follow. Most importantly, the challenges of access to these financing options by low-income households are highlighted.

Traditional mortgage finance: a 'no go-area' for low-income households

Traditional mortgage finance and personal savings were the main sources of finance for home purchase from the private real estate companies interviewed. These real estate companies do not provide direct mortgage schemes to clients. Instead, they operate through the HFC Bank and the GHL to provide mortgage finance products to prospective clients.

In order to qualify for a mortgage from any of these financial institutions, applicants are required to provide documented evidence of their income; certified audited accounts and a business profile for self-employed applicants and credit history that confirms their credit worthiness. Other relevant documentation includes an offer letter from a real estate developer or vendor, a valuation report, title documents to the property as well as a development and building permit. In the case of applicants seeking funds under a Home Improvement and Home Completion Mortgage, a bill of quantities (i.e. a document showing the design of the house, material specifications and their cost estimates) has to be submitted besides those outlined above.

Moreover, prospective mortgagors are required to provide a minimum downpayment which is often 20 per cent of the total cost of the house they wish to buy. Thus, in order to obtain an HFC mortgage to buy a single bedroom home that costs GH¢25,000 in one of Kumasi's suburban areas, a down-payment of GH¢5,000 is required. Similarly, a two-bedroom house that costs US$66,825 in Accra requires prospective mortgagers to make a US$13,365 down-payment in addition to demonstrating their ability to pay the remaining amount in order to qualify for a GHL mortgage. Prospective home buyers who self-finance their purchases from the property developers interviewed are required to make a down-payment of 25 per cent of the house price and a further 25 per cent payment 90 days after the initial deposit. The remaining 50 per cent is expected to be paid in two equal instalments, one when the house gets to roof level and the final one on completion of the house.

Despite the high down-payment and annual rate of interest on mortgages, there are no subsidies available to households or property developers. According to the real estate developers interviewed, even their clientele in the high-income category are hardly able to afford the 20–25 per cent down-payment through their own accumulated savings. For this reason, most home buyers rely on bank loans for down-payments which come at very high interest rates (around 24 per cent at the time of this study). Besides, the very nature of the housing market itself presents enormous challenges for the housing mortgage industry. Given that both the housing industry and financial markets are still developing, the critical infrastructure required to support the mortgage industry does not exist (Bank of Ghana, 2007; Karley, 2002). The problem is further exacerbated by the depreciation of the Ghana Cedi against the major currencies. For this reason, house prices and accompanying mortgages are often quoted in US dollars.

The prevailing house prices and the design of mortgage products clearly indicate that low-income earners stand very little chance of owning a home in their lifetime and the jobless are automatically priced out of the market. Housing affordability therefore remains a significant barrier for many households given the average annual household income of GH¢1,217.00 (or US$527); many households in both the formal and informal economy earn far below this average. Thus, assuming a household decides to save 50 per cent of its annual income (i.e.GH¢608.5 or US$263.4) towards owning a single bedroom house that costs GH¢20,000 ($8,658) at a peripheral location in Kumasi, it would take 33 years for the household to accumulate the needed amount barring the depreciation effect of inflation on the value of money over time. With such earning levels, it also becomes virtually impossible for low-income households to access available mortgages. It is therefore not surprising that the share of owneroccupier houses being purchased by mortgage in Ghana has been declining over the past decade. Only 0.8 per cent of houses as of 2010, compared to 1.1 per cent in 2000 were being purchased by mortgage in Ghana (Ghana Statistical Service, 2012).

Existing evidence shows that traditional mortgage finance is virtually irrelevant in the housing development process for the majority of households in developing countries (Ferguson, 1999; Ferguson and Smets, 2010). The high payment-to-income ratio, the lack of cash for down payment, and the long repayment period – often 20 years – make traditional mortgages unsuitable for low-income households who require housing finance systems that support livelihoods and capital accumulation without increasing their vulnerability to debt (Datta and Jones 2001). However, similar to the findings of Ferguson (2003), this study found that financial institutions considered small loans with shorter repayment periods, suitable for low-income households, unprofitable compared to traditional mortgages.

