STRATEGIC ASSESSMENT OF THE AFFORDABLE HOUSING SECTOR IN GHANA

Nima, Accra

CHF International

December 2004
Acknowledgements

CHF International would like to acknowledge James Hokans, Kofi Anku, Frank Gadzekpo, Geta Striggner-Quartey, and Dr. Kofi Adusei for their contributions to this assessment. CHF would also like to thank C. Payne Lucas and Roger Blunt for their experience and insight that inspired this assessment, Judith Hermanson and Michael Doyle for making it happen, Franck Daphnis for his management and technical oversight, and Richard Hill and Jon Temin for their invaluable experience and support “on the ground.” Special thanks go to Nana Ama Bentsi-Enchill for her back office support and local knowledge.
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tbody>
<tr>
<td>AMA</td>
<td>Accra Metropolitan Assembly</td>
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<tr>
<td>ARB</td>
<td>Association of Rural Banks</td>
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<td>BoG</td>
<td>Bank of Ghana</td>
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<td>CDD</td>
<td>Center for Democratic Development</td>
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<td>CHF</td>
<td>CHF International</td>
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<td>COHRE</td>
<td>Center on Housing Rights and Eviction</td>
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<td>CUA</td>
<td>Credit Union Association</td>
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<td>DA</td>
<td>District Assembly</td>
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<td>DACF</td>
<td>District Assembly Common Fund</td>
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<td>EBRD</td>
<td>European Bank of Reconstruction and Development</td>
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<td>ERP</td>
<td>Economic Recovery Program</td>
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<td>FNGO</td>
<td>Financial non-governmental organization</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GHAMFIN</td>
<td>Ghana Micro-Finance Network</td>
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<td>GLSS</td>
<td>Ghana Living Standards Survey</td>
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<td>GIPC</td>
<td>Ghana Investment Promotion Center</td>
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<td>GoG</td>
<td>Government of Ghana</td>
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<td>GPRS</td>
<td>Ghana Poverty Reduction Strategy</td>
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<td>GREDA</td>
<td>Ghana Real Estate and Developers Association</td>
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<td>GTZ</td>
<td>German Technical Cooperation</td>
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<td>IH</td>
<td>Incremental housing</td>
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<td>HBE</td>
<td>Home Based Enterprise</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>HFC</td>
<td>Housing Finance Company</td>
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<td>HIPC</td>
<td>Highly Indebted Poor Country</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>INSOP</td>
<td>Informal Sector Operations Program</td>
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<tr>
<td>ISSER</td>
<td>Institute of Statistical, Social and Economic Research</td>
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<tr>
<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau</td>
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<td>LAP</td>
<td>Land Administration Project</td>
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<td>MDA</td>
<td>Ministries, Departments and Agencies</td>
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<td>MFI</td>
<td>Micro-Finance Institution</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>MoFA</td>
<td>Ministry of Food and Agriculture</td>
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<td>MoWH</td>
<td>Ministry of Works and Housing</td>
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<td>MPC</td>
<td>Monetary Policy Committee</td>
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<td>MPSD</td>
<td>Ministry of Private Sector Development</td>
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<td>MSME</td>
<td>Medium, small and micro-enterprise</td>
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<td>NBI</td>
<td>Non-Bank Finance Institution</td>
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<td>NDAP</td>
<td>National Decentralization Action Program</td>
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<td>NGO</td>
<td>Non-governmental organization</td>
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<td>NPLs</td>
<td>Non-Performing Loans</td>
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<td>OLEM</td>
<td>Other loans especially mentioned</td>
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<td>OSI</td>
<td>Origination and service institution</td>
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<td>PSIA</td>
<td>Poverty and Social Impact Analysis</td>
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<td>PEF</td>
<td>Private Enterprise Foundation</td>
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<td>PSI</td>
<td>Presidential Special Initiative</td>
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<td>RCBs</td>
<td>Rural and Community Banks</td>
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<td>REIT</td>
<td>Real Estate Investment Trust</td>
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<td>RFSP</td>
<td>Rural Financial Services Project</td>
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<td>S&amp;L</td>
<td>Savings and loan</td>
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<td>SSNIT</td>
<td>Social Security and National Insurance Trust</td>
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<td>TCOC</td>
<td>Total cost of credit</td>
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<td>TCP</td>
<td>Town and Country Planning</td>
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<td>TDC</td>
<td>Tema Development Corporation</td>
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<td>TIN</td>
<td>Tax identification number</td>
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<tr>
<td>WAN</td>
<td>Wide Area Network</td>
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<td>y-o-y</td>
<td>Year on year</td>
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Photos by: Kofi Anku

US$1 = ¢9,130
STRATEGIC ASSESSMENT OF THE AFFORDABLE HOUSING SECTOR IN GHANA

1 Executive Summary

CHF concludes that, despite the dual nature of the economy, land tenure, and housing, a significant opportunity exists for the government and private financial sector to collaborate to ensure that low-income households have sustained access to housing microfinance.

Ghana possesses a stable macro-economic and political environment

Over the last three years, the Government of Ghana has made remarkable progress towards achieving a stable macroeconomic and political climate. The economic environment holds the possibility of greater institutional investment in housing and other economic development activities. The net effect of macro measures undertaken by the government is that budget deficits, inflation, and interest rates are at their lowest points now than in the past several years and trending downward. The next shift in investor diversification may be in real property development.

In the short term, the greatest risk to the generally positive macroeconomic picture will be the market response to the strategy employed by government to adjust and eventually eliminate subsidies underpinning the price of petroleum products. In the mid-to-long term, the benefits of sound economic management must be felt at the household level in the form of improved income and job prospects as well as improved basic services that support the growth and productivity of the informal sector on which 80% of the active working population survive. Based on an analysis of poverty, household incomes, and expenditure, CHF estimates that 35% of the economically active population will not be able to afford housing credit of any kind. Other shelter-related investments in infrastructure and settlement upgrading will be required to assist those living in extreme poverty. CHF found no comprehensive policy towards the informal sector to harness its dynamism for housing and economic development.

On the political front, Ghana is a maturing democracy with numerous, relatively strong forces of pluralism in the society. The country has experienced successive peaceful presidential and parliamentary elections, including in December 2004. A significant political risk, however, is the slow pace of decentralization, particularly to the municipalities and metropolitan areas, which must manage the increasing challenges and opportunities presented by urbanization and both rural and urban poverty.

Dual land tenure poses risks to equitable access to housing opportunities

CHF found that access to land and housing for most Ghanaians is still tantamount to the ultimate form of social security. It is for this reason that most urban and rural Ghanaians would sell their houses only under the direst of circumstances, and they are generally comfortable with customary ownership of land. Because of kinship obligations, they are expected and willing to welcome relatives into their households even if the practice leads to overcrowding. This widely shared social value affects housing design, plot sizes and coverage, and attitudes towards the marketability of land and housing. The customary land ownership system possesses many commendable features: it is locally controlled, relatively inexpensive to operate, and potentially equitable in its land allocation. People who live on customary land, however, have virtually no opportunity to obtain mortgage loans.
On the other side of the land ownership equation, commercial interest groups and the government promote legal land tenure security to assure efficient and profitable use of land (and housing) and the development of a formal land market. Unfortunately, neither side has been easily accommodated in modern Ghana. Rising prices on land with clear titles on the one hand and multiple, disputed sales of land with clouded titles on the other, are especially vexing risks, especially in urban areas. A general lack of security, whether social, legal, or economic, is inimical to financing housing, and land problems in Ghana represent the highest risk to the development of a vibrant housing system.

Land banking for property development is one response to the current inefficient land management system. It is not clear at this time what the relationship is or will be between the Ministry of Land, Forestry, and Mining’s exercise of taking inventory of state-controlled land and the current land banking efforts.

The confused state of land ownership, however, does not prevent some institutions from making unsecured housing micro-credit to qualifying households, who have some formal legal or customary security and want to invest their savings, credit, and labor in housing. However, it will require sophisticated construction management and loan product development skills on the part of builder/borrower and housing lender respectively.

**Housing conditions and need outstrip strategies to redress them**

Most Ghanaians are squeezed by a variety of pressures, especially low income individuals and those with uncertain access to secure land. Increasingly urbanization is another contributing factor to poor housing conditions. The urban population around the country is expected to double by 2020. The pattern of foreign direct investment made in partnership with Ghanaian investors deeply affects urbanization and infrastructure investment. In Accra, the impact of urbanization is especially apparent. One recent study estimates that 61 percent of metropolitan Accra lives in informal housing. CHF states that there is sufficient evidence to suggest that communities are able to become sufficiently organized to drive settlement upgrading in partnership with government and the private sector.

An analysis of housing conditions reveals that on a national basis, 48.9% of all Ghanaian households live in accommodation associated with the compound (44.5% live in compound rooms). Another 25.3% lives in separate houses and 15.3% resides in semi-detached houses. Traditional housing in Ghana takes the form of compounds. The design accommodates room re-allocation and some privacy.

Moreover, 57.4% claim ownership of their dwellings (40.4% in Greater Accra). Two percent of households live in public property set aside as rentals for civil servants and private employers provide housing for 4.5% of formally employed households. Also, 22% rent their dwellings (37.5% in Accra). Another 19.5% live rent-free (20.5% in Accra). Households comprising this latter group probably know the head of household and/or landlord and are exercising their kinship rights.

Past and current direct intervention efforts by government have failed to reach low-income target groups or meet housing requirements. CHF estimates that in the last 15 years at most 50,000 detached and semi-detached houses have been constructed by the private real estate development industry, often with government subsidies. Between 1984-1999, about 900,000 additional dwellings were built, implying that the
informal sector’s incremental housing process outpaced formal construction. CHF found that informal ways of incrementally developing and building housing creates a greater supply of affordable housing.

**Financial sector holds promise for reaching broader and deeper into the housing market**

CHF found that the vast majority of Ghanaians do not have access to asset-backed finance or mortgage finance, but low and moderate income households are beginning to participate broadly in the maturation of the microfinance industry.

The composition and the history of regulation of the financial sector as well as the products and methodologies of potential channels of housing finance are analyzed in some detail. The Rural Financial Services Project (RFSP), initiated in 2002, is one indication of the commitment of the government, the Bank of Ghana, and the donor community to support financial sector development. This ongoing project was undertaken primarily to strengthen the rural banks, but rural microfinance institutions and Non-Bank Financial Institutions (NBFIs) also benefit.

CHF found that funds do not flow well among financial institutions and tiers, and that for the most part the financial system in Ghana is fragmented. For example, as at the end of September 2004, the Bank of Ghana stated that the banking sector shows generally robust earnings and a profitable and fairly liquid position, with a better risk outlook than previous years. “Non-performing loans of the banking sector have declined from 18.5% in September 2003 to 16.4% at the end of September 2004 (which is nevertheless very high by international standards)”. Interestingly, the non-bank financial sector, including savings and loan companies, finance companies, leasing companies, and venture capital companies, have seen their assets grow to some ₡1,450 billion or 2.0% of GDP. However, the non-bank financial sector experienced an overall decline in liquidity during the third quarter of 2004. One implication is that the commercial banking sector is not stepping into this potentially profitable gap to assist the NBFIs to meet their liquidity shortfalls. CHF estimates that there are at least 25 Rural and Community Banks (RCBs) and NBFIs that may have the financial and management capacity to borrow and repay wholesale funds.

**Recommendations**

CHF makes three inter-related recommendations.

1) Apply non-conventional strategies for different market segments.

CHF dissects the national housing market into four segments and recommend non-conventional strategies for improving housing supply and finance in each of them. A differentiated group of developers, households, and communities drive housing supply within each of these four market segments. Non-conventional strategies applied within each market segment will enable more people to benefit from housing investment, whether personal or institutional. Some of the non-conventional strategies include:

- Decrease plot sizes and increase plot coverage in developer-driven projects of separate houses to lower the cost of servicing the land;
- Promote compound house design and rental housing even in high income markets;
- Implement “inclusionary zoning” principles that benefit the informal sector when negotiating land and housing with developers of proposed commercial and residential properties in downtown centers;
• Implement a series of pilot projects for the high income market that maximizes the use of local building materials, especially the use of timber and landcrete, to demonstrate cost-savings and aesthetics associated with these materials;
• Revisit and improve the “sites and services” strategy to facilitate more affordable household-developed new houses, especially for the significant numbers of households who have applied and been rejected for mortgage finance;
• Government facilitates informal settlement upgrading in Agbogbloshie by the different groups that reside there with technical support from specialists in this field.

2) Promote wholesale lending link between commercial banks and RCBs and MFIs to finance incremental housing throughout the country.

The most significant market segment is the population residing on customary land in both urban and rural areas and building, extending and improving their homes through informal processes (about 50%). CHF recommends that key stakeholders promote a wholesale financing arrangement between commercial banks and qualifying rural banks, NBFIs, and microfinance institutions to ensure continuous funding for this market segment engaged in incremental housing across the country. Such an arrangement exploits the comparative advantages of each tier in the finance system as well as the strengths of government. CHF recommends the following technical considerations in making wholesale loans:
• Operating principles of wholesale lending;
• Recommended loan facility terms and conditions and qualifying criteria;
• Risk management;
• Measuring development impact of incremental housing loans.

3) Support widespread housing and consumer education now not later.

Finally, CHF strongly recommends a two-fold strategy of the government (MoWH, BoG, and others), the commercial banks and other partners supporting special consumer education on 1) managing credit, and 2) building information. The latter education materials should help ensure that people who can afford credit are able to obtain the best quality of housing improvements, extensions, and access to basic services as possible through their largely self-help efforts and their use of community builders. Equally important, the materials must also include methodologies that Ghanaian households may choose to follow in terms of family budgeting for managing credit before any “debt bubble” may occur.
2 Objectives of the assessment

During a pre-assessment mission undertaken by CHF International in August 2004, numerous Ghanaian and international observers commented on the increasingly apparent need for improved housing conditions in the country, especially for lower income people. CHF International, an international NGO with substantial housing and micro-finance experience in developing countries, was subsequently invited by the President’s Office to assess the trends in public and private sector delivery of affordable housing in the country. CHF was also invited to make strategic recommendations for tangible, replicable and sustainable interventions that would enhance the amelioration of housing conditions for the majority of Ghanaians.

The chief purpose of this assessment is to broadly examine the trends, risks and opportunities to meet the critical challenge of affordable housing in Ghana. Specific objectives include:

- Analyze the strategies, experience and roles (public and private) for the delivery of affordable housing in Ghana.
- Determine the main reasons for any constraints in the delivery of affordable housing solutions (including costs, appropriate construction approaches and materials, finance and land).
- Understand the extent and the characteristics of the potential market for affordable housing in Ghana.
- Recommend tangible strategies to the Government of Ghana (GoG) and other potential key players to meet current demand for affordable housing, focusing on the appropriate housing typologies, financing, and the legal and regulatory framework.

3 Methodology and activities

CHF’s field-based consulting team comprised four Ghanaian professionals consisting of one businessman/developer, two legal and business consultants and one economist. They worked under the supervision of an international housing expert with experience in Eastern and Southern Africa. The team was guided by two development professionals from CHF International. The team completed its brief field work in 10 days. This field work comprised numerous and often repeated visits to markets and communities in informal settlements, older established settlements and some rural areas, though adjacent to Greater Accra only. The team interviewed key informants at government agencies, including the Bank of Ghana, Ministry of Finance, the Ministry of Works and Housing, commercial banks, the HFC Bank (Ghana) Limited, micro-finance institutions, apex organizations, private developers and architects, informal sector operators, and investors (see Annex 1 for a list of interviewees).

These people gave generously of their time and knowledge, for which CHF is deeply grateful, and any factual errors and oversights in the assessment are entirely of our own making. This assessment is strategic in nature and should not be construed as an in-depth study of housing and finance processes in the country. The intent is to offer some strategic observations on the current state of the affordable housing sector and to make modest but tangible recommendations to government and other partners on possible interventions to redress shelter and economic problems facing low-income households.
Enabling environment for an efficient and equitable housing sector

Housing, especially housing that is affordable for low-income people, is highly complex and capital intensive for all parties involved. This is especially the case for poor people themselves who must apply their scarce savings and abundant social networks, both of which are manifested in many forms, to create shelter and an asset for their families and themselves. It is also one of the oldest economic development activities and many expensive lessons have been learned in the field.

To achieve the above assessment objectives, CHF based this paper on its understanding of the optimal factors that comprise an “enabling environment” in which a vibrant and equitable housing sector may develop. These critical success factors are:

- Stable macro-economic and political environment in which low and moderate income people are able to create effective demand for housing finance and other inputs into the housing improvement process;
- Efficient and equitable land markets that promote a sense of security for all sectors of society and therefore spur household investment;
- Housing policy that encompasses both conventional and non-conventional strategies to promote broad community and private sector participation in housing development and upgrading processes;
- Broad access to housing finance, both asset-backed and not, from sustainable banking and non-bank financial institutions;
- Supportive legal and regulatory frameworks that cut across all of the above key factors and pertain to institutions and people involved in affordable housing construction, finance, land and other sectors.

4 Macro-economic and socio-political environment

Ghana’s Economic Recovery Program (ERP) commenced in 1984 and was designed to progressively open up the country to a private market-oriented system. After several years of economic progress in the eighties and nineties, the country was buffeted by a global downturn as well as sharp increases in oil prices that engendered macro-imbalances in 1999-2000. Spiraling inflation and deteriorating trade terms were met with increasing budget deficits.

A new government was peacefully elected in 2001 and committed itself to reducing the budget deficit and promoting the private sector, including micro, small and medium size enterprises. Efforts were also made to privatize state-owned enterprises and banks and encourage foreign direct investment. A liberal financial sector regime was encouraged and is largely developing.\(^1\)

Today, government’s macroeconomic policy is designed to accelerate the process of growth and transformation of the economy under competitive conditions. A stable political environment has been created. In spite of some economic risks due to increases in oil prices and political risk as a result of the slow pace of decentralization, Ghana possesses a sufficiently stable macro-economic and socio-political environment under which an affordable housing sector could take off.

\(^1\) Ghana’s financial structure is fairly shallow: the degree of monetization of the economy stands at 32% as measured by the M2+/GDP ratio at the end of 2003.
4.1 Economic management strategy

The current government has embarked on a comprehensive macroeconomic stability strategy. The main thrust of the government policy is to create wealth and reduce poverty as defined in the government's Ghana Poverty Reduction Strategy (GPRS) 2002-2007, which was introduced to ensure the country benefited from debt cancellation. Ghana's economy is gradually moving towards stability, and the present favorable macroeconomic environment is the result of a number of macro measures put in place by the government including:

Reducing and restructuring the domestic debt

The Government has undertaken several measures to reduce and restructure the domestic debt including using around 20% of Highly Indebted Poor Country (HIPC) savings for domestic debt payment. As of August 2004 central government's deficit is forecast to fall below 2.0% of gross domestic product (GDP), from an average 6.4% of GDP between 1999 and 2003. This is a significant achievement. Ghana's general government debt-to-GDP ratio is forecast to remain level at about 90% (it was as high as 121.1% in 2001; 89.7% in 2003).

In terms of restructuring, the Government of Ghana Index Linked Bond and the Cocoa Treasury bills introduced in 2002 continue to be implemented in 2003 and 2004, and this is enabling the government to shift away from short-term debt towards medium and long-term credit regimes. Nevertheless, domestic debt is mostly short-term and carries high rates of interest. At an estimated 16% of GDP, the domestic debt burden remains significant in 2004 (10% of GDP is the central goal of fiscal policy). Ghana's gross external financing requirement is expected to fall to 46% of foreign reserves by the end of 2004, from close to 385% in 2000. Although remaining vulnerable to commodity prices, foreign reserves will continue to be bolstered by debt relief in the medium term (Bank of Ghana Statistical Reports, October 2004).

Improving public expenditure management

The government has instituted a number of reforms to improve public expenditure management. Some of the activities undertaken by the government in 2003 and 2004 to improve public expenditure management include:

- Strengthening budget control systems, and training Ministries, Departments and Agencies (MDAs) to ensure conformity to planned capital expenditure programs, targets and activities.
- Strengthening budget execution and reporting systems.
- Implementing the Budget and Public Expenditure Management System in the Ministry of Finance and the Controller and Accountant Generals Department.

2 For the possible future funding of low-income housing, it is important to note where the other 80% of HIPC funding was allocated for FY 2003: 21% District Assemblies; 17% Education; 10% Water (rural); 8% roads; 6% health; and 18% other.


4 This effort led to the elimination of “ghost workers” on the government’s payroll saving $2.8 billion in monthly recurrent expenditure (Daily Graphic, November 10, 2004). This effort also eliminates a significant credit risk to financial institutions that might want to make housing loans to public sector employees.
• Strengthening oversight body to implement a new procurement code and procedures and minimize corruption.

Improving fiscal resources mobilization

The government instituted two programs to improve fiscal mobilization:
• Strengthening revenue collection institutions and District Assemblies (DAs) and implementing tax identification number (TIN) and the Large Taxpayers Unit
• Proper accounting for Non-Tax Revenues (custom duties, VAT etc) and strengthening their collection. As a result, non-tax revenue in 2003 exceeded 2002 by 44 percent.

Pursue price and exchange rate stability

A Monetary Policy Committee (MPC) and the prime rate instrument were established in 2002 at the Bank of Ghana. The Committee analyzes trends in the economy, levels of foreign reserves, and adjusts the prime rate quarterly to signal market expectations of inflation and hence affect commercial banks' lending rates. The independence of the Bank of Ghana in its pursuit of monetary policy has also been reinforced in the new Bank of Ghana Law. The law allows government to borrow no more than 10% of the previous year's revenues, thus limiting the extent of government borrowing (GPRS, Annual Progress Report, 2003).

4.2 Economic trends

Trends over the past few years in the key economic parameters reveal considerable progress in stabilizing and growing the economy. The fiscal position has generally been in line with budget projections and revenue generation by the responsible agencies has been robust while the establishment of the Public Expenditure Monitoring Unit has helped to control government expenditures. As noted above, monetary policy action has had a positive impact in reducing money supply and promoting a stable price and exchange rate regime.

The external payment position, for example, has improved significantly. In 2003 Ghana's current account recorded a surplus of US$40.76 million (as against a projected deficit of US$130.94 million) compared with a deficit of US$30.57 million in 2002. This situation was bolstered by an increase in cocoa earnings and net private transfers. Ghana's major exports of cocoa and gold enjoyed favorable prices in 2003 and 2004 which, together with inflows from both foreign donors and private remittances, have helped to improve the country's import cover and reduced exchange rate volatility.

Impact of remittances

Official private remittances increased by 57.5% from US$1,374 million in 2002 to US$2,164 million in 2003. As of September 2004, private inward remittances (transfers received from NGOs, religious groups, and individuals) channeled through banks and financial companies amounted to $1,746 million for the first nine months of the year, which represents a 29.0% increase over the same period in 2003 (MPC, Bank of Ghana, October 2004). However, these figures do not include private individuals who bring cash into the country.

5 The TIN will also positively impact efforts to launch effective credit bureaus in the country.
Inflation and other key economic indicators

In order for people to afford a range of housing opportunities, the economy must create jobs and investment opportunities in an environment with predictable inflation, exchange and interest rates. Risk management by the state, the private sector and by consumers becomes untenable if these rates dramatically fluctuate or if political uncertainty prevails.

![Economic growth data, Ghana](chart)

Table 1: Ghana: Selected Economic Indicators (1998-2004)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial bank lending rates (%)</td>
<td>38.50</td>
<td>36.50</td>
<td>47.00</td>
<td>43.75</td>
<td>36.36</td>
<td>34.95</td>
<td>30.50*</td>
</tr>
<tr>
<td>Exchange rate (¢/US$)</td>
<td>2,314.15</td>
<td>2,647.03</td>
<td>5,321.68</td>
<td>7,217.97</td>
<td>7,868.97</td>
<td>8,677.81</td>
<td>9,129.55</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>4.7%</td>
<td>4.4%</td>
<td>3.7%</td>
<td>4.2%</td>
<td>4.5%</td>
<td>5.2%</td>
<td>5.2% Proj.</td>
</tr>
<tr>
<td>Real GDP growth per capita (%)</td>
<td>1.2%</td>
<td>1.6%</td>
<td>1.9%</td>
<td>2.6%</td>
<td>2.6% Proj.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation rate y-o-y (%)</td>
<td>14.6%</td>
<td>12.4%</td>
<td>25.2%</td>
<td>32.9%</td>
<td>15.2%</td>
<td>23.6%</td>
<td>12.6*</td>
</tr>
<tr>
<td>Prime rate (%)</td>
<td>24.50</td>
<td>21.50</td>
<td>18.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bank of Ghana Reports
September 2004

Note: *
Inflation risk
Reducing inflation to single digits has been one of the corner stones of the present government. The target was to reduce inflation from 15.2% at the end of 2002 to 9.0% at the end of 2003. However, the 90.4% increase in petroleum prices in February 2003 led to a revision of the inflation target from 9.0% to 22.0%. By the end of 2003 the inflation rate was 23.6%. By October 2004, however, the inflation rate was down to 12.6% and it is expected to remain steady.

The price of petroleum products remains the single most important risk factor affecting the future rate of inflation. The government is using the Tema Oil Refinery Debt Recovery Fund to sell bonds in the market (the Commercial Bank of Ghana is the largest buyers of these bonds) to cover delayed petroleum price adjustments. Hence, when the market of petroleum products is fully privatized and part of the subsidy is removed in February 2005, inflation is likely to rise (Aryeetey, ISSER, July 2004).

Commercial lending rates
The commercial bank lending rates had remained in the upper thirty to middle forty-percent range until 2004 when they began to fall. In 1998, the lending rates of commercial banks were around 38.50%, reducing to 36.50% in 1999, before increasing to 43.75% in 2001. By 2003, the average commercial lending rate had declined to 34.95%. The base lending rate at commercial banks subsequently reduced to 25% (6.5% above the BoG’s prime rate) in the July 2004-September 2004 period, but advances are lent out at around 30.50% (HFC Bank rate) and above despite a steady reduction in inflation.

In response to macroeconomic conditions and policy initiatives of the MPC, the prime rates declined in the latter part of 2003 from 24.5% to 21.5% to 18.5% by December 2004. The 91 day Treasury bill rate has fallen to 17%. Commercial lending rates have not been as responsive as expected to the declining T-bill rates. The expectation of the government was for the commercial lending rate to be in the area of 25% but the rate has been consistently above 30%. This response implies that commercial banks still consider lending to the private sector in the current environment as high-risk and that they continue to carry significant loan losses on their balance sheets.

However, the commercial banks and other financial institutions appear to be shifting their lending portfolio in favor of the private sector. The annual growth of credit to private and public enterprise from domestic money banks at the end of September 2004 was 41.3% compared with 12.5% during the same period in 2003. Growth of credit to the private sector in real terms also rose from 3.0% in August 2003 to 18.0% by August 2004. About 67.0% of the credit went to the private sector. The increase in credit to the private sector was broad-based, with the major recipients as manufacturing, import trade, construction, services and miscellaneous. The manufacturing sector received the highest share (20.0%) of outstanding credit at the end of September 2004, followed by commerce and finance (19.7%)(Bank of Ghana, MPC, November 2004).

Overall, interest rates fell generally in line with the Monetary Policy Committee’s prescriptions, and this downward trend over the past three years in market rates shifted resources from market instruments to capital markets as seen in the bullish performance of the Ghana Stock Exchange, which saw a 154.7% rise in the All-Share Index at end of December 2003 and is expected to gain another 90% by year end
2004. However, the capital markets are relatively illiquid, and with interest rates declining CHF expects that real estate development may become more attractive in the next year or two.

Exchange rate risk
The depreciation of the cedi has been dramatic during some past periods, but over the last three years the depreciation has been largely predictable and gradual. Recently, the trade-weighted real effective exchange rate for the cedi shows a real appreciation of the cedi by 6.5% between January and September 2004. This compares with a real depreciation of 5.6% over the same period in 2003 (Ibid).

4.3 Private sector policy support
More than 90% of the working population is engaged in private sector commercial activities. President J. A. Kuffuor and his government are committed to creating a dynamic private sector to fuel economic growth and improve people’s living standards. This commitment is expressed in terms of closer collaboration and partnership with the private sector and the privatization of many state-owned enterprises (such as the Bank for Housing and Construction and probably in the near future the State Housing Company). In line with this vision, the Government has created a special Ministry called the Ministry for Private Sector Development (MPSD) with a challenge “to facilitate the development and growth of a competitive and vibrant private sector and also to help reduce the cost of doing business in Ghana (GIPC, 2004)”.

The MPSD has established an Institutional and Legal Reform Division to facilitate the drafting of a number of reform bills, including the Companies Code, the Insolvency Bill, Money Laundering Bill, and the Insurance Bill, aimed at improving the business environment and giving more comfort to foreign and domestic investors. It has also successfully facilitated the development of a National Medium Term Private Sector Development Strategy to bring together government departments and the business community to tackle market imperfections in a coordinated way.

Business law generally appears to conform to international norms and is based on a framework of legislation relating to business activity, copyrights, patents, trademarks, disputes, and labor relations. Sanctity of contracts ensures respect for commercial rights and obligations. Damages are compensatory, not punitive, and an independent but over-worked court system tries to ensure equitable protection of rights. Systems for mediation, arbitration and other forms of dispute resolution are available but often strained from lack of capacity. Business adjudication is identified as a priority problem to be tackled under the MPSD strategy.

The private sector has also been assigned a leading role in the economic development process. Coordinating this role is the Private Enterprise Foundation (PEF), an advocacy institution responsible for a rapid and unimpeded private sector development. The PEF was founded on the initiative of four major business associations. The policy thrust is to improve public-private partnership in the creation of an enabling environment for the successful operation of viable business. Unfortunately, no representative body of informal sector business members seems to participate in the PEF.
4.4 Political environment

Ghana is a maturing democracy and has experienced four successive peaceful presidential and parliamentary elections, including in December 2004. In 2000 the opposition party in parliament won both the presidential and parliamentary elections. These prior elections marked a major turning point in the history of Ghana and the region. With the exception of Senegal, none of the 15 countries within the Economic Community of West Africa States has had a peaceful transfer of government similar to Ghana. The election of new leaders is engendering better prospects for democratic consolidation. The results of a 2002 survey showed that Ghanaians remain fully committed to democratic principles, support for democratic politics remains high, and there is growing satisfaction with the way democracy actually works in the country, though a significant share of the populace are dissatisfied with the economy (Center for Democratic Development, Afrobarometer 2002). In 2004 the final outcome of the parliamentary elections of December 2004 is not yet fully clear as CHF completes this assessment report, though it appears the President has been re-elected and a new Cabinet will be appointed. A new Minister of Works and Housing is expected. Other pluralist forces – a free press, independent judiciary, private sector, civil society organizations – appear generally active and relatively strong.

Decentralization

While Ghana’s overall political climate is stable and generally positive, one of the most important political environmental issue facing the housing sector in the mid and long term is the uncertainty of decentralization. Decisions regarding infrastructure, land use, settlement upgrading, zoning and development planning will presumably take place at the metropolitan, municipal and district assembly levels in the long run. The national government is committed to a decentralization process which is currently a mix of political devolution, and administrative and technical de-concentration of key service delivery institutions. “While the institutional and legal frameworks for de-centralization have made great progress since 1992 when District Assemblies were established and when the District Assembly Common Fund (DAF) became operational, no clear trend has been observed to deepen and institutionalize decentralization efforts of Government (GPRS, Annual Progress Report 2003).”

However, efforts are underway to strengthen the administrative capacity of the 3 Metropolitan, 4 Municipal, and 135 District Assemblies, and to strengthen their association with civil society organizations. The Ministry of Local Government and Rural Development has formulated a National Decentralization Action Program (NDAP) and initiated consultations with stakeholders. A Presidential Advisory Committee was consequently set up to provide policy guidance, and the Cabinet has endorsed the NDAP for implementation. In 2003, 25 new districts were created, 3 pilot projects on composite budgeting were initiated, and the percentage of tax revenues allocated to the DCAF was increased from 5% to 7.5%. The performance of the Assemblies, however, is decidedly mixed. For example, some of the Common Fund monies have been used for micro-credit projects, sometimes in partnership with rural banks and Financial NGOs, but they experience low recovery rates (average 38%), which generate negative spin-off effects on the microfinance entity (Steel and Andah, 2002). There is also concern about the level of community participation and agency coordination in project planning and implementation possibly due to management capacity issues (Jack and Braimah, September 2004).
5 Employment, income and housing affordability

Obtaining up-to-date data on people's income in any country is difficult, and Ghana proved no exception in this respect. The timeliness of the information is especially important as the Ghanaian economy seems to be picking up over the past two years, but available data is 3 to 5 years old. However, CHF was able to develop a sense of the housing affordability levels in the country. Incomes are and will remain low. The formal sector will grow but will unlikely lead to any major reduction in the size and importance of the informal sector.

5.1 Structure of the economy and distribution of employment

The Ghanaian economy is structured around three broad sectors: agriculture, industry, and services. The economy is basically agricultural, and is traditionally dependent on the export of primary commodities. However, there appears to be increasing diversification in the economy. At the same time, the informal sector is vast, and the linkages between the formal and informal sector are largely unknown. No comprehensive policy supporting the informal sector exists.

Agriculture

The agricultural sector dominates the economy with about 40% share in the country's GDP (this share has declined however from about 43% since the early 1990s). The sector also employs the largest proportion of Ghana's economically active population, and government and most bi-lateral donors are seeking opportunities to invest in agro-processing to expand employment opportunities. Key activities in the sector are food cropping and livestock; cocoa production and marketing; forestry and logging; and fishing. Cocoa is the most important cash crop, providing a significant proportion of national revenue. Other food and industrial crops cultivated include maize, cassava, yam cocoyam, pineapple, banana, plantain, pepper, cotton-seed, cashew nuts, cola nuts, sugar cane, rubber, palm oil, tobacco, and coffee. Presidential Special Initiatives (PSIs) have been launched to support the production growth of cassava starch, cotton, and palm oil.