Subsidies will not benefit the poor

Given the high cost of mortgage lending and the inability of many households to access mortgage finance, almost all the real estate companies interviewed were of the view that the provision of housing subsidies could be an alternative means of supporting poor households to meet their housing need. Housing subsidies, however, do not appear to be the most appropriate financing instruments for low-income housing development within the short to long-term, despite their popularity and relative success in some developed economies, for a number of reasons.

A well-organised property industry is a prerequisite for effective implementation of a 'bricks-and-mortar' subsidy system. In the UK and other western European countries for example, the housing supply-side institutional apparatus, made up of local authorities, registered housing associations and non-profit organisations makes it easy for housing production subsidy systems to be administered and targeted. On the contrary, the housing industry in Ghana is largely informal and highly unorganised in respect of the existing market institutional structures. With the exception of GREDA, which is made up of the few private real estate developers, a significant proportion of suppliers are private individuals whose priority is to meet the housing need of their immediate households. Within such a housing industry, production-side subsidies will be difficult to assess for effective targeting. Even if the state was to provide subsidies through GREDA, the intended redistributive and equity gains of this method would not be achieved. This is because these real estate developers have consistently targeted households in the higher end of the market. Thus contrary to supporting the poor, production-side subsidies would only benefit the rich.

Demand-side subsidies would also be difficult to administer given the current state of Ghana's housing and labour markets. Direct housing subsidies on incomes might work only with public sector workers who are on the government payroll and who have stable and reliable incomes. As experience has shown in Latin America, Thailand and the Philippines, direct capital subsidies could be provided for organised communities of slum dwellers where lack of secured access to land is a problem. However, in Ghana, the larger mass of the population who are in housing poverty are not necessarily slum dwellers needing secure title to land. Moreover, most low-income households are employed in the informal economy and therefore are not on the government payroll. Many informal economy workers do not have regular and stable incomes upon which means-tested benefits could be assessed with accuracy by the state. Any attempt to administer a housing subsidy scheme in such a context, however ambitious it may be, would incur huge administrative and transaction costs that would make the scheme unworkable. The tendency to make people perpetually dependent on housing-benefit, and for low-income households to opt for upmarket accommodation with the view that the state will cover the costs, is also a major challenge for housing subsidy systems, even for governments in advanced economies. Overall, housing subsidies are known for their distortionary effect on both housing and finance markets through the pressure they put on fiscal balances and exchange rates and their general lack of sensitivity to specific household needs (Datta and Jones 2001).

Housing tax reliefs: an unexplored option

In Ghana, the provision of tax incentives for homeowners as a housing finance strategy is yet to be explored by policy makers. In a supply-constrained market with a huge annual production backlog, one would expect government policy to aim at promoting housing production and reducing the overwhelming affordability challenges. On the contrary, however, recent government revenue mobilisation policy has sought to target the housing market as one of the key revenue collection avenues for the state. Through the Ghana Revenue Authority, the government has launched an eight per cent withholding tax payable on gross rent incomes earned by residential landlords and commercial property owners.

Even if the state was to introduce housing tax reliefs, the direct beneficiaries would be less than 1 per cent of homeowners who by virtue of their higher incomes are able to participate in the mortgage market. Besides, given the informal nature of the housing market and the lack of regulation and enforceable tenancy contracts, it would be easy for landlords to transfer rent tax to tenants. Consequently, rents would be likely to rise and the poor would suffer.

In view of the lack of access to conventional housing finance strategies, a larger share of the country's housing stock is provided through the self-build incremental housing development model. In incremental housing, different sources of finance are used by households at different stages of the construction process depending on the inflow of finance and subject to competition from other essential household needs. Previous research in developing countries including Ghana (e.g. Gough and Yankson, 2011; Konadu-Agyemang, 2005; Sheuya, 2007; Stein and Castillo, 2005; Smets, 2004) has established that most households depend on informal/non-institutional finance sources including savings, loans and remittances from families and friends and the sale of assets for housing development.