In 2003, the agricultural sector grew by 6.1%, as against 4.4% in 2002. This development was largely propelled by the strong recovery of the cocoa market. The crops and livestock sub-sector, which had been the largest contributor to the agricultural sector GDP, stagnated at 5.3% in 2003 (from 5.5% in 2002). On the other hand, the forestry and timber sub-sector, which grew by 5.0% in 2002, experienced an increase of 6.1% in 2003. Timber is also readily available in the domestic market and is well accepted as a housing building material for trusses, but for little else at this point. The cocoa production and marketing sub-sector, which recorded a decline of 0.5% in 2002, saw a spectacular growth of 16.4% in 2003. This recovery is continuing in 2004. From September 2003-2004, cocoa exports increased 78% in volume terms. Cocoa beans exports increased to $825.5 million (a 46% increase) over the September 2002-2003 levels (BoG, Monetary Policy Committee, November 2004).

Industry

The share of the industrial sector in Ghana's GDP is about 28%. The sector is composed of the mining and quarrying, manufacturing, electricity, and water and construction sub-sectors. Among the minerals produced in the country are gold, bauxite, manganese and diamonds. A PSI has also been launched to support growth in salt mining. Mining is currently the leading foreign exchange earner for Ghana,
although manufacturing contributes the largest proportion of the total output of the sector.

Growth performance in the industrial sector was generally better in 2003 than 2002 as it grew from 4.7% in 2003 to 5.1%. With the exception of the manufacturing sub-sector, which recorded a marginal decline of 0.2% from 4.8% to 4.6%, all other sub-sectors recorded growth that surpassed the respective performances in 2002. The mining and quarrying sub-sector recorded a marginal output growth from 4.5% in 2002 to 4.7% in 2003. Electricity and water sub-sectors stagnated at 4.2% in 2003 (from 4.1% in 2002), while construction grew from 5.0% to 6.1% due largely to increased road construction and maintenance.

**Services**

The services sector is the fastest growing sector and contributes about 32% to GDP. It is the most diversified, made up of wholesale and retail trade; restaurants and hotels; infrastructure services; financial services; community, social and personal services, as well as private non-profit services. The sector is driven largely by government and trading activities. The gradual withdrawal of the government from the provision of some of these services through a privatization program seems to be having some positive effect on the sector as private entrepreneurs take on an increasing share.

The services sector’s growth rate of 4.7% in 2003 matched that of 2002 as the sub-sectors recorded mixed growth performances. The wholesale and retail trade sector slightly declined in growth from 5.6% to 5.0%. The respective outputs of the financial services and social and personal services sub-sectors also marginally declined from 5.5% and 4.4% in 2002 (to 5.2% and 4.1% in 2003). Apart from these developments, other sub-sectors stagnated, except the government services sub-sector, which grew from 3.6% in 2002 to 4.0% in 2003 (GIPC, 2004).

**5.2 Employment trends and the informal sector**

More than half of the economically active population continues to work in agriculture, although its share of the total labor force fell by over 10 percentage points between 1984 and 2000 (see Table 3 below). Even if the average annual growth rate of the agricultural sector grows as it did between 2002 and 2003, we would expect some leveling off in its share of the labor force to occur. We do not anticipate any near-term major contraction in agricultural employment. Since 2000, we would expect that the percentage shares of services and industry to have grown moderately.

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>61.1</td>
<td>12.8</td>
<td>26.1</td>
</tr>
<tr>
<td>1992</td>
<td>62.2</td>
<td>10.0</td>
<td>27.8</td>
</tr>
<tr>
<td>1998</td>
<td>55.0</td>
<td>14.0</td>
<td>31.0</td>
</tr>
<tr>
<td>2000</td>
<td>50.7</td>
<td>16.3</td>
<td>33.0</td>
</tr>
</tbody>
</table>

*Source: GSS; 2000 Population and Housing Census; ISSER table*

The main source of employment in Ghana is the informal sector. Between 1984 and 2000, informal sector employment rose by about 46% at an annual average of 2.7%. At the height of the initial impact of ERP, the share of the informal sector in total employment rose to 88% in 1992 and has declined to 80.4% in 2000. While most of the participants in the rural informal sector are engaged in agriculture, the urban
informal sector is dominated by those engaged in retail trade (Aryeetey, 2004), most of whom are women (GLSS 4, 2002). It is difficult to predict the trend in the size of the informal sector and its contribution to GDP. The average annual growth rate of the labor force was 5.8% between 1984 and 2000, and assuming that this rate stayed constant, Ghana would have to experience very high economic growth to absorb about 230,000 new job seekers every year. CHF therefore expects that the informal sector will remain a large majority percentage of the economically active population for the foreseeable future. No recent studies have been conducted to measure the informal sector’s contribution to GDP. Furthermore, we found it difficult to deduce how large or active the informal construction sub-sector is from available data.

Unemployment and underemployment
The unemployment rate is defined as the proportion of the total economically active population (77% of adults +15 years of age) who are not working but available for work. This definition tends to underestimate unemployment. Unemployment is an urban phenomenon, as 13.2 percent of currently active urban adults (30% in Accra) were unemployed, compared to the overall national average of 8.2%. However, underemployment (15%) is more pronounced in rural areas (GLSS 4, 2002).

Table 3: Distribution of economically active population by sector of employment (%)

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Private informal</th>
<th>Private Formal</th>
<th>Public</th>
<th>Semi-public/parastatal</th>
<th>NGO</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>80.4%</td>
<td>7.8%</td>
<td>5.9%</td>
<td>2.9%</td>
<td>0.8%</td>
<td>2.2%</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2000 Population and Housing Census, 2002

5.3 Income, savings and credit
According to the 2000 Ghana Living Standards Survey, the average annual household income was US $947 and average annual per capita income was US $220. On a regional basis, the income levels varied significantly. For example, in Greater Accra the average annual household income was US $1,402, while in the Upper West Region the average annual household income was US $389. The average annual per capita income for these regions was US $389 and US $163 respectively. However, as in other developing countries, income information is likely incomplete, since the data shows household and per capita expenditure levels substantially higher than the income levels.

There was also a wide disparity in the distribution of income and expenditure. The percentage share of persons and income in the different quintiles shows that 20% in the lowest quintile generate only slightly more than 6% of total income. On the other hand, the highest quintile generates 40% of total income. On the expenditure side,
10% of the population with the lowest expenditure account for less than 2% of total expenditure, while 10% with the highest expenditure account for more than 31% of total expenditure. This income and expenditure distribution seems to indicate that the middle-income level is thin and probably remains as such in 2004.

Moreover, relative to March 1999 prices, Ghanaian households spend on average (both cash and imputed) US$ 2,394 and per-capita expenditure is US$ 412. In national terms, cash expenditure on food represents a significant 45.4% of total household expenditure; 7.5% is spent on education, 5.6% on transport and communication, 6.4% on housing and utilities, and 6% on household goods, operations, and services (GLSS 4, 2002).

Limited information was collected on savings and credit in the 2000 census. About 28% of all households reported that someone in the household owned a savings account (35% in the Accra region compared to 13% in rural savannah). Just over a third of all households (35%) reported they owed “money or goods” to other “persons, institutions or businesses.” Indebtedness, as measured by the proportion of households taking out loans, was relatively low: less than 20% in rural savannah and 38% in rural coastal, the highest. The sources of the loans were 58% from relatives and personal acquaintances, 22% from traders, only 5% from “money lenders” and 6% from formal financial institutions. Housing is not listed as a reason for borrowing, but 35% borrowed for the purchase of consumer goods (which may also include building materials); 22% for business expansion (which may include additional space for a home-based enterprise); 10% to pay for health-related expenses; only 7% for agricultural inputs; and 9% for weddings or funerals.

Research conducted by the Ghana Center for Democratic Development (CDD) in 2002 in all 10 regions of the country with a sample size of 1200 indicated that 76% of Ghanaians live in households with a combined monthly income of less than US$56.00. Just 5.0% of Ghanaian families live on incomes of more than US$100.00 per month. Sixty-six percent of households do not rely on regular wage or salary for their livelihood and only 18.0% is able to save money regularly. Another 21% said they resort to spending their savings or borrowing money to make ends meet. Contrary to popular perception only 13 percent depend on remittances of cash from relatives in foreign countries, while 20% depend on relatives working elsewhere within Ghana. In terms of occupation, 42% of the respondents described themselves as farmers; 31% classified their mode of farming as commercial and 11% as subsistence only. The next largest group (15%) described themselves as traders or hawkers, 8% as artisans or skilled manual workers, 4% each as teachers and students, and 5% said they never had a job.

5.4 Poverty

Through Ghana’s Poverty Reduction Strategy (GPRS), the Government of Ghana has demonstrated a long-term commitment to reduce poverty and enhance economic and social growth in both rural and urban communities. Any effective housing policy initiatives enabling developer-driven project housing, household-led incremental housing, or community-led settlement upgrading are aligned with this strategy, which seeks to protect the vulnerable segments of society. Fully 39% of the population is living below the poverty line, and about 27% experience extreme poverty (GPRS 2003 Annual Progress Report). While poverty is generally considered a more rural than urban phenomenon, the extent of urban poverty is probably under-estimated as costs of living in urban areas are much higher (Jack and Braimah, 2004).
5.5 Some preliminary conclusions on housing affordability

CHF believes the overall brightening of the macro-economic picture is probably only beginning to translate into improved incomes and better living standards throughout the economy. Whether effective demand is increasing for housing finance, however, is difficult to assess without more up-to-date data on incomes in the informal sector in particular. Based on interviews and review of existing expenditure patterns, CHF predicts that many Ghanaian households have incomes that are considerably higher than what they state in surveys. Nevertheless, over 45% of cash expenditure is on food, and only 6.4% on housing and utilities. The average Ghanaian is employed in the informal sector, mostly in agriculture or trading, and enjoys both regular and irregular income. Another 20% of the working population in the formal sector receives regular income, but also experiences underemployment and seeks to supplement household income in the informal sector (Aryeetey, ISSER, 2004). Housing affordability levels are clearly low, but indebtedness is also relatively low and there is some data that suggests many Ghanaians are saving or attempting to save in formal institutions. As the Bank of Ghana has aggressively pursued policies to absorb liquidity in the economy as one way to combat inflation, the number of households with savings and savings accounts has probably increased over the past two years to take advantage of higher interest rates.

This overall income and employment situation has major implications for the development of shelter and housing loan products. The level and sources of income affect the terms, size, costs, collateral requirements, repayment methods and forms of financial intermediation associated with the delivery of housing loans in an environment where there are no housing subsidies. These loans, and their repayment, must fit into the survival and livelihood strategies of individuals comprising households often living together under one roof or in the same compound.

Based on the GPRS analysis of poverty, CHF believes that those households living in extreme poverty (27%) will not qualify for any kind of finance and it would be both immoral and financially unwise to offer these people credit. The World Bank and other donor agencies are currently sponsoring a Poverty and Gender Assessment Study of borrowers of rural Micro-Finance Institutions (MFI). Based on preliminary results, many of the MFIs are reaching some of the 39% of total households living under the poverty line.

*CHF estimates that on a national basis at least 35% of all Ghanaian households will not qualify for any kind of housing finance, including micro-finance.*

6 Land and its impact on housing development

While Ghana’s dependence on primary and agricultural products, timber and minerals are factors that characterize Ghana’s dependence on land for economic growth, the issue of access to land and access to affordable housing are inextricably linked. It is important to remember, however, that access to land (and improvements on that land including housing) for many Ghanaians is still tantamount to the ultimate form of social

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6 It should also be pointed out, however, that Ghana’s Human Development Index (HDI) has improved every year the index has been compiled since 1975. In the most recent report in 2002 Ghana was ranked 131, comparing favourably with Botswana at 128 and Kenya at 148.
security for themselves, their extended families and their communities. It is for this reason that many Ghanaians would sell their houses only under the direst of circumstances, and because of kinship obligations are willing to welcome distant relatives into their households, even if the practice leads to over-crowding. This social value affects housing design, plot sizes and coverage, and attitudes towards the marketability of land and housing.

On the other side of the land ownership equation, well-to-do individuals, commercial interest groups, developers, banking institutions, and the government promote legal land tenure security to assure efficient and profitable use of land (and housing) and the development of a formal land market. Unfortunately, neither side has been easily accommodated in modern Ghana. Most Ghanaians feel very secure on traditional land, while investors would probably not. A general lack of security, whether social, legal or economic, is inimical to financing housing development, and land problems in Ghana represent the highest risk to the development of a vibrant housing system (and its multiplier effect on economic development).

From a financial or development banking perspective, the best risk management strategy is to work in both camps with current or aspirant home-owners who demonstrate their security by investing their own funds and efforts to improve their living conditions.

6.1 Land ownership in Ghana

The land ownership system in Ghana is governed by a complex operation of customary, statutory, and common law. There are three principal forms of land ownership:

- Customary
- State-owned
- Customary, but state managed lands known as Vested Lands

Customary ownership

Customary (or communal) forms of ownership occur when the right to use or dispose of user-rights over land is governed solely by customary laws of the community residing on and using the land. Customary laws in Ghana vary from one community to another and Ghanaian society comprises numerous ethnic communities with differentiated social structures, customary practices and norms. These customary laws and norms rest neither on the exercise of brute force, nor on the evidence of rights guaranteed by statute, but on the fact that they are recognized as legitimate by the community. The rules governing the acquisition and transfer of these rights are usually explicitly and generally known, though not normally recorded in writing. Such ownership may occur in any one or a combination of ways, including by discovery or long uninterrupted settlement, conquest, or gift, or purchase from another land owning group or overlord.

Various degrees of rights and interests exist within the customary or communal ownership system. The highest form is alodial title which forms the basis of all land rights in Ghana (there is virtually no freehold titled land in the country). Other lesser

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7 This socio-cultural dimension of land and housing is hard to over-emphasize in the Ghanaian context. For more on this topic we recommend the Tipple and the Agbosu articles listed in the references.
interests emanate from the allodial title, including usufruct interests, leases, licenses and pledges (Kasanga, 2000).

In Ghana, people of common descent owe allegiance to a symbol of collective authority (such as the "stool" for the Akans of southern Ghana or "skin" for the northern peoples) and own the land communally. The chiefs or community leaders hold the land as their fiduciary duty for the whole community. Contrary to common misconceptions, the chiefs or leaders do not have absolute rights over communal lands. The chief is merely a trustee and the ultimate title is not vested in him but in the whole community (Asabere, 1994). The customary land ownership system has many commendable features as it is locally controlled, relatively inexpensive to operate, and potentially equitable in its allocation.

Land tenure, especially in the rural areas, is predominantly communal, but customary ownership also has a major impact on urban settlement patterns. Individual rights to land for farming or housing are acquired through the community or by inheritance. Most lower income Ghanaians are likely to possess rights to such land, which by custom has usually not been granted in writing and therefore would present collateral problems for any formal application for housing mortgage finance. Nevertheless, many would feel sufficiently secure that the chief and the community would not evict them. Though the customary system has generally been able to support economic activities and has enabled both formal and informal land markets to develop, pressures of population growth, infrastructure developments, ownership insecurities, widespread land disputes and attendant litigation, and world economic trends make it imperative that the traditional customary system accommodate a formal system of registration of title (and vice versa).

However, customary law is still beset with problems, such as the identification of relevant witnesses to the transaction of a grant to a "stranger". The identification of who has the legal capacity to act has been an age-old problem, exacerbated by urbanization. Chiefs who die also seem to die with their grants of land despite "witnesses" and invariably a "successor" will demand further payment from a buyer making any sale uncertain. This situation puts time and price pressure on acquiring urban land especially, and CHF found that developers and private individuals alike will strategically plan to pay for land at least three times before they are confident that the land is theirs to develop.

State lands

State lands are those specifically acquired by the government under appropriate enactment using state powers of eminent domain for a "fair compensation," a source of considerable dispute in some communities. Currently the principal legislation governing such land acquisition for public purposes or in the public interest is the State Lands Act of 1962, Act (122). Under such ownership allodial rights become vested in government which then can proceed to dispose of lands by way of leases, etc. to relevant state institutions, private individuals and commercial organizations. The boundaries of these lands are cadastral surveyed. They are scattered throughout the country, though the government does not possess a consolidated list of its properties for public inspection.

Vested lands

The third category of land ownership in Ghana is generally referred to as vested lands, a kind of hybrid of the two forms of ownership discussed above. Vested lands are lands owned by a stool or skin but managed by the state on behalf of the stool or skin. Under such ownership the legal rights to sell, lease, manage, collect rent, etc. are
vested in the state by the stool or skin by the application of law. The traditional landowners retain equity rights and other rights to enjoy the benefits of the land. Vested lands are managed in the same way as state lands, but the boundaries are not cadastral surveyed. These vested lands tend to be much larger in size, covering wide spaces.

State and vested lands, which may be acquired privately for housing, are administered and regulated by the Lands Commission Secretariat and the Land Valuation Board. Furthermore, the consent of the Lands Commission Secretariat must be obtained before any stool land is allocated. This requirement is in addition to having an Administrator of Stool Lands who is responsible for collecting all revenues, rents, royalties etc in respect of stool lands, as provided for under Section 267 of the 1992 Constitution. All this necessarily presumes some coordination between the Lands Commission and the Administrator of Stool Lands.

6.2 Key legislation affecting equitable land delivery

In addition to the State Lands Act of 1962 noted above, there are other acts and agencies affecting land management and delivery to low-income people:

**The Land Registry Act of 1962**

The Land Registry Act of 1962 was introduced to repeal earlier colonial registration. Though this Act improved on previous ones by making a provision for the description of land areas by reference to a plan, it failed to require the attachment of accurate plans to the registered instrument. This Act allowed for some instruments to be registered without survey plans. It also did not provide for any systematic adjudication process and even excluded oral transactions as might have been validly conducted in the customary system.

**The Land Title Registration Law 1986**

The Land Title Registration Law of 1986 was introduced to address the weaknesses in the Land Registry Act of 1962. The Memorandum of Land Title Registration Law, 1986 (PNDCL, 152) declares its twofold purpose: to give certainty and facilitate the proof of title; secondly, to render dealings in land safe, simple and cheap and to prevent fraud adversely affecting purchases and mortgages.

The Land Title Registration system does not supplant the customary system; it gives recognition to ownership acquired under different customs, and most importantly seeks to protect such rights and interests by providing the machinery for security of title.

Once an area is declared a registration district, the law requires that all leases, mortgages, transfers, easements, restrictive agreements and evidence of co-proprietorship are registered. The effect of such registration is to certify the rights of the registered proprietor of land, subject to any encumbrances or conditions which should also be registered. With the system firmly grounded in the written law, it may be decentralized even further to the local level. *Currently, many areas have not yet been reached by the titling system and will not be reached for years to come.* The Deeds Registry under the Land Registry Act of 1962 therefore still operates alongside the Title Registry as the former still contains 160 years of records that are relevant. This presents a somewhat confusing situation and the multiplicity of laws presents a fragmented legal framework. Moreover, one survey suggests that most people are still unaware of these pieces of legislation (CDD, 2000).
The Land Title Registration law provides for an adjudication committee, which should involve reliable local personnel who may be more knowledgeable in the land tenure situations in their areas. The adjudication process is supposed to be sufficiently publicized to alert all property owners. This is in line with the Land Administration Policy that recognizes the need for more local and traditional authorities’ involvement in land policy formulation.

Conveyancing Decree of 1973
This law imposes a general requirement for all conveyances to be recorded in writing. According to the Memorandum of the Conveyancing Decree, provision is made for an imaginative development of registries of the court system to handle the recording of transfers of interests in customary land. While the practice of oral grants under customary law is exempt from the requirement of writing, the grant must nevertheless be recorded by the court registrar. The incentive for recording such customary land transfers is that they are of no legal effect unless recorded.

Town and Country Planning
The Town and Country Planning (TCP) department is one of the key agencies in the land delivery and development process. The Town and Country Planning Ordinance (Cap 84 of 1945) is still the foundation on which physical development is planned (or not) in much of Ghana. The TCP ordinance was amended and superseded by the Local Government Act of 1993. The local planning authority is the District, Municipal or Metropolitan Assembly, and it has the power to regulate and permit land uses and plan housing development. Plot sizes tend to be quite large in Ghana. Because many people prefer the traditional compound design of their houses with numerous rooms opening onto an internal courtyard, plot coverage may be significant in these cases, contravening outdated building codes and creating generally unnecessary problems with TCP. Plot sizes are still quite large for detached and semi-detached housing also which cover much less of the plot. The result is low density urban sprawl and virtually no opportunity to provide low-cost infrastructure.

6.3 Confused state of land tenure
The above laws, rules, and agencies combine to create a confused state of land tenure with overlapping regulatory frameworks and ultimately clouded titles to both leased customary land and to state-controlled land. The World Bank estimates that registering formal ownership/lease over a piece of unencumbered land in Ghana is the third longest registration process in the world (World Bank, 2004). Corruption and land disputes, especially involving public lands in urbanizing areas, have been experienced by significant majorities (CDD Report, 2000). The lack of uniformity, complex codes, administrative requirements, and the dualism in land tenure is a risk to an effective housing finance market due to the uncertainties and litigation potential. Rising prices on land with clear titles on the one hand and multiple, disputed sales of land with clouded titles on the other, are especially vexing risks, at least in urban areas. This situation, however, does not prevent the capacity of some institutions to make unsecured housing microfinance available to qualifying households and groups, who do indeed have some formal legal or customary security and want to invest their savings, credit, and labor in housing. But it does require sophisticated construction management and loan product development skills on the part of both builder/borrower and retail lender.
6.4 Land administration project

The problems around land administration and management affect many interest groups, including government. The Ministry of Lands and Forestry is leading a major initiative to rationalize current practices. The Land Administration Project (LAP) is a 15-year project, which seeks to simplify the processes of acquiring land, developing the formal land market and fostering prudent land management. The World Bank and other development partners have released $54.4 million for the implementation of the first phase of 5 years which would focus on developing a sustainable land administration system that is fair, efficient, decentralized, cost effective, and capable of enhancing land tenure.

Problems that the LAP seeks to address are:

- An inadequate regulatory framework
- A confused legislative framework – a multiplicity of laws making the framework unnecessarily complicated and difficult to operate
- Weak customary and public land administration regimes
- Indeterminate boundaries of customary lands
- Compulsory acquisition of government of large tracts of land without payment of compensation which tends to promote conflicts between the state and traditional leaders; this situation is coupled with the poor use of land compulsorily acquired by government
- Abuse of traditional and institutional procedures that has placed the land rights of the poor, the illiterate, the vulnerable and women at risk
- A clogged court system (land cases pending are currently about 60,000)
- Inability of customary authorities to know the extent of their land boundaries
- Problems of land acquisition by investors
- Multiple sale of land by different parties claiming ownership
- Weak management capacity of both public and customary institutions
- The threat of land guards who are hired by developers to protect land that is often encumbered with multiple claims
- Haphazard development – general indiscipline in land use, development and disposition
The government recognizes that with a growing population and inter- and intraregional migration and urbanization, there is a correspondent diminishing supply of land. This is compounded by the duality in Ghana's land economy as a result of the customary system of land tenure and weak administration of the state system. From a housing and infrastructure perspective, the result is sprawling development which makes housing processes uncertain and infrastructure investment more expensive.

The LAP hopes to address the need for a new hybrid model of land management for Ghana, which could prove quite challenging. This approach, however, presents an opportunity for rationalizing the current land management system to develop a more uniform and transparent framework within which an affordable housing sector, both private sector formal and private sector informal, could operate. One must bear in mind though that the first phase of the LAP will not be complete until 2008, though pilot land administration projects are currently being carried out in certain rural areas. Customary law around the continent is proving resistant to change, often for understandable local community control and socio-cultural reasons, and change agents often have a range of legitimate as well as sometimes suspect motivations.

**Taking inventory of state-controlled land**

One of the more important features of the LAP is the initiative to audit and take inventory of state lands and vested lands. CHF was not able to obtain sufficient information on the percentage of land that is state-controlled, but others estimate that it is around 15% (Tipple and Korboe, 1998). The inventory may make for a more equitable and efficient use of government land, and facilitate compensation to communities that were forced to sell their land to past governments. It may also enable government to rapidly release its unused or underused commercial and residential land in urban centers and rural areas to accommodate communities who want to upgrade their settlements and build new housing, as well as to private developers to create new opportunities for shelter and business (these are not necessarily mutually exclusive activities).

The comprehensive inventory could provide an opportunity for government to negotiate with private developers for mixed uses of land for people with a range of incomes and ensure that commercial development can “cross-subsidize” development that benefits low-income people in the informal sector. However, this “inclusionary zoning” approach will require considerable political will, and probably local control and capacity, to stand up to private estate developers and others that are used to concessionary finance and other subsidies and advantages.

### 6.5 Land banking objectives and housing supply

An interesting response to the current inefficient land management system is land banking for property development. It is not clear at this time what the relationship is or will be between the government’s inventory-taking exercise and the current land banking efforts. A number of public or quasi-public entities are involved in this practice. Some of these include:

**Tema Development Corporation (TDC)**

The Tema Development Corporation (TDC) has been a major player in real estate development in Ghana for nearly 42 years. The company has developed twenty self-contained residential neighborhoods in Tema, a port and industrial city, which is nearby to Ghana’s capital city, Accra. TDC, as part of its mission to execute and facilitate developmental activities, is now embarking on the servicing of industrial lands in the Tema Heavy Industrial Area, to provide easy access to land ready for development by investors on long-term leasehold basis. It has been particularly responsible for stimulating a US dollar land market.
TDC has engaged in various types of serviced land and housing developments to serve middle and upper income strata of society in Greater Accra. TDC homes are built from the modern (and often imported) building materials and range from two bedroom simple detached homes at $38,670 to four bedroom homes at $140,000 and higher. TDC’s clientele is drawn largely from Ghanaians resident abroad who remit funds for full payment, or a down payment of 70% on a completed house and paying the balance over a period of two years at 10% interest per annum on the dollar denominated cost. For buildings that are yet to be constructed, applicants must pay 50% of the cost price upfront and the balance upon completion.

**Social Security and National Insurance Trust (SSNIT)**

SSNIT is the trustee of the social security scheme in Ghana. It is the sole legally authorized institution that manages a pension scheme for workers in Ghana, in accordance with PNDC Law 247, which requires Ghanaian employees of companies operating in Ghana to be members of the scheme. In addition, to collection of contributions (at 17.5% of gross salary) and administration of benefits, it also manages the assets of the scheme. These assets include real property of various forms, including the largest housing stock of formal rental units in the country.

SSNIT continues to hold and buy land and manage its properties internally, but it is weighing the option of hiring an international property management company to extract better financial returns on its property portfolio. It has also been involved in developing housing or financing the development of separate and semi-detached housing for high income households.

**Ministry of Food and Agriculture**

In line with the government of Ghana’s objective of facilitating access to land for investment purposes, the Ministry of Food and Agriculture (MOFA) has compiled a list of MOFA’s land available in all the districts in Ghana in an effort to establish a land bank database to aid potential investors. The program is in its nascent stages but its potential to ease the burden on potential investors and developers is immense.

**Ministry of Works and Housing**

Officials from the Ministry of Works and Housing (MoWH) informed us of their intention to establish an authority that would serve as a land bank to acquire and lease out at least 30,000 acres of land to facilitate the development of housing, primarily for formally employed workers. The MoWH is working with the National Trust Holding Company (NTHC) Limited, as a co-arranger, to sell 5 year bonds on the international market in hopes of raising a target of US$200 million to support the program. In Accra, the Department of Rural Housing is also assisting the ministry to develop a land bank. The land bank development could be preparation for the provision of utility services or for the re-location of informal settlers (Jack and Braimah, 2004). The MoWH’s land bank concept has been debated for a considerable length of time. It is unclear if the MoWH has yet received the approval of the Ministry of Finance to sell bonds on the

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8 The upfront 50% deposit on a new house before construction commences is a pricing strategy followed as a “rule of thumb” by all estate developers in Ghana. The deposit covers the anticipated full construction cost of the house, thus obviating the need for construction finance, which is not always readily available in the market. Therefore, there is a 100% mark up on most houses developed by estate developers.
international markets, but MoWH has signed memoranda of understanding with nine foreign financial organizations to secure soft loans for a National Housing Program (Aryeetey, ISSER, 2004).

Ghana Investment Promotion Center
The Ghana Investment Promotion Centre (GIPC) states it has established a land bank with information on land and real estate properties available on lease, rental, or equity for investment purposes.

CHF also believes that other entities are in the process of buying/leasing user rights and banking land in anticipation of future development, especially in Accra, Tema and Kumasi, but we were unable to find any clear evidence or data on the extent to which this practice is happening with small, informal sector developers, for example. Our overall impression is the formal selling of land, or housing for that matter is rare, but that there is considerable informal development of housing to meet housing needs.

7 Housing conditions, requirements and supply
CHF found that most Ghanaians are squeezed by a confluence of pressures, especially those with low incomes and uncertain formal access to secure land. Rural and urban people in the separate ecological zones are affected differently and by varying degrees by each of these factors. Increasingly urbanization is another contributing factor to poor or uncertain housing conditions for low and moderate income people.

7.1 Population trends and urbanization
The population of Ghana grew by an average annual rate of 2.7% between 1984 and 2002. Urban growth on the other hand averaged 3.6% (5.3% for Accra and 3.0% for other urban areas). At this rate the urban population is expected to double by 2020 (World Bank, 2002). The 2000 population census estimates the population of Ghana at 18.9 million, but MoWH projects the population will be about 23.6 million by the end of 2005 (see more below). In 2000, 56.2% of the population lived in rural areas and 43.8% in urban areas, but most people we interviewed thought urban areas had grown more by 2004. The percentage of Ghana's population living in urban centers in 2000 by region was led by Greater Accra (87.7%) and Ashanti (51.3%) regions. Ashanti is the most populous region (19.1%) followed by Greater Accra (15.4%) and Eastern (11.1%). The rest of the country remains predominantly rural, though the regional capitals are expected to continue to grow as a result of greater planned decentralization.

Migration patterns are particularly interesting in Ghana. According to the 2000 GLSS 4, if you moved to Accra, there was a 24% chance you had migrated there from a rural area, but a 73% chance you had migrated to Accra from another urban area. However, if you lived in another urban area, there was a 57% chance that you had moved there from a rural area. About 38% of migrants stated that they moved to Accra for employment reasons, but 43% stated they moved to Accra for family reasons, whereas for other urban areas, 30% of migrants moved for employment reasons and 41% moved for family reasons (GLSS4, 2000). These variations in patterns will require different financial products for the various urban areas. In other urban areas, where new immigrants come overwhelmingly from rural areas, expectations about housing and access to resources may be quite different than those coming to Accra from other urban areas. Likewise, the high proportion of immigrants coming for family reasons...
indicates a high likelihood of need for incremental housing financial products, as immigrants are likely to move in with relatives, causing a strain on existing space.

Urbanization and infrastructure investment will also be deeply affected by the pattern of foreign direct investment made in partnership with Ghanaian investors. As these investments come on line they will ensure continuous demand for housing from workers of all income levels. The regional distribution of commercial joint venture projects suggests that much of the investments will take place in Greater Accra and Ashanti.

Table 4: Regional distribution of investment projects by sectors

<table>
<thead>
<tr>
<th>SECTORS</th>
<th>REGION</th>
<th>TOTAL</th>
<th>% of Total</th>
<th>AGRICULTURE</th>
<th>MANUFACTURING</th>
<th>BUILDING &amp; CONST.</th>
<th>TOURISM</th>
<th>SERVICE</th>
<th>EXPORT TRADE</th>
<th>GENERAL TRADE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Greater Accra</td>
<td>1,282</td>
<td>78.70%</td>
<td>56</td>
<td>376</td>
<td>102</td>
<td>138</td>
<td>397</td>
<td>77</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>Ashanti</td>
<td>113</td>
<td>6.94%</td>
<td>8</td>
<td>34</td>
<td>9</td>
<td>15</td>
<td>31</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Western</td>
<td>75</td>
<td>4.60%</td>
<td>6</td>
<td>18</td>
<td>5</td>
<td>13</td>
<td>22</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Central</td>
<td>56</td>
<td>3.44%</td>
<td>17</td>
<td>10</td>
<td>3</td>
<td>17</td>
<td>7</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Eastern</td>
<td>47</td>
<td>2.89%</td>
<td>26</td>
<td>7</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Volta</td>
<td>25</td>
<td>1.53%</td>
<td>16</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Northern</td>
<td>17</td>
<td>1.04%</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Brong Ahafo</td>
<td>9</td>
<td>0.55%</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Upper East</td>
<td>4</td>
<td>0.25%</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Upper West</td>
<td>1</td>
<td>0.06%</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>1,629</td>
<td>100%</td>
<td>135</td>
<td>453</td>
<td>126</td>
<td>197</td>
<td>466</td>
<td>101</td>
<td>151</td>
</tr>
</tbody>
</table>

Source: Ghana Investment Promotion Center website, 2004

In Accra the impact of urbanization is especially apparent with increasing land encroachment taking place in the western areas and in-fill areas of the city, and more overcrowding and homelessness in the older built-up areas of the city, such as Nima. There are also informal settlements that have grown, usually adjacent to railway lines, places of employment or markets where the informal sector is particularly active. One study by the University of Columbia, New York estimates that 61 percent of metropolitan Accra lives in informal settlements (Studio, 2003). The most obvious case is the Old Fadama or Agbogbloshie area.

7.2 Informal Settlement Case Study: Agbogbloshie, Accra

Agbogbloshie (also known pejoratively as Sodom and Gomorrah) is Accra’s largest informal settlement, with an estimated population of 30,000. It is also one of its most impoverished and neglected areas, with an irregular supply of water, electricity and few public services. Agbogbloshie lies on the banks of the Korle Lagoon, in the southern part of the city, adjacent to one of the region’s largest vegetable markets. Agbogbloshie, is the most controversial of Accra’s numerous informal settlements,

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9 We found it noteworthy that this list does not include any joint ventures in the mining sector, where the impact may be largely rural.