Towards alternative finance strategies for low-income housing development in Ghana

In this section, three alternative strategies for financing low-income housing in Ghana are proposed. Before discussing them, however, three key caveats are worth mentioning. First, these proposals are made having in mind low-income households most of whom work in the informal economy and who rely on the incremental housing development model. Consequently, the extent to which these strategies might work for middle and high-income workers in formal employment or otherwise are not considered within the immediate scope of this article. Secondly, it is acknowledged that conventional finance strategies seem to work well for the targeted consumers in the higher end of the housing market but not for low-income households. The alternative strategies recommended are, therefore, intended to address the challenges faced by the latter; they are not by any means intended or implied as substitutes for the conventional finance strategies already in use in Ghana. Thirdly, although the alternative strategies are discussed independently, they are not intended to be mutually exclusive. As such, they should be understood and treated as parts of a composite proposal for which the ultimate outcome will depend on how best the complementarities and synergies among them can be discerned, established and operationalised.

The planning system and housing finance: prospects and approaches

The (potential) role of the land use planning system in contributing to affordable housing supply has gained much attention in both policy and academic discourse. The lessons, challenges and progress are well documented in the literature (see for example: Chiu 2007; Gurran and Whitehead 2011; Ganser, 2008; Harris, 2004; Johnson, 2007; Paris, 2007; Rydin, 1985; Satsangi and Dunmore, 2003; Whitehead, 2007). In most developing countries including Ghana, however, this potential remains untapped. Practical approaches to harnessing the planning system to deliver low-income housing within the context of the existing institutional structures and prevailing market peculiarities in Ghana are discussed below.

The mechanisms for continuous supply of decent accommodation that meet the affordability needs of households of different means should be treated as an integral function of the city/town planning system in Ghana. The planning system implied here refers to the wider institutional and legal apparatus at the national and sub-national levels responsible for the formulation and implementation of human settlement development plans and policies. Of particular importance in the context of this article are the local government structures; namely the Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana

Ghana's planning system, where it works, is considered only necessary in making land use allocation decisions and controlling physical development. Decisions as to who has access to the land, the type of housing developed and how that contributes ultimately to meeting the shelter needs of all is left largely to the dictates of the property markets and their intermediaries (Acheampong and Anokye, 2013). Within such a laissez-faire land market, the opportunities for equity and (re)distributive gains in the urban development process a key rationale for planning – are completely lost. Consequently, poor urban households mostly migrants, lack complete access to suitable urban land – the most critical housing development input.

A shift in planning and policy thinking at the local level in Ghana is critical to changing the status quo. MMDAs, as planning and development authorities, should be concerned beyond just the allocation of land uses in the urban development process. Recognising the needs of poor urban households and allocating land accordingly in local plans should constitute the first step towards change. This is, however, not enough. Strategies to ensure that the allocated land ends up as serviced sites or dwelling units for the targeted groups should be developed and pursued. A number of strategies are proposed to this effect. There is the need for effective partnerships between MMDAs and land owners of which traditional authorities are of particular importance. Building effective partnership with traditional authorities is critical because the customary land sector holds over 80 per cent of available land in Ghana while state/public lands constitute about 20 per cent (Kasanga and Kotey, 2001). Thus, recognising their indispensability as custodians of the land and engaging effectively with traditional authorities can provide a huge potential for the release of vacant land for affordable housing development.

After securing partnership with landowners, the next step will be for MMDAs to devise means through which land can be released at below market price for housing development. There is a huge potential and viable options for achieving this. MMDAs in Ghana, through the Local Government Act (462), enjoy unrivalled monopoly of being the only institutions that can determine the use to which individual land parcels should be put. Thus, although ownership rights at local level rest with the traditional authorities and private land owners, the power to determine the use of land rests with the MMDAs as development authorities at local level. In principle, the preparation of local (residential) development plans covering formerly agricultural or vacant land leads to an increase in the value of such land, which would otherwise not have occurred. Given that such ‘windfall gains’ in land values result primarily from local authorities’ land use planning decisions, the appreciated value in the land could be captured by the MMDAs for the benefit of the entire community in a number of ways. MMDAs could acquire land banks in the designated development areas in the local plans, equivalent to the appreciated value resulting from the preparation of local plans. The land acquired cheaply at their agricultural value could then be earmarked for affordable housing development within their respective jurisdictions.

Once land has been acquired at its agricultural value, the next critical step would be the strategies for the supply of amenities and development of affordable houses. It is recommended that at the beginning, very basic services such as plot demarcations, drainage systems and the opening up of proposed streets without necessarily tarring them be provided on-site. The serviced land could then be made available to households to develop their own housing and the surrounding environments using the incremental construction model. Alternatively, the possibility exists for MMDAs to partner with private real estate developers to construct and manage affordable housing schemes that could be rented to low-income households depending on the long-term viability of the project.

It is worth mentioning that the success of this proposal depends to a large extent on the recognition by MMDAs that such initiatives are underpinned by social considerations of equity and distributional gains rather than profit maximisation in the economic sense. Against this backdrop, systems can be designed to ensure that low-income households are the primary beneficiaries. In the long term, the investment cost could be recouped through property taxation and revenues from rented properties.

Moreover, the urban growth process itself provides enormous opportunities for MMDAs to contribute to housing supply at later stages even if those opportunities are missed at the very beginning of urban development. In all the major cities in Ghana, redevelopment of old buildings is happening at both small and large scales. However, the potential of supplying additional housing through the on-going redevelopment process has not been tapped. Instead, existing residential uses are being replaced with dominantly commercial uses. The resultant impact has been the continuous displacement of poor households from the city core to the urban periphery and nearby slums. Displacement of this nature is inevitable if there are no conscious policy guidelines on the type of development that should emerge from the urban redevelopment process. Besides, as property developers and investors are concerned with maximising profits, redevelopment schemes almost always are underpinned by economic viability in which case commercial developments become highly favoured over housing development. In order to supply additional affordable housing in these high cost areas, mixeduse development at high densities should be embraced, planned for and enforced through the development control process. For every single redevelopment scheme, the requirement for housing units either on-site or off-site should be made a prerequisite for the grant of development and building permits. This strategy could ensure the continuous supply of housing for the ever-increasing urban population and ultimately, contribute to the realisation of sustainable outcomes in the development process of towns and cities.

Making housing microfinance accessible to low-income households

There is a long-standing history on the use of microfinance to support poor households engaged in agriculture as well as small and medium-scale enterprises in many developing countries. The scope of traditional microfinance has also been expanded to provide finance to poor urban households for housing development in India (Ferguson, 2003; Khandelwal, 2007; Mahajan and Ramola, 2003; Smets, 2006) and South Africa (Mills, 2007). In most sub-Saharan African countries however, housing microfinance barely exists, although the concept is gradually gaining recognition among financial institutions (Tomlinson, 2007).

The potential role of microfinance in supporting self-build incremental housing is grounded in the fact that microfinance schemes in general, have been able to provide low collateralised loans over relatively shorter repayment periods based on recipients' ability to pay (Baruah, 2010; Cain, 2007; Daphnis and Ferguson 2004; Mesarina and Stickney, 2007; Rubinstein, 2002; Smets, 2006; Tariq, 2012; Tomlinson 2007). Conventional housing finance, on the contrary, is generally intended for the purchase of a complete housing unit or the construction of a number of such housing units in one go (Smets, 2006). The way forward in developing effective microfinance markets for housing development specifically within the Ghanaian context is discussed in the sections that follow.