10 The 2000 Population and Housing Census report indicates that out of 3,701,241 households recorded, only 2,440 households were homeless. However, this figure does not include households who regularly travel for trading purposes from rural to urban areas and live on the streets. We suspect that illegal immigrants are also not captured in this figure. Nevertheless, the low figure is also testament to kinship obligations of many Ghanaians.
most of which lie in the western areas, but are also scattered in confined spaces in built-up areas. The settlement’s residents have been targeted for eviction by the city’s governing body, the Accra Metropolitan Assembly (AMA). The eviction notice was served on traditional leaders in May 2002, and the community’s legal appeal lodged by the Center for Public Interest Law was subsequently rejected by the Accra High Court (for reasons that are not entirely clear, the community has thus far declined to appeal the High Court decision). Accra authorities have yet to carry out the eviction, though, and it remains unclear if and when they intend to do so. Agbogbloshie is widely regarded as a test case for mass eviction in Ghana.\textsuperscript{11}

Ghanaians first began moving to Agbogbloshie \textit{en masse} in the early 1990s, when conflict in northern Ghana forced northerners to relocate to Accra. In 1991 the government, in an effort to rid the city of hawkers, moved many of them to Agbogbloshie, and in 1993 the AMA moved Accra’s yam market to the area near other vegetable markets. Many yam sellers moved with it. These new residents established shacks, mostly constructed with wood, mud, plastic and some concrete (mostly for flooring), and corrugated tin roofing sheets. Many have been inhabited for more than a decade, and represent considerable investment in “sweat equity” and building materials. Community members have also built some VIP latrines, laid water piping, and cleared pathways to fight fires that break out from time-to-time.\textsuperscript{12} A lively room rental market also has emerged. Some people in Agbogbloshie, especially women traveling to and from northern Ghana to transport goods to market, rent sleeping space usually containing up to 20 other renters for 3,000 cedis (roughly $0.35) per night. CHF observed considerable homelessness in the settlement at night with many people sleeping on the pathways.

In 2004 the Center on Housing Rights and Eviction (COHRE) produced a detailed study of Agbogbloshie (\textit{A Precarious Future: The Informal Settlement of Agbogbloshie, Accra, Ghana}) which suggests that the government has three motives for evicting the residents: illegal occupation, physical location, and health risks (the government claims that residents pollute the lagoon and that they have to move in order for the Korle Lagoon Environmental Restoration Project to go forward. The government is also thought to have alternative tourism related plans for the land). The COHRE study concluded that some of the health concerns, while legitimate, do not merit eviction which would result in social and economic dislocation of residents, as well as putting more pressure on land and housing in the city from the evicted inhabitants.

Despite the difficult living conditions endured by Agbogbloshie residents, savings and development groups operate in the community. CHF interviewed members of one such savings group, comprising some 40 members. They informed us that money saved by residents is turned over to the group treasurer, who then deposits it into a Unit Trust

\textsuperscript{11} One of the more interesting documents CHF unearthed is the Resettlement Policy Framework, promulgated by the Ministry of Education ostensibly for its school construction program. This cabinet-approved document reads as if it pertains to all resettlement that may take place in the country. It states that “those who have no recognizable legal right or claim to the land they are occupying, i.e. squatters, ownerships under dispute, etc.” are eligible for compensation in cash or new land on which to re-settle (GoG, June 2003).

\textsuperscript{12} Re-location of existing households as part of a larger settlement upgrading project is the greatest risk to a successful upgrading program. The fact that these residents cleared pathways and keep them clear is a promising sign that the community is well-organized and the likelihood for a successful upgrading project is increased.
account with the Home Finance Company (HFC Bank). Savings group participants track their individual savings in notebooks kept in a small building dedicated to the group’s activities. This approach is based on a model promoted by two international NGOs, Slum Dwellers International and South Africa’s People’s Dialogue (both organizations advise the savings group). CHF was told that participants in the scheme are saving explicitly for housing, home improvement and land acquisition purposes, though they are not necessarily compelled to use savings for those purposes.

**Characteristics of informal settlements**
Informal settlements are also present in Kumasi and other municipalities along railway lines and easements and on both private and public lands. The characteristics of these settlements share common features that are more evident in some areas than others:
- Location on marginal land with poor drainage;
- Insecurity of land tenure;
- Poor housing conditions with few foundations, makeshift roofs and impermanent building materials;
- No community health facilities or schools;
- Poor or non-existent sanitation and water services;
- High density, poor access on foot and no roads (Jack and Braimah, 2004).

CHF found that the development and growth of informal settlements in Ghana is relatively complex. There are a number of intertwining economic and social driving forces:
- Spill-over of traders and informal artisans associated with the size and growth of nearby markets;
- In-migration for a range of economic and family reasons and tribal conflict;
- Impermanent residents seeking services, such as health and education, for a short period of time;
- Displacement or eviction from other, largely rental, accommodation;
- Demand for land for business “free from the bureaucratic constraints and high rentals that exist in the recognized formal areas (DuPlessis, COHRE, 2004).”

**Squatting**
The incidence of squatting is fairly limited, probably because tribal leaders keep a close watch over their communal land and offer its use to communities when land is required. Land encroachment occurs regularly on customary lands that are under dispute, but it generally involves small numbers of participants (including the notorious land guards). Large-scale squatting takes place rarely at this stage in Ghana’s urban development. When it does occur, it usually involves state lands. Ashaiman is an informal settlement near Tema that emerged as a result of the government acquiring and partially developing the land for laborers working on the construction of the port and for some households who were displaced and re-settled there as a result of industrial development. Because it was government owned, it attracted others who moved in as squatters (Tipple and Korboe, 1998). CHF met with one leader who informed us that savings groups, similar to the ones in Agbogbloshie, have also recently organized to mobilize resources for informal housing development and deposited their group savings with the HFC Bank’s Unit Trust.

### 7.3 Housing and living conditions

The table below depicts the physical characteristics of housing in Ghana.

**Table 5: Physical characteristics of housing**

<table>
<thead>
<tr>
<th>Type of Dwelling</th>
<th>Percentage of Population</th>
</tr>
</thead>
</table>

CHF INTERNATIONAL – December 2004
Rooms in Compound 44.5%
Separate House 25.3%
Semi-Detached House 15.3%
Flat/Apartment 4.4%
Huts/Building in Compound 4.4%
All others 4.2%
Tent/Kiosk (Container/Attachment) 1.9%

**Main Construction Materials for Roof**
Corrugated Metal Sheet 60.3%
Thatch/Palm/Raffia 18.6%
Slate/Asbestos 12.8%
All Others 5.9%
Cement/Concrete 2.4%

**Main Construction Materials of Outer Wall**
Mud Earth/Mud Brick 50.0%
Cement Blocks/Concrete 39.1%
All Others 4.1%
Wood 4.0%
Landcrete 2.8%

**Main Construction Material for Floor**
Earth or mud brick 23.8%
Cement or concrete 72.0%
Terrazo 1.4%
Wood 1.0%
Other 1.8%

*Source: 2000 Ghana Population & Housing Census*

The data in Table 5 shows that in terms of construction, corrugated sheets are the preferred roofing material (60.3%); mud brick or earth (50.0%) and cement or concrete (39.1%) are generally used for outer wall construction. Cement and mud are also used primarily for floors.

**The pre-dominance of compounds**

On a national basis, 48.9% of all Ghanaian households live in accommodation associated with the compound (44.5% in compound rooms). Another 25.3% live in separate houses and 15.3% reside in semi-detached houses.

Traditional housing in Ghana takes the form of compounds occupied by households related by blood or marriage into a single cohesive unit. The dominant design tends to have one end of the house containing bathroom(s), kitchen and latrine(s). The bathroom is often a small room with a drainage hole. The toilet may be a pan latrine or an inefficient water tank draining to a septic tank. The kitchen is often no more than an open shelter and is utilized generally for storing cooking utensils, while food is prepared and cooked in the courtyard. Any of the above may or may not have a tap, or a tap may be found in the courtyard (39.9% of households have access to pipe-borne water). The compounds have generally been constructed by informal builders (with help from owners and their family members) on relatively large plots to which owners have traditional land rights. Urbanization and the commercialization of at least some property rights have broken some of the cohesiveness, but the design accommodates re-allocation and some privacy (Tipple and Korboe, 1998).

Officials and “westernized” Ghanaians often assume that the planned unit of housing will be in single household houses (see Table 4). However, the CHF’ experience in Ghana suggests that informal sector builders in urban centers and rural towns are much more likely to build multi-roomed houses to be allocated room by room for both
commercial and residential purposes, including rentals, and then the owners/landlords add on rooms later as can be afforded. The cost-to-household income ratio for compound houses is usually 3.5 to 4 (Tipple and Korboe, 1998), relatively low.

Households and over-crowding
In 2000 children (37.3%), grandchildren (7%) and relatives other than the immediate family (21.7%) constituted significant proportions of the Ghanaian household. These figures on household composition "support the view that the traditional (family) structure has not changed much; it has only been transported from the traditional rural setting to the modern urban setting (GLSS 4, 2002)." On a national basis, 79.4% of households share their dwelling with another household (93.4% in Accra and 89.7% in all urban areas). The average number of rooms per household is 1.74; household size is about 5 persons. More than half of total households (56.8%) sleep in one room (66.5% in Accra and 62% in other urban areas).

Homeownership
In the 2000 Population and Housing Census, 57.4% claimed ownership of their dwellings (40.4% in Greater Accra). Two percent of households lived in public property, set aside as rentals for civil servants, and private employers provided housing for 4.5% of formally employed households. Also, 22% said they were renting their dwellings (37.5% in Accra). Another 19.5% were living rent-free (20.5% in Accra). Households comprising this latter group probably know the head of household and/or landlord and are exercising their kinship rights.

Rental housing shortage
A significant number of both informal and salaried workers in Ghana who have not been able to afford their own housing or do not want to buy houses have been dependent on the rental of rooms for themselves and their families. More than half (54%) of those renting households have their accommodation provided by a relative; about a third (33.1%) rent from private individuals. Private landlords have used such rentals as a means of raising much needed capital for engaging in their own petty trading or enterprises as well as extending their compound houses and rooms. The practice has evolved of demanding two years rent in advance as a condition precedent for leasing rental property, particularly in Accra. These amounts often represent a full year’s salary, or more for some informal workers and low-paid salaried workers, and have forced some households to build shelter or find rooms in informal settlements. The shortage of rental housing will also be exacerbated by the sale of units owned by SSNIT (see below).

Water and sanitation
Only 10.3 million people of Ghana’s 20 million inhabitants are estimated to have access to improved water supply. In the country’s urban areas, comprising about 8.4 million people, 61% of the urban population has access to improved water supply. Substantial donor and government funding has been expended on both rural and small town water supplies. The GPRS Annual Progress Report 2003 states that the percentage of rural households with access to safe water increased dramatically to 63%, but that the reported incidence of guinea worm has also increased suggesting that more funding should be directed at sanitation. Sanitation and other infrastructure investments are a high priority of the MoWH’s budget for the next fiscal year. Only 33.1% of total households have access to adequate toilet facilities (flush, i.e. water-
born or septic, or ventilated indirect pit) (GPRS Annual Progress Report 2003). The availability of solid and liquid waste disposal is even more acute. About 83% use a public dump or street corner for solid waste disposal, and only 16.5% have solid waste collected. A large majority (94.6%) of households use the open space to dispose of liquid waste, posing a hazard to the environment (2000 Population and Housing Census, 2002).

In new development areas, servicing lags well behind building development, and financing and tax incentives to estate developers have not resolved the problem of lack of basic infrastructure.

Informal builders and developers are using PolyTanks to collect water.

PolyTanks, which are manufactured in Ghana, are very popular with homeowners who need to collect and store water. This agent in Legon takes deposits from a customer and “lays-by” the tank for up to six months until the tank is paid off. With the right MFI partner the agent and the customer could both be satisfied on the date of the sale. The PolyTank may also make an interesting Hire Purchase product.

Lighting and fuel

Kerosene remains the major source of lighting; only 43.7% of the population is able to use electricity as a source of lighting, though in urban areas pre-paid electricity meters are installed in many homes. Wood is the main source of fuel for cooking (55.8%) followed by charcoal (30.0%).

Building materials

Building materials are readily available in Ghana. We heard considerable discussion about the high costs of imported finishes, but these items are not generally used in informal, low-cost housing construction. The cost of cement, however, is relatively high due to the cost of imported clinker. This situation has not spurred much utilization of landcrete in block-making for wall or floor construction. Informal block-making is widespread. CHF was surprised by the general lack of use of locally produced building materials, especially wood. Ghana is a net exporter of timber. The Building and Road Research Institute has developed manuals and guidelines for the production and use of alternative building materials.
Table 6: Price sheet on typical building materials

<table>
<thead>
<tr>
<th>Typical Building Materials</th>
<th>Cedi Retail Price</th>
<th>Dollar Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement Bag 15kg</td>
<td>48,000</td>
<td>$5.05</td>
</tr>
<tr>
<td>Sand (15 cubic meter)</td>
<td>1,200,000</td>
<td>$126.32</td>
</tr>
<tr>
<td>Stone (15 cubic meter)</td>
<td>1,700,000</td>
<td>$178.95</td>
</tr>
<tr>
<td>Water (2,500 gal)</td>
<td>200,000</td>
<td>$21.05</td>
</tr>
<tr>
<td>6&quot; Block</td>
<td>4,200</td>
<td>$0.44</td>
</tr>
<tr>
<td>5&quot; Block</td>
<td>3,300</td>
<td>$0.35</td>
</tr>
<tr>
<td>2 by 4 Wood (soft wood)</td>
<td>22,000</td>
<td>$2.32</td>
</tr>
<tr>
<td>2 by 4 Wood (hard wood)</td>
<td>36,000</td>
<td>$3.79</td>
</tr>
<tr>
<td>2 by 6 Wood (hard wood)</td>
<td>45,000</td>
<td>$4.74</td>
</tr>
<tr>
<td>Wawa Boards 1 x 14 ft (1 inch)</td>
<td>40,000</td>
<td>$4.21</td>
</tr>
<tr>
<td>Binding Wire (full coil)</td>
<td>320,000</td>
<td>$33.68</td>
</tr>
<tr>
<td>30ft Iron Rod (.25 inch)</td>
<td>20,000</td>
<td>$2.11</td>
</tr>
<tr>
<td>30ft Iron Rod (.5 inch)</td>
<td>49,000</td>
<td>$5.16</td>
</tr>
<tr>
<td>4 Inch Nails (1 box)</td>
<td>150,000</td>
<td>$15.79</td>
</tr>
<tr>
<td>2.5 Inch Nails (1 box)</td>
<td>150,000</td>
<td>$15.79</td>
</tr>
<tr>
<td>Roofing Nails (per square meter)</td>
<td>25,000</td>
<td>$2.63</td>
</tr>
<tr>
<td>Ridge Cap</td>
<td>25,000</td>
<td>$2.63</td>
</tr>
<tr>
<td>Aluminum Roofing Sheet 3 x 6 ft (.5mm)</td>
<td>85,000</td>
<td>$8.95</td>
</tr>
</tbody>
</table>

**PolyTanks**

<table>
<thead>
<tr>
<th>Cedi Retail Price</th>
<th>Dollar Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>300 Liters</td>
<td>450,000</td>
</tr>
<tr>
<td>700 Liters</td>
<td>950,000</td>
</tr>
<tr>
<td>1000 Liters</td>
<td>1,175,000</td>
</tr>
<tr>
<td>1400 Liters</td>
<td>1,390,000</td>
</tr>
</tbody>
</table>

Source: Roadside agent of PolyTank and local building supplier
Ghanaian Market Prices: October 2004
7.4 Projected housing requirements

The government has attempted to quantify housing need and project the number of new houses required for construction for the period 2001-2010 in order to eliminate the current backlog (as estimated in 2000), to meet annual population increases and to replace “non-upgradeable” housing in both rural and urban Ghana. This supply-side analysis assumes that secure land would be released and made available for development, and seems to imply that each household would seek to reside in a free-standing single household house. The projections take into account the inevitable urbanization of the country. Please see Table 7 below:

Table 7: Projected Housing Requirements 2001-2010

<table>
<thead>
<tr>
<th>TOTAL COUNTRY</th>
<th>2001-2005 ('000)</th>
<th>2006-2010 ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Increase</td>
<td>3,267</td>
<td>3,367</td>
</tr>
<tr>
<td>Housing Stock at commencement of period (1)</td>
<td>2,556</td>
<td>3,296</td>
</tr>
<tr>
<td>New Houses (pop. increase)</td>
<td>408</td>
<td>481</td>
</tr>
<tr>
<td>New Houses (backlog) (2)</td>
<td>332</td>
<td>332</td>
</tr>
<tr>
<td>New Houses (replacement) (3)</td>
<td>126</td>
<td>165</td>
</tr>
<tr>
<td>Housing Stock at end of period</td>
<td>3,296</td>
<td>4,109</td>
</tr>
<tr>
<td>Total New Houses Required</td>
<td>868</td>
<td>978</td>
</tr>
<tr>
<td>Ave. annual requirement</td>
<td>174</td>
<td>196</td>
</tr>
<tr>
<td>Pop. at end of period</td>
<td>23,624</td>
<td>26,991</td>
</tr>
<tr>
<td>Ave. No. of persons per House</td>
<td>9</td>
<td>7</td>
</tr>
</tbody>
</table>

**URBAN**

| Population Increase | 1,943 | 2,144 |
| Housing Stock at commencement of period (1) | 852 | 1,210 |
| New Houses (pop. increase) | 216 | 306 |
| New Houses (backlog) (2) | 142 | 142 |
| New Houses (replacement) (3) | 43 | 61 |
| Housing Stock at end of period | 1,210 | 1,659 |
| Total New Houses Required | 401 | 509 |
| Ave. annual requirement | 80 | 102 |
| Pop. at end of period | 10,456 | 12,600 |
| Ave. No. of persons per House | 9 | 7 |

**RURAL**

| Population Increase | 1,330 | 1,224 |
| Housing Stock at commencement of period (1) | 1,690 | 2,057 |
| New Houses (pop. increase) | 166 | 175 |
| New houses (backlog) (2) | 200 | 200 |
| New houses (replacement) (3) | 85 | 103 |
| Housing Stock at end of period | 2,057 | 2,432 |
| Total New Houses Required | 451 | 478 |
| Ave. annual requirement | 90 | 96 |
| Pop. at end of period | 13,168 | 14,392 |
| Ave. No. of persons per House | 8 | 7 |

Assumptions:
(1) Ave. annual increase of housing stock 1.5% between 2000-2005
(2) Elimination of current backlog by year 2010
(3) Replacement of non-upgradeable housing stock of 1% per annum

Source: GoG Ministry of Works and Housing, Housing Investment Profile, 2004
7.5 Supply efforts in affordable housing

By all accounts, the country has not been able to meet its average annual housing requirements for any period during the last two decades. Previous government attempts at implementing conventional strategies of subsidizing housing production by estate developers chiefly for the benefit of formally employed workers has been unsustainable. The demise of the Bank of Housing and Construction and the moribund state of the Ghana Building Society and the State Housing Company are testaments to housing subsidies gone awry. Ghana is not alone in this regard. The sheer size of costs and the scale of needs have outstripped most governments’ capacity to directly provide affordable housing solutions to their citizens. The current government has cut out subsidies for direct intervention in the market and offered some tax incentives for formal private sector housing development.

The MoWH clearly wants to support its citizens to access safe, decent and affordable housing, even if it is not articulated directly in the Ghana Poverty Reduction Strategy. CHF urges the government to re-visit, revise, and update a new National Shelter Strategy and make it a widely participatory process. We recommend that new policy focus primarily on the non-conventional strategies that will enable rural and urban low-income households operating mostly in the informal sector to continue to more efficiently produce their own higher quality housing.

SSNIT housing supply efforts

Over the past 15 years, SSNIT has probably been the most influential and certainly the largest single entity involved in formal developer-driven housing in the country. As reported above, SSNIT is also the owner of the largest stock of rental housing in the country. It is in the process of selling its rental units. Two bedroom apartments, for example, are offered for 56 million cedis (about US$6,250) with the first option to corporate and public employers, and second option to the sitting tenant. CHF was unable to find out how the units were valued, but based on interviews the sale price of the units are subsidized. Some corporations will probably pay upfront on the homes for their employees and deduct payments from payrolls. SSNIT is also offering a five year payment plan for interested buyers. SSNIT intends to enter into an alliance with Malaysian developers for a new housing project which is intended to serve all income groups.

SSNIT also provided low cost finance in the development of site and services schemes, including one at Dunkonah, off the Accra Winneba Road in partnership with GREDA. GREDA members were supposed to develop 6,000 detached and semi-detached houses there, but the infrastructure and pre-development costs were so expensive that the members refused to purchase the developed land after the first phase of sites was completed. CHF was unable to assess what happened to the land or the project subsequently.

SSNIT was also involved with the government and the IDA/World Bank in the launching of the Housing Finance Company (HFC), now the HFC Bank (Ghana) Limited, and remains the largest single shareholder in HFC (21.17%). HFC offers mortgage finance to purchasers of homes developed by registered real estate developers, i.e. Ghana Real Estate Developers Association (GREDA) members. Since its launch in 1991, the HFC Bank has made approximately 4,600 mortgage loans to homeowners who have sufficient income to purchase houses developed by GREDA members.
As a universal bank HFC Bank is also the parent company of the HFC Real Estate Investment Trust (REIT), which has provided construction finance for at least three real estate development projects. REIT also may buy and hold land.

HFC Bank is the primary mortgage lender in the country. Its projections indicate it expects to make over 415 mortgage loans in 2005; it made about 170 mortgage loans in 2004 end of October (including 52 home equity lines of credits primarily for home improvements). Fifty-five of the loans were US$ denominated. These mortgage loans have concessionary real interest rates of 3.5%-4.5% indexed to inflation as determined by the consumer price index. In some instances, some commercial banks, such as Standard Chartered, also make mortgage loans to the employees of preferred customers, e.g. the mining sector. The Tema Development Corporation (TDC) also provides or arranges mortgage finance in its residential developments (see 7.3 above). Taken together, the CHF consultants estimate that there are no more than 5,000 active mortgage loans in Ghana today.

The two building societies, commercial banks and the Bank of Housing and Construction during the eighties and nineties provided mortgage finance on no more than 30,000 houses.

**Household-led incremental housing (IH) supply**

According to the government’s draft National Shelter Strategy (GoG, 1999), approximately 90% of the housing stock in Ghana is produced informally. This estimate derives from census data on the country’s housing stock. From 1984-1999 the housing stock increased almost 900,000 dwellings from 1,232,754 to 2,181,975, an overall increase of 77.5% (159.4% in urban areas).

As the figures above suggest, most Ghanaians are engaged in some form of incremental (or progressive) housing. Homeowners building in informal ways often lack the access to appropriate finance, however, to complete a stage in the building process which they commence with cash savings and personal loans from family members (and in some cases from moneylenders). The lack of appropriate finance and technical assistance leads to delays in construction that may take years and cause deterioration of incomplete houses, which abound on the landscape. Incremental housing is a household-driven (rather than developer-led) building process for acquiring, extending, improving or servicing a dwelling or group of dwellings over time, and thereby improving the quality of the household members’ housing and lives. IH involves maximizing household choices for house design (often compound houses in Ghana) and types of investment in fixed property that are affordable. “Maximizing choices” also includes “productive housing;” i.e. extending a residence where the borrower household lives to support a home-based enterprise (HBE), or to develop a rental unit for income.

Land and housing cannot act as collateral for a mortgage loan for most Ghanaians. To date there is no 5-10 year loan product that satisfies the security requirements of the banking sector and at the same time protects the communal ownership of land. Even if people could access them, mortgage loans include expensive fees and they are long term. The total amount of interest paid over a 15-20 year period is large. Short-term non-mortgage or micro-finance fits better into the survival strategies of low-income people who have times when they may have irregular income and must contend with family emergencies. Moreover, the total amount of interest paid on a fixed payment, short-term micro-loan is manageable on a cashflow basis. From a housing
The micro-loan leverages savings (in cash and/or in second hand building materials), and "sweat equity."

The use of retail finance to extend developer-led housing is also considered incremental housing. Experience suggests that owners of new houses borrow funds to improve or extend them after a period of "settling in" and committing themselves to the house and the community in which they reside. Mortgage finance (home equity loans) can play a role in this situation, but only if the houses, land and borrowers are approved by the bank.

The National Shelter Strategy states that very little attempt has been made to harness and supplement people’s non-conventional strategies for creating shelter for themselves and their families. The government goes on to state in its draft strategy:

> The underlying problem that besets Ghana is that on one hand it has realized the significance of non-conventional strategies to housing, yet on the other hand, it is confronted with a monstrous task of articulating such a complex issue into a refined process to be promoted and implemented on a nation-wide basis (GoG, NSS, p. 11).

CHF found that the non-conventional informal IH approach undertaken by the vast majority of Ghanaians leads to greater housing supply. However, this finding is not meant to suggest that developer-driven housing is inappropriate for moderate-income segments of the housing market. Indeed, developer-driven housing strategies may be deployed in conjunction with IH strategies, including with settlement upgrading to assist communities with differentiated income and sources of employment to build housing on formally titled land. The point is that the vast majority of people already takes responsibility for creating their own shelter and cannot get access to or afford mortgage finance in any event to help them achieve their goals.

Some purposes of micro-loans for incremental housing include:

- The construction, or extension or improvement of formal, informal or traditional housing structures (e.g. installing or replacing a roof);

The aluminum/tin sheet roof and new timber trusses on this rural house in Mampong (left) are classic examples of an incremental housing improvement in a rural area. Note the proper overhang construction which offers both shade and rain protection for the mud walls. This type of improvement could readily be accommodated by a 1 year micro-loan.
The purchase of building materials, payment for labor or technical assistance, purchase of prototype plans or any expense related to house construction/extension/improvement;

“Productive housing”: fixed improvements or extensions related to a home-based enterprise (HBE) or on-site production (including developing rooms for rent);

Upgrading security (fencing or burglar bars);

Connection to public utilities like water, sewerage, electricity. This might include individual contributions to shared infrastructure, such as communal water sources or;

Water harvesting with PolyTanks;

The purchase, installation or construction of septic tanks, ventilated pit latrines or compost toilets;

The purchase/lease of land for residential purposes;

The purchase of specific housing innovations, e.g. modular kitchen and bathroom upgrades or energy conservation measures.

8 Financial sector development

Ghana’s housing supply system therefore puts a premium on the financial sector to creatively deliver housing credits on a financially sustainable basis to those people who can afford to repay them and unleash the savings, hard work and ingenuity of individuals, groups and communities to supply their own housing.

CHF found that most Ghanaians do not have access to and cannot afford asset-backed finance or mortgage finance, but they are beginning to participate in the growth and maturation of the micro-finance industry.

8.1 The financial sector in Ghana

CHF found that funds do not flow very well among institutions and that for the most part the financial system in Ghana is fragmented. For example, as at the end of September 2004, the Bank of Ghana stated that the banking sector shows generally robust earnings and a profitable and fairly liquid position, with a better risk outlook than previous years. "Non-performing loans of the banking sector have declined from 18.5% in September 2003 to 16.4% at the end of September 2004 (which is nevertheless very high by international standards)". Interestingly, the non-bank financial sector (Savings and Loan Companies, finance companies, leasing companies and venture capital companies), have seen their assets grow to some ¢1,450 billion or 2.0% of GDP. However, the non-bank financial sector experienced an overall decline in liquidity during the third quarter of 2004 (BoG, MPC, November 2004). The implication is that the commercial banking sector is not stepping in to this potentially profitable gap to assist the NBFIs to meet their liquidity shortfalls.

The financial sector in Ghana currently comprises:

- The BoG, which licenses, regulates and supervises all commercial banks as well as non-bank financial institutions;
- 17 commercial banks, including the HFC Bank (Ghana) Limited which has only recently converted into a universal bank;
- 117 Rural and Community Banks (RCBs) also operating under the Banking Act of 2004 and also supervised by the BoG, which plans to delegate some...

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13 The solvency index – provision for bad debts as a percentage of total loans and advances – was 6.4%, -0.99% and 3.3% for the Ghana Commercial Bank, Standard Chartered Bank and the Barclays Bank respectively in 2003. These three banks held 58% of banking system assets as of December 2003 (Aryeetey, ISSER, 2004).
regulatory authority of the RCBs to the Association of Rural Banks (ARB) Apex Bank;

- Non-bank financial institutions (NBFIs), which include 9 deposit-taking Savings and Loans (S&L) companies, and numerous non-deposit-taking financial institutions;
- Credit unions, soon to be supervised by the Credit Union Association (CUA), which in turn will report to the BoG;
- Semi-formal credit granting Financial NGOs (FNGOs) not subject to the Bank of Ghana’s supervision;
- Informal lenders, such as “susu” collectors, informal traders and rotating savings clubs.

8.2 Regulation

The Banking Law of 1989 is the primary legal instrument under which the BoG has previously regulated the commercial banking sector. Similarly the Financial Institutions (Non-Banking) Law of 1993 applies to the NBFIs. The Banking Law, however, has recently been superseded by the Banking Act of 2004.

While the Bank of Ghana oversees and supervises the operation of these laws, some limited supervisory power may be delegated to second-tier institutions, e.g. the Credit Union Association (CUA) for credit unions, the Ghana Micro-Finance Network (GHAMFIN) for Financial NGOs, and the Association of Rural Banks (ARB) Apex Bank for rural and community banks. Ghana therefore has a tiered system of different laws and regulations for the different types of institutions adapting to the organic growth and fluid changes of the financial sector.

Significantly, the Banking Act of 2004 seeks to strengthen the regulatory powers of the Bank of Ghana. The BoG has always had regulatory power over the formal and semi-formal institutions, but the capacity of supervisory staff to supervise, monitor and audit the operations of the banks and other institutions has not always kept pace with the growth in the banking industry. As the micro-finance industry continues to grow, for example, regulation will be a crucial factor towards monitoring the performance of enhanced products and services.

The BoG requires:

- Banks to maintain 10% in primary reserves (Section 23 of Banking Act); same applies to deposit taking non-bank financial institutions. Similarly, non-deposit taking NBFIs, e.g. MFIs registered as finance houses, need to maintain a 10:1 gearing ratio.
- Institutions to maintain additional secondary reserve funds as determined from time-to-time (Section 29 of Banking Act). The central bank, for example, has required secondary reserves as high as 62% for some institutions.
- Different categories of institutions to meet prescribed levels of paid up capital and fees for opening branches and agencies.
- Institutions to hold liquid assets of a specific position, as may be prescribed (Section 31 of the Banking Act).

In addition, the Minister of Finance in consultation with the Bank of Ghana may promulgate new regulations to the banking industry or the Bank of Ghana may issue directives to banks generally or to a particular bank specifically when deemed necessary (Sections 51 and 52 of the Banking Act of 2004).
In Ghana, micro-finance regulation and legislation clearly evolved with the market. Overtime, the BoG has promoted rural financial intermediation while also firmly supervising institutions that take deposits from the man or woman “on the street” (it closed 23 banks in 1999). In general, the central bank has attempted to create a flexible regulatory environment which enables the development of innovative methodologies to reach different market niches not served by commercial banks. The major outcomes of regulation are it:

- Opened possibilities for new promising types of institutions to emerge; several layers of different types of rural finance institutions with strong savings orientation have come into existence, including those with foreign investors.
- Prevented weak performance from excessive entry into the market.
- Supported greater linkages of licensed institutions, particularly the rural and community banks, relative to Financial NGOs and informal moneylenders and “susu collectors” (Steel and Andah, 2002).

**Delinquency and provisioning**

All licensed financial institutions are required to monitor, review and report on the risks associated with their portfolio of assets on a minimum quarterly basis. For NBFI, assets are graded into four categories of risk: (1) current; (2) sub-standard; (3) doubtful; (4) loss. Assets in the latter three risk categories are considered non-performing and no income may be accrued to them. BoG has also specified prudential norms for micro-finance and MSME loans that recognize the risk characteristics of these loans. Provisioning for these loans is prescribed on a blanket basis according to the number of days delinquent (in arrears), as in Table 8. Provisions on the non-performing assets of the RCBs (and commercial banks) are calculated differently. Assets of the RCBs are classified into five grades of risk: (1) current; (2) other loans especially mentioned (OLEM); (3) sub-standard; (4) doubtful; and (5) loss. The provisioning rates are found in Table 9. CHF believes the credit risks in the RCB small loans market is comparable to the credit risks in the NBFI micro-finance market, and provisioning rates in the RCB market appear less meaningful as management tools.

### 8.3 Potential channels of housing finance

With the exception of the BoG and delegated supervisory bodies, each tier of the finance sector holds the potential to deliver housing finance to meet effective demand in the housing market. Some types of institutions are better equipped than others to offer sustainable loan products that benefit low-income households.

A consolidated analysis and profile of the types and characteristics of micro-finance institutions is provided overleaf in Table 10. The HFC Bank is listed as an example of a commercial bank.