The willingness of existing microfinance providers to diversify their lending portfolios is a prerequisite to applying the methodologies of the model to support low-income housing in Ghana. As has been demonstrated, less than one per cent of the housing market in Ghana is served by the few formal financial institutions providing mortgages. Thus, there remains a large pool of unserved market that could be tapped by the microfinance sub-sector. On the basis of the existing market potential, microfinance providers can identify and recruit would-be contributors and beneficiaries of housing microfinance. The experience of existing microfinance providers in mobilising individuals and enterprises to establish successful mutual funds should offer them a competitive advantage. One way of doing this is through the mobilisation of would-be beneficiaries in the informal economy along the lines of trade specialisations. For example, there can be a mutual housing microfinance scheme for market women and men engaged in the import and sale of clothing or artisanal workers such as auto-mechanics and carpenters. Although these informal workers often lack conventional collateral, evidence from Asia and other African countries have shown that mutual cooperation based on trust provides a better alternative in social collateral for financial self-help organisations (Ferguson and Smets, 2010). Scheme providers and would-be beneficiaries will then agree on an amount to be contributed based on the size and flow of their incomes. The growing mobile phone banking industry in Ghana can offer housing microfinance scheme providers one of the most costeffective methods for collecting contributions from participants.

Housing microfinance schemes can target both prospective owner-occupiers and renters. In the case of prospective owner-occupiers, the scheme can target land acquisition as the most important housing development input. The contribution of housing microfinance towards land acquisition can be done in two ways. Firstly, housing microfinance providers can themselves invest in acquiring land banks at suitable locations in line with current and future town/city planning and development visions. Such land should be acquired at its agricultural value. In order to reduce potential investment risks, the scheme can be insured. The land acquired can be parcelled and sold to participants of the scheme, for which their accumulated contributions would be used to defray the cost over an agreed period of time. It is recommended that such housing microfinance providers register with the appropriate departments of the MMDAs under whose jurisdiction they are operating. Effective partnership with MMDAs will be useful in eliciting their support particularly in the land acquisition, development and building permits acquisition processes, and the provision of basic public amenities in acquired sites.

Since home ownership is not the desired and most suitable form of tenure for all households at least in the short term (Datta and Jones, 2001), housing microfinance schemes will essentially be beneficial to low-income households in the rental sector. The common practice in the rental housing market in Ghana is that landlords often demand advance payment of rent over a period of two or three years. For many low and middle-income households, it can be difficult at the initial stages to accumulate the required amount for the advance payment of rent. Joining a mutual housing microfinance scheme can therefore provide the needed lump sum for advance payment of rent, whilst providing additional funds for future rent payments.

As experience from other countries has shown, housing finance through microfinance is fraught with a number of challenges. One of the key challenges of housing microfinance schemes, at least in the context of India, has been the lack of capital and high debt equity ratios, mainly because most of them operate as socially-oriented institutions (Thorat, 2006). The situation is quite different in Ghana. Many housing microfinance scheme providers operate as mainstream financial institutions and not as community-based NGOs. The distinguishing feature between microfinance institutions and other formal banking institutions, however, is that the former focus primarily on low-income earners in the informal economy. Even so, investment in other portfolios by housing microfinance providers, particularly the building industry, can ensure continuous availability of capital and the overall sustainability of the scheme. Scheme providers in the medium to long term can invest in affordable housing which can be rented to participants of their respective schemes. Should scheme providers want to dispose of their rented properties, arrangements can be made for the tenants to take ownership depending on their accumulated savings with the scheme.

Another challenge faced by microfinance providers is the non-payment of loans by beneficiaries. In order to reduce this risk, housing microfinance providers that invest in land banks as a means of assisting members to obtain access to land may only allow participants to start developing the land on payment of an agreed percentage of the total cost. Also, land can be redeployed from any member of the scheme who chooses to opt out at any given stage without complete repayment of the cost of the land.

An equally important challenge anticipated under this strategy is how different location preferences of scheme beneficiaries can be accommodated and managed. By adopting the rotating fund approach, participants of the housing microfinance scheme can be given a certain percentage of their accumulated savings to acquire land at their own preferred locations. In order to ensure that everybody benefits equally, and to avert the tendency for some members to opt for land at unreasonably high cost, an agreed amount considered reasonable by all participants based on prevailing land prices can be set to shape preferences and choice.