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14 In some countries, the most financially sustainable MFIs will incur provisions on their current loans also in recognition of the high risk nature of making unsecured loans. We know of only one MFI in Ghana which has adopted this practice.
Table 10: Ghana's Finance Sector: Potential Players to Deliver Housing Finance to Low-to-Moderate Income Households

<table>
<thead>
<tr>
<th>HFC Bank</th>
<th>Rural and Community Banks</th>
<th>Deposit Taking NBFI</th>
<th>Non-Deposit Taking NBFIs</th>
<th>Other Semi-Formal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• ₋520b in assets end of 2003</td>
<td>• 117 RCBs, but only 3 are profitable</td>
<td>• 9 S&amp;Ls, but only 3 are profitable</td>
<td>• Over 20 active</td>
<td>• Est. 275 credit unions and Study Groups</td>
</tr>
<tr>
<td>• ₋194b (37.2% net earnings) in mortgages</td>
<td>• ₋1,518b in assets</td>
<td>• ₋223b total assets</td>
<td>• ₋397b total assets</td>
<td>• ₋336b total assets</td>
</tr>
<tr>
<td>• 16 other commercial banks</td>
<td>• ₋456b in advances</td>
<td>• ₋83b in advances</td>
<td>• ₋280b in advances</td>
<td>• ₋251b in advances</td>
</tr>
<tr>
<td></td>
<td>Examples: Adansi, Ahantama, Lower Pra, La</td>
<td>Example: Sikaman (Pro Credit), Citi</td>
<td>Example: Unique Trust, Ghana FS</td>
<td>Example: General Leasing</td>
</tr>
<tr>
<td>Banking Law</td>
<td>Banking Law licensed by Bank of Ghana</td>
<td>Companies Act licensed &amp; monitored by Bank of Ghana</td>
<td>Companies Act licensed &amp; monitored by Bank of Ghana</td>
<td>Credit Union Law CUA</td>
</tr>
<tr>
<td>Home Mortgage Finance Law</td>
<td>Supervised by ARB Apex bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervised by Bank of Ghana</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Increase RoE</td>
<td>• Funding risk</td>
<td>• Pressure for ReE</td>
<td>• Market risk</td>
<td>• Funding risk</td>
</tr>
<tr>
<td>• Liquidity risk</td>
<td>• Credit risk</td>
<td>• Funding risk</td>
<td>• Credit risk</td>
<td>• Credit risk</td>
</tr>
<tr>
<td>• Market risk</td>
<td>• Weak capitalization</td>
<td>• Capitalization</td>
<td>• Credit risk</td>
<td>• Operations risk</td>
</tr>
<tr>
<td>• Credit risk</td>
<td>• Weak operations</td>
<td>• Cost of services</td>
<td>• Market risk</td>
<td>• Cost structure</td>
</tr>
<tr>
<td>• Reputation risk</td>
<td>• Agriculture market exposure</td>
<td></td>
<td></td>
<td>• Donor fatigue</td>
</tr>
<tr>
<td>• Developer risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding</td>
<td>Deposits</td>
<td>Deposits</td>
<td>Depositor funds</td>
<td>Deposits</td>
</tr>
<tr>
<td>• Deposits</td>
<td>Borrowing</td>
<td>Borrowings</td>
<td>Shareholder funds</td>
<td>Donors</td>
</tr>
<tr>
<td>• Borrowing</td>
<td>Shareholder funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Shareholder funds</td>
<td>DACF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• SIF</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacities</td>
<td>Funding management</td>
<td>Support from ARB Apex a strength</td>
<td>Niche retail</td>
<td>Common bond</td>
</tr>
<tr>
<td>• Good admin systems &amp; skills</td>
<td>Accepted in market</td>
<td>Accepted in market</td>
<td>Rapid service</td>
<td>Grassroots collection experience</td>
</tr>
<tr>
<td></td>
<td>Linkages with NGOs, CBOs</td>
<td>Linkages with NGOs, CBOs</td>
<td>Systems oriented</td>
<td>Other non-credit support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Service-oriented</td>
<td>High volume</td>
<td></td>
</tr>
</tbody>
</table>

CHF INTERNATIONAL – December 2004
## Motivations to focus on low income

<table>
<thead>
<tr>
<th>HFC Bank</th>
<th>Micro-Finance Institutions</th>
<th>Deposit Taking NBFI</th>
<th>Non-Deposit Taking NBFI</th>
<th>Other Semi-Formal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural and Community Banks</td>
<td>Deposit &amp; Loans</td>
<td>Finance Houses</td>
<td>Leasing Cos.</td>
<td>Credit Unions</td>
</tr>
<tr>
<td>Restricted by catchments</td>
<td>Profitability of mass market</td>
<td>Appropriately structured for large scale</td>
<td>Attraction of mass market</td>
<td>Benefits members</td>
</tr>
<tr>
<td>Rural low-income people are their client base</td>
<td>Customer loyalty</td>
<td>Prices for credit risk, profit and cost</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Estimated avg. loan sizes, terms, & TCOC

<table>
<thead>
<tr>
<th>HFC Bank</th>
<th>Micro-Finance Institutions</th>
<th>Deposit Taking NBFI</th>
<th>Non-Deposit Taking NBFI</th>
<th>Other Semi-Formal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings &amp; Loans</td>
<td>Finance Houses</td>
<td>Leasing Cos.</td>
<td>Credit Unions</td>
<td>Financial NGOs</td>
</tr>
<tr>
<td>$8,000</td>
<td>$56-$120 (individuals)</td>
<td>$35-$120 (individuals)</td>
<td>$35-$150</td>
<td>$153</td>
</tr>
<tr>
<td>11 years</td>
<td>6-9 months</td>
<td>6-9 months</td>
<td>6-9 months</td>
<td>9-12 months</td>
</tr>
<tr>
<td>$120-$1,200 (groups)</td>
<td>$120-$1,200 (groups)</td>
<td>$120-$1,200</td>
<td>$120-$1,200</td>
<td>$120-$1,200</td>
</tr>
<tr>
<td>32%-42%</td>
<td>32%-42%</td>
<td>32%-75%</td>
<td>32%-75%</td>
<td>32%-75%</td>
</tr>
<tr>
<td>$35-$150</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55%-85%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Primary collection method

<table>
<thead>
<tr>
<th>HFC Bank</th>
<th>Micro-Finance Institutions</th>
<th>Deposit Taking NBFI</th>
<th>Non-Deposit Taking NBFI</th>
<th>Other Semi-Formal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll deduction</td>
<td>Payroll deduction</td>
<td>Payroll deduction/cash</td>
<td>Payroll deduction</td>
<td>Payroll deduction</td>
</tr>
<tr>
<td>Debit savings accounts</td>
<td>Debit savings accounts</td>
<td>Cash/check collection</td>
<td>Cash/check collection</td>
<td>Cash collection</td>
</tr>
<tr>
<td>Cash/check collection</td>
<td></td>
<td></td>
<td></td>
<td>Cash collection</td>
</tr>
<tr>
<td>Payroll deduction</td>
<td></td>
<td></td>
<td></td>
<td>Payroll deductions</td>
</tr>
</tbody>
</table>

8.3.1 Commercial banks

Commercial banks have traditionally served middle to high-income individuals and formal businesses. None of the commercial banks has specific, stand alone departments that engage in home mortgage finance. However, Standard Chartered Bank has supported some high net worth customers of its corporate clients with mortgage loans for housing purchase and construction finance for projects that benefit corporate clients. Applicants for short-term personal loans may also qualify for home finance. Currently by deducting from payroll, some of the commercial banks have actively pursued schemes to provide short-term credit facilities to workers for various consumables (e.g. white goods). This facility is usually at an interest rate that is slightly higher than prevailing commercial interest rates (as it should be).

Some commercial banks perceive micro-finance as a potentially profitable line of business, but recognize they do not have the capacity to manage the credit risks associated with the industry. CHF did not identify any commercial bank directly engaged in micro-finance, but several have the financial capacity to offer wholesale finance to NBFIs that engage in micro-finance, though not necessarily the risk appetite or expertise to assess and manage risks associated with wholesale lending to MFIs.

8.3.2 HFC Bank (Ghana) Limited

One commercial bank in particular may be well-positioned to look for new niches in the housing finance market. The HFC was developed as part of the World Bank’s Urban II project in the early nineties. It is now a well-managed, profitable and in numerous ways a highly innovative universal bank. The initial strategy behind HFC, registered initially as an NBFI, was to create a secondary market for mortgage securities. It was supposed to channel refinancing through to reputable banks which would originate and service the loans and also would bear most the credit risk. Several Origination and Service Institutions (OSIs) tried to make the business model work, but were unimpressed by the lack of steady demand. They did not need the refinancing or were simply averse to the risks. HFC abandoned the securitization strategy.

Instead, HFC over time expanded its capital base, took full responsibility for promoting the program, dealt directly with borrowers and bore most of the credit risks (Diamond, April, 1998). As the primary mortgage lender in the country, HFC is under no illusions that it is a broad-based housing lender for low-income people, and it does not have the management capacity or the cost structure to go into housing micro-finance. The terms and conditions of its mortgage products are restrictive in terms of proof of income and type of housing it finances. The house, for example, must be situated within a 40 kilometer radius of the main urban areas of Ghana and possess clear and undisputed title to the property, duly registered with development permit, building permit, and approved building plans. The location must have basic infrastructure including access roads, water, electricity and drainage. In addition, the costs associated with a mortgage loan are prohibitive: application fee, origination fee, processing fee, and two insurance policies for life and hazard.

HFC also created new savings and investment products including its aforementioned REIT, but also an Equity Fund and a Unit Trust. HFC listed on the stock exchange, and its “house bonds” are the only corporate bonds on the market. HFC converted to a universal banking model, enhancing domestic resource mobilization and its range of financial services. HFC has experienced excellent financial results over the past several years and is poised for growth. Their mortgage loan portfolio represents 37.5% of net earnings in 2004.
Table 11: HFC Bank (Ghana) Limited Financial Results

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets ($'000)</strong></td>
<td>31,522</td>
<td>37,871</td>
<td>41,878</td>
<td>59,061</td>
<td>61,117</td>
</tr>
<tr>
<td><strong>Liabilities ($'000)</strong></td>
<td>31,522</td>
<td>37,871</td>
<td>41,878</td>
<td>59,061</td>
<td>61,117</td>
</tr>
<tr>
<td><strong>Shareholders Equity ($'000)</strong></td>
<td>4,806</td>
<td>5,126</td>
<td>7,182</td>
<td>10,527</td>
<td>12,636</td>
</tr>
<tr>
<td><strong>Mortgages ($'000)</strong></td>
<td>22,684</td>
<td>25,708</td>
<td>23,702</td>
<td>22,598</td>
<td>3,330</td>
</tr>
<tr>
<td><strong>% Arrears on Mortgages</strong></td>
<td>5.25</td>
<td>5.16</td>
<td>6.18</td>
<td>5.70</td>
<td>5.60</td>
</tr>
<tr>
<td><strong>No. of Foreclosures</strong></td>
<td>1</td>
<td>2</td>
<td>7</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td><strong>Bonds ($'000)</strong></td>
<td>23,723</td>
<td>29,028</td>
<td>29,357</td>
<td>28,209</td>
<td>27,124</td>
</tr>
<tr>
<td><strong>Other Financial Assets ($'000)</strong></td>
<td>4,280</td>
<td>11,208</td>
<td>10,421</td>
<td>12,913</td>
<td>25,736</td>
</tr>
<tr>
<td><strong>General &amp; Admin Expenses ($'000)</strong></td>
<td>2,235</td>
<td>1,984</td>
<td>1,942</td>
<td>2,422</td>
<td>3,524</td>
</tr>
<tr>
<td><strong>Admin/Assets (%)</strong></td>
<td>7.08</td>
<td>5.24</td>
<td>4.64</td>
<td>4.94</td>
<td>5.77</td>
</tr>
<tr>
<td><strong>Staffing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profits After taxes ($ '000)</strong></td>
<td>1,313</td>
<td>1,070</td>
<td>1,118</td>
<td>2,108</td>
<td>2,486</td>
</tr>
</tbody>
</table>

Eight years ago, HFC also established a window for servicing the informal sector. The bank’s Informal Sector Operations Program (INSOP) office in the Makola market, Accra, takes daily or weekly savings deposits and offers withdrawals on a weekly basis. The funds management service is marketed as a way for informal sector business clients to build up a credible record of creditworthiness and facilitating a planned process for bringing their businesses into the formal sector. Managing several hundreds of savings accounts, INSOP has made three mortgage loans to the self-employed the past three years.

8.3.3 Rural and community banks

One of the results of the Financial Sector Adjustment Program that began in 1988 with technical assistance from the International Development Association (IDA) was the contraction of the number of rural commercial bank branches in Ghana. The commercial banking sector became more robust but its geographic outreach was
reduced (Gockel and Akoena, 2002). One response from the Bank of Ghana was to nurture the Rural Banks to serve the rural sector.

Rural and Community Banks (RCBs) also operate under the Banking Act. They are confined to drawing their clientele from defined catchments and are subject to lower minimum capital requirements. The RCBs pre-dominantly offer important savings services, but they also offer short-term loans for a period of 6-12 months for amounts ranging between ₡5-10 million.

The Rural Financial Services Project (RFSP), initiated in 2002, is one indication of the commitment of the government, the Bank of Ghana and the donor community to support financial sector development. This ongoing project was undertaken primarily to strengthen the RCBs, but rural MFIs and NBFIs also benefit. A number of the rural banks were distressed at the time for a variety of reasons including inadequate capital, weak operations and poor loan collection, while others were operationally sustainable but needed additional support services. A core group is profitable and well-managed.

To implement the project, the Government obtained loans from the International Development Association of the World Bank, the International Fund for Agricultural Development, and the African Development Bank with a total amount of about US $ 22 million. The German Technical Cooperation (GTZ) provides a comprehensive package of technical assistance, advisory services and training.

The BoG envisages that under the RFSP there will be a broadening and deepening of financial intermediation in the rural areas through effective linkages between the formal rural and micro-finance institutions (MFIs) and informal entities operating in the rural areas.

The project is focusing on:

- **Capacity Building of the Informal Financial Sector** to strengthen operational linkages between informal and semi-formal micro-finance institutions and the formal network of rural and community banks to expand services to more rural end-users.

- **Capacity Building of Rural and Community Banks** to strengthen their operations, internal control systems including provision of new information technologies, logistics and training of key staff; and developing an overall staff development plan for all categories of rural bank staff including Board of Directors.

- **Establishment of the Association of Rural Banks (ARB) Apex Bank** for the rural banking system to provide economies of scale needed by the banks to address the generic constraints related to their operations.

- **Strengthening the institutional and policy framework** for improved oversight of the rural finance sector. Under this component key logistics including training will be provided to the Bank of Ghana to better equip it for effective supervision of the Apex Bank and the rural banks. The Ministry of Finance will also be supported to ensure continuity in the on-going rural microfinance initiatives.

**Association of Rural Banks (ARB) Apex Bank and operations risk**

The ARB Apex Bank was formed to play a specialist supervisory role to the rural banks. The Apex Bank is currently in the process of building its capacity to carry out that
mandate. As such, the Bank of Ghana currently retains most of its supervisory functions, and the Apex Bank is responsible for capacity building, check clearing, and money transfer for the rural banks.

There are 117 member banks of the Apex Bank. Eighty percent of the RCBs are located in five regions: Ashanti, Brong Ahafo, Eastern, Central and Western. Several are also located in the Greater Accra region, such as the Abokobi Bank which CHF visited. The banks are restricted to specific catchments in which to operate. However, their depositors may come from anywhere within the country. Most of the banks have branches that are called agencies. Each bank is privately owned, and no single individual shareholder may own more than 30 percent, and a corporate entity may not own more that 50 percent of the bank. The RCBs are governed by their own boards, most of which have received training under the RFSP.

The board of each rural bank, upon recommendation from the bank manager, determines the interest rates and fees for lending\textsuperscript{15}. Loans over a certain limit, depending on the size of the bank, require the approval of the Bank of Ghana. Additionally, all reporting pertaining to their loan portfolios are made to the central bank.

The RCBs are also required to keep 5 percent of their deposits with the ARB Apex Bank. This amount was 47.1 billion cedis as of August 2004. The total assets of all of the banks are 1,518 billion cedis as of June 2004. In 2000, total assets of the 109 rural banks in operation at the time were 311 billion cedis. Total deposits as of June 2004 were 1,134 billion cedis, compared to 238 billion cedis in 2000. This shows an overall significant increase in deposits and assets over the last four years. In June 2004, the banks had also made loans and advances of 426 billion cedis.

RCBs currently have 1.7 million depositors, of which 212,000 are borrowers, or 12.5% of the number of depositors.

\textsuperscript{15}CHF found that the RCBs' total cost of credit (TCOC) to most rural borrowers is too low, given the high risk nature of the market.
Table 12: Consolidated Assets and Liabilities of Rural/Community Banks

<table>
<thead>
<tr>
<th>(In ¢ billions)</th>
<th>Q1-03</th>
<th>Q2-03</th>
<th>Q3-03</th>
<th>Q4-03</th>
<th>Q1-04</th>
<th>Q2-04*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Holdings &amp; Balances with Banks</td>
<td>174.76</td>
<td>175.20</td>
<td>185.00</td>
<td>256.97</td>
<td>244.18</td>
<td>287.88</td>
</tr>
<tr>
<td>Bills and Bonds</td>
<td>453.12</td>
<td>457.80</td>
<td>477.70</td>
<td>533.90</td>
<td>634.65</td>
<td>649.38</td>
</tr>
<tr>
<td>Loans and Advances</td>
<td>225.29</td>
<td>252.70</td>
<td>306.00</td>
<td>323.95</td>
<td>370.07</td>
<td>426.06</td>
</tr>
<tr>
<td>Other Assets</td>
<td>98.56</td>
<td>91.20</td>
<td>101.90</td>
<td>167.00</td>
<td>144.98</td>
<td>154.32</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>951.7</td>
<td>976.9</td>
<td>1070.6</td>
<td>1281.8</td>
<td>1393.9</td>
<td>1517.6</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Deposits</td>
<td>721.49</td>
<td>739.20</td>
<td>791.60</td>
<td>947.9</td>
<td>1062.2</td>
<td>1133.7</td>
</tr>
<tr>
<td>Shareholders’ Funds</td>
<td>121.81</td>
<td>134.80</td>
<td>165.10</td>
<td>175.3</td>
<td>194.8</td>
<td>215.7</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>108.43</td>
<td>102.90</td>
<td>113.90</td>
<td>158.6</td>
<td>136.9</td>
<td>168.2</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>951.7</td>
<td>976.9</td>
<td>1070.6</td>
<td>1281.8</td>
<td>1393.9</td>
<td>1517.6</td>
</tr>
</tbody>
</table>

No. of Reporting Banks 115 115 115 115 117 117

Source: Bank of Ghana, 2004 *Provisional

Non-performing loans

A combination of poor “sometimes fraudulent” lending practices, weak management and ineffective loan repayment and follow-up systems have contributed to high loan delinquency in some rural banks. For example, out of the 115 rural banks examined by the central bank in 2003, 22 of them had Non-Performing Loans (NPLs) constituting more than 30% of the loans portfolio. An analysis of NPLs over the past 3 years follows:

Table 13: Non-Performing Loans of Rural Banks 2001-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Performing Loans/Gross Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Below 20%</td>
</tr>
<tr>
<td>2003</td>
<td>70 Banks</td>
</tr>
<tr>
<td>2002</td>
<td>68 Banks</td>
</tr>
<tr>
<td>2001</td>
<td>64 Banks</td>
</tr>
</tbody>
</table>

Source: Bank of Ghana, October 2004

The high percentage of non-performing loans is remarkable, especially given the RCBs’ provisioning policy. Clearly, to sustain their operations most RCBs are paying low interest rates on savings deposits and investing the deposits in government bonds while market rates are high. At the same time, they are lending out only a small portion of the total savings deposits at rates that do not provide for these levels of loan losses. The BoG has limited supervisory capacity and has used reserve requirements as bit of a “blunt instrument” to support the rural banking sector. At one time reserve requirements tied up 62% of rural banks’ total deposits, constraining the banks’ available funds for on-lending to the private sector (Steel and Andah, 2003). In a decreasing interest rate environment, many of the rural and community banks may have to close their doors, or they will have to make more loans at higher interest rates.
Of the 117 operating RCBs, however, there are many that are well-managed and profitable. Based on criteria of turnover, growth, net assets and profitability, the Ghana Investment Promotion Center named 18 rural banks in the top 100 businesses in the country (GIPC, October 2004).

**Information technology and debtor management systems**

The ARB Apex Bank is undertaking a “top down” computerization program for all of the rural banks. The apex bank has received an amount of $21 million from a number of donor agencies such as the World Bank and African Development Fund to undertake various infrastructure projects relating to the setup and capacity building of the bank and its members. This effort includes the building of a Wide Area Network (WAN) that will cover the entire country. This network is projected to be deployed in 2006. At that time the apex bank will also supply all of the banks with computers, printers and software to manage front and back office operations. The banks will be required to pay for the hardware and software, as well as a monthly charge for the use of the WAN. ARB Apex Bank has engaged Tata Infosystems as their consultants on the project.

**Impact of rural loans**

As noted earlier, the World Bank and other donors supporting the RFSP are conducting a Poverty and Gender Assessment Study on the impact of micro-finance at both the institutional and household level. At one point, the BoG tabulated RCB reports on the use of credit by borrowers at the banks. Because too few of the banks were complying with the reporting requirement, BoG no longer compiles the loan use information. In assessing the final report (see below in Table 12), we observe that the largest category is “Others” followed by trading and agriculture, and only 60% of the operating banks reported on loan usage.

<table>
<thead>
<tr>
<th>Table 14: Sector Breakdown of Outstanding Credit of Rural/Community Banks (In ¢ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECTORS</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Cottage Industry</td>
</tr>
<tr>
<td>Transport</td>
</tr>
<tr>
<td>Trading</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>No. of Reporting Banks</td>
</tr>
<tr>
<td>No. of Operating Banks</td>
</tr>
</tbody>
</table>

### 8.3.4 Non-bank financial institutions

**Savings and Loans (S&Ls)**

Savings and Loans companies are some of the most active of the NBFIs utilizing the full range of micro-finance methodologies primarily focused on small business lending. The S&Ls have been innovative in their products for group and individual savings and
have formed effective linkages with “susu” collectors and in one instance instituted a micro leasing product. One of the most interesting S&Ls is Sikaman (which is changing its brand to ProCredit S&L and becoming a member of the ProCredit Bank Group operating world-wide). ProCredit’s core business is MSME lending. The company’s shareholders are almost solely international and include International Micro Investment of Germany, the IFC/ World Bank, FMO-the Netherlands Development Financial Cooperation, and the DEON Foundation of the Netherlands. The KfW Group and the EBRD are additional shareholders in the ProCredit Bank Group. The ProCredit S&L is promoted by the Internationale Projekt Consult, a German company. With just 1,248 account holders in 2002, Sikaman’s number of deposit accounts grew by over 266% to 5,888 as of June 2004. Sikaman states that “close to 14,000 clients are doing business with the company (Business & Financial Times, 8-14 November 2004). First Allied in Kumasi is another important S&L in Ghana.

**Non deposit taking NBFIs**

There are a range of Finance Houses that do not take deposits from individuals. However, two have the potential to offer incremental housing loans. Ghana Financial Services and Unique Financial Trust have taken the view that managing savings products is costly and potentially exposes the shareholders to unnecessary risk. These finance houses are focused on borrower service (quick turnaround times, fixed repayments, and payroll deduction collection methods). Their risk management strategy focuses as much on the employer and the industry sector in which the employer operates, as on the borrower. These financial institutions are systems-driven, focus on scaling up their lending capacity and outreach and price their loans for high risk. As a result, they experience rapid growth and relatively low cost structures.

Leasing companies are also NBFIs that offer hire purchase (HP) loan products where the purchased item, such as furniture or white goods, i.e. refrigerator serves as collateral for the loan. CHF believes PolyTank may make a good HP product.

**8.3.5 Semi-formal and informal institutions**

The semi-formal system comprises the Financial NGOs and the Credit Unions. NGOs are unregulated by the central bank although they are registered under the Companies code as companies limited by guarantee (not for profit). NGOs cannot take deposits from the public and traditionally use external (donor) funds for micro-credit projects. NGOs have also partnered with Rural and Community Banks in developing deposit and savings instruments for their borrowers. NGOs typically include other non-financial services in their programming to support low-income rural households. For example, Freedom from Hunger’s Credit with Education program offers education on health, nutrition and family planning to women participants in its group credit program.

Credit Unions are registered with the Department of Cooperatives and can accept deposits and give out loans to internal members only. They fall into the semi formal category. They are regulated by their apex body, Ghana Cooperative Credit Union Association (CUA), but fall under the ambit of the NBFI law, pending the promulgation of a Credit Union Law. Under this new law, the CUA will report to the Supervisory Board of the Bank of Ghana and not the Department of Cooperatives as is presently the case. Regulation by the CUA has been generally weak as the financial reporting system it has established for its members does not provide sufficient quality data that can be used for management and monitoring purposes.
Informal lending

Micro-finance in Ghana has been dominated by the long tradition of a dynamic informal financial system mainly the “susu” system, which embraces individual savings collectors, rotating savings clubs and credit associations, and savings and credit clubs. The informal finance sector also includes moneylenders, trade creditors, self-help groups, and personal loans.

Susu collectors deposit accumulated savings from community members into the banks and from time-to-time give their members “loans” in the form of overdraft facilities over and above their deposits for a period of time. Interestingly from a housing perspective, the susu collector may arrange agreement with a chief to take over a house pledged as guarantee against a loan if the borrower fails to pay back the loan. This approach provides a partial solution to the inaccessibility of banks services for low income households. The Ghana Co-operative Susu Collectors Association (GCSCA) regulates entry, and offers some services to its members. It is important to note that as susu collectors operate in the informal financial sector, they are not formally supervised. To date, however, this has not affected their outreach or indeed their efficiency. Default rates are reportedly low as members all belong to a community or club and risk tarnishing their reputation if they should default (GHAMFIN, 2004). Susu collectors are somewhat constrained in their operations by the fact that they lack capital apart from the savings mobilized from its members and commissions earned from bringing new accounts to the RCBs or the S & Ls. RCBs and S & Ls have participated in a pilot program to advance funds to susu collectors for on-lending to their clients. As small amounts of individual savings are accumulated only a month at a time, and susu collectors deposit collections with the commercial banks, risk is low and manageable. In reality, the central bank would be at pains to regulate this fragmented industry with numerous mobile agents (Steel and Andah, 2002).

8.4 GHAMFIN and key performance indicators for the MFI industry

Various studies of the Ghanaian microfinance sector have identified the following constraints:

- Lack of access to on-lending funds;
- Weak MFI staff skills;
- Inappropriate financial technologies and inadequate operational strategies;
- Poor Management Information Systems;
- Lack of impact assessment indicators, risk and financial performance standards and codes of conduct16;
- Limited range of suitable micro-finance products (including housing products)
- Lack of conflict resolution mechanisms.

GHAMFIN, a network of microfinance service providers, business development service providers and researchers, aims to promote the growth and development of the microfinance industry in Ghana. Membership comprises Savings and Loans Companies, Rural Banks, Credit Unions, Financial NGOs, Susu (savings) Collectors, Rotating Savings Clubs and Apex bodies such as the ARB Apex Bank Ltd. These Apex bodies serve on GHAMFIN’s council thus providing a point at which data and performance monitoring on the industry is centralized, and a forum for policy dialogue among the stakeholders (GTZ, 2002).

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16 An important code of conduct issue is the lack of transparency in calculating total cost of credit (TCOC). Most MFIs use flat rates in their promotion materials, and even where effective interest rates are used, the MFI may not necessarily include other fees in the calculation.
GHAMFIN’s mission is to support a network of microfinance service providers to develop their capacities through training and research, and to promote a platform for advocacy. Regulation and supervision are also crucial elements in the development of the microfinance industry making the second tier financial sector institutions such as the ARB Apex banks and GHAMFIN particularly significant bodies.

Advocacy issues include the extent or effect of regulation of the microfinance industry and the opportunities that this industry presents for different sectors. One opportunity may include affordable housing in Ghana, given that the mainstream commercial banks do not have the products required by low income groups and are simply inaccessible even in terms of their minimum deposit requirements.

In response to the environment affecting MFIs, GHAMFIN has started to put in place measures to achieve the following objectives:

- Establishing performance indicators for the self-regulation of MFIs in Ghana;
- Developing an information bureau on the microfinance industry in Ghana;
- Organizing seminars and workshops to share best practices among members;
- Providing access for continuous training for MFIs;
- Enhancing financial integration between the formal, semiformal and informal sectors.
- Collaborating with government, donors and other regional microfinance networks to work towards surmounting the generic problems facing MFIs and to seek funds for research and development.

GHAMFIN’s efforts towards self-regulation and monitoring will be enhanced with the implementation of performance and benchmark indicators scheduled for next year.

8.5 Credit bureaus

The commercial banking sector, which has previously guarded information on its borrowers presumably for business reasons, is quickly recognizing the need for a credit bureau. The information personally provided by an applicant on his or her loan application form is currently the only means by which to assess credit risk. No central database currently exists to corroborate any pertinent information on an applicant’s credit history.

A number of business efforts are underway that may ultimately remedy this situation. For example, Xdsdata Ghana Limited was established in 2003 as one of the credit information and rating bureaus. The company has agreements with the Ghana Institute of Bankers, GHAMFIN, Ghana Telecom, and other institutions to provide them and other users with credit information on their applicants. This information is offered for a fee to only those organizations that provide Xdsdata with credit information on their clients. Companies that contract with Xdsdata are obligated to provide information on all of their credit customers on a regular basis. This information is not limited to customer payment history on all credit extended, but also includes any known judgments, car accidents, and insurance claims that may impact the borrower’s risk profile.

Tracking and filing the data requires overcoming some constraints. Since Ghana does not have a national identification number for its citizens, Xdsdata will use other forms of identification to compile its database. These include driver’s license, the newly implemented Tax Identification Number (TIN), passport, voter identification, and social security numbers. More innovatively, the company will also use biometric information, such as fingerprints, to assist in the compilation.
There is currently no law on the Ghanaian statutes that governs the formation of credit bureaus. However, one is being drafted and it is expected to be passed by the legislature in the first part of 2005. In the meantime, Bank of Ghana is promulgating a rule that requires the banks and non-bank financial institutions that it supervises to submit credit information to credit bureaus.

8.6 Funding micro-finance in Ghana

Taken together it would appear that the total reach of the MFIs in Ghana is about 600,000 borrowers. CHF was unable to assess the amount of repeat borrowers in the micro-finance system, but we suspect that substantially less than 50% of micro-credit demand is currently met by RCBs and MFIs, few of which appear to offer any housing finance products. As part of the BoG’s efforts to reduce liquidity and improve the solvency of the RCBs and S&L’s, it substantially raised secondary reserve requirements and equity capital requirements over the years. This approach has proven to be a “double-edged” sword. While originally intended to protect the depositors and to strengthen underperforming institutions, the prudential regulations “did not distinguish between stronger or weaker ones, thereby penalizing the more efficient and commercial RCBs” (Steel and Andah, 2003) and presumably the S&L’s by limiting their funding capacity to make profitable loans. Similarly, the non-deposit-taking FNBIs, especially the two aforementioned finance houses, are also experiencing exponential growth at this time and possibly require more external funding.

The MFIs (and the commercial banks) obtain their funding largely from depositors, borrowings and shareholders. The FNGOs are highly dependent on donors. The credit unions are solely dependent on its members and the CUA’s central finance facility. The Social Investment Fund (SIF) and the government through the District Assemblies Common Fund (DACF) have also tried to offer directed funding for specific target groups with decidedly mixed and often negative results, but fortunately not at any large-scale. The German-Ghanaian-Danish Financial Sector Support Program is also conceptualizing a wholesale finance facility for MSME lending.

At the moment, there is no linkage between the commercial banks and the micro-finance sector that could potentially reach broader and deeper into the housing market with non-mortgage finance. Similar to the linkage that has been forged between the informal moneylenders/FNGOs with RCBs/S&Ls, CHF strongly recommends that a linkage should be established between commercial banks and any RCB/MFI interested in housing lending. Alternatively, the commercial banks could establish a joint venture or even a subsidiary (with a keen eye on governance arrangements) to offer non-mortgage housing products to low and moderate income households. On the demand side, we suspect that at least 18 RCBs, 2 S&Ls, 2 finance houses, 1 leasing company and possibly a couple of FNGOs may qualify for wholesale funding from a commercial bank.

9 Recommendations

CHF is tempted to deliver a whole host of recommendations for improving affordable housing policy and processes in Ghana. For example, foremost we would recommend a much greater appreciation of the economies of scale that urbanization offers by developing and promoting a densification policy that would stimulate more innovative and more intensive use of land in or nearby urban centers or in built-up environments. On other policy matters, we would recommend that the MoWH develop core indicators for rural and urban housing for inclusion in the monitoring and evaluation of the GPRS, and we are struck by the Ministry’s lack of membership on the Technical Committee for
Poverty and Social Impact Analysis (PSIA) that is monitoring the enhancement of capacity for pro-poor decentralization. Also, the private informal sector is the most significant supplier of low-income housing in the country, and it would be useful to undertake research on and promote the informal building sector with the Ministry of Private Sector Development. There are also recommendations that CHF could make about land administration, land valuation, and property rates.

We are mindful, however, of the admonition of the Deputy Minister of Finance that we should suggest only a few pragmatic recommendations on which other initiatives might be developed, not only by government but also other key players in the housing supply process. We think this is a useful suggestion, and therefore we offer the following three practical recommendations that we hope would contribute to the development of a sustainable demand-driven housing supply and finance system.

9.1 Apply non-conventional strategies for different market segments

CHF recommends that the national housing market should be understood and analyzed according to at least four different market segments, as depicted in the figure below. A differentiated group of developers, households and communities drive housing supply within these four market segments. Non-conventional strategies applied within each market segment will enable more people to benefit from housing investment, whether personal or institutional. For conceptual purposes, the market segments are separated by straight lines in the figure below, but in reality there are many people who “float” across these lines or make conscious choices about different housing approaches they want to pursue depending on their incomes and circumstances.

17 “Floaters” is a term that GREDA uses to describe potential housing consumers who may choose to buy their members’ houses or to rent. We think the term is a useful one, especially in the Ghanaian market.
Developer-driven housing

This conventional strategy for the supply of separate and semi-detached housing is reaching about 5% of the housing market, particularly the formally employed professionals, well-off expatriate Ghanaians and foreigners. This segment is served rather efficiently by the real estate