Finally, evidence exists in India that housing microfinance schemes in some cases have not been consistent with the needs and livelihood strategies of the urban poor, as practitioners have been willing to offer larger loans instead of relatively small amounts over short-term time frames (Smets, 2006). In order to avoid this, participants can be encouraged to accumulate their own savings over a period of time. For members who want to acquire land, for example, a loan equal in amount to the difference between their accumulated savings and the price of the land could be provided to be repaid through their continual contributions over a relatively shorter period.

Mobilising labour for building construction: a practical model at the community level

The high cost of construction represents one of the major challenges to poor urban households in Ghana (Konadu-Agyemang, 2005). The cost of building materials is determined by wider macro-economic conditions over which households have no control. The availability and cost of labour is, however, a factor that can be obtained at relatively lower costs at the community level through effective mobilisation initiatives. A practical model for achieving this is discussed below.

Within every community in Ghana, there is a pool of labour (skilled and unskilled) such as masonry, carpentry and roofing, architectural draughtsmanship, welding and metal fabrication that can provide relevant services to low-income families in building their houses. The business advisory units, cooperatives departments and works departments of the various MMDAs in Ghana can facilitate the formation, registration and certification of artisanal cooperatives, comprising individuals and small firms who possess skills relevant to the building industry. The formation and certification of these artisanal cooperatives is intended to make them recognisable by members of the community and for MMDAs to ensure their compliance with existing building construction codes and standards.

Once mobilised and registered, the cadre of local artisans could establish themselves as artisanal associations, and maintain close links with existing housing microfinance schemes at the community level. In the case of participants of housing microfinance initiatives, maintaining close links with the artisanal associations would ensure that they have easy access to relevant skills at costs significantly lower than they would get from property development firms and professionals operating in the formal building industry. For the artisanal associations, working in close partnership with housing microfinance providers would guarantee that their services would be paid for once contractual agreements were reached between them and the beneficiaries of their services who participate in the housing microfinance schemes.

MMDAs should endeavour to facilitate the formation of more than one artisanal association within their respective jurisdictions to promote competition. This would also offer households a number of options and ensure that no one association monopolized the industry to the detriment of targeted households. In addition to helping households of lesser means to construct their homes at significantly lower labour costs, the proposed model would also boost local economies by promoting businesses and creating jobs.

Conclusion

The aim of this study was to understand the housing market situation in Ghana, the financing instruments available and the challenges faced by low-income households in accessing finance to meet their housing needs. The study has shown that the gap between disposable incomes and house prices remains significant even for modest house prices in Ghana. Whereas conventional mortgage finance was found to be completely inaccessible to low-income households, other instruments such as subsidies and housing tax relief were found to be either unexplored or have significant challenges of replication in the Ghanaian context. Housing subsidies, for example, do not appear as the most appropriate financing instruments for low-income housing development within the short to long term due to the lack of a well-organised property industry and also to the potential challenges of effective targeting, given that most low-income households find employment in the informal economy and are not on the government payroll. The provision of tax incentives for homeowners as a housing finance strategy is yet to be explored by policy makers.

In view of these challenges and the prevailing housing market and finance situation, the article calls for the need for non-conventional strategies for financing shelter in Ghana. Three alternative housing finance approaches have been discussed. First, through effective use of the spatial planning system, the article argues that sustainable housing finance can be secured at the level of MMDAs by capitalising on the myriad of opportunities that the city development and redevelopment processes present. Secondly, the article has outlined practical steps through which microfinance traditionally used for financing agriculture and small-scale businesses could be extended to provide the much needed funds for poor households to meet their housing needs. Finally, it has been shown how the existing pool of skilled and unskilled labour relevant for housing development could be mobilised into artisanal associations and certified to provide quality services at relatively lower costs in the housing development process at community level. If well integrated with housing microfinance schemes, the proposed artisanal associations could provide critical inputs into the construction of new homes and the maintenance of existing stock.

The alternative strategies proposed in this article could provide sustainable and affordable housing finance options for low-income housing development in Ghana where the existing conventional housing finance instruments have failed to do so. Other countries besides Ghana, could potentially learn from the housing finance strategies discussed in this article.

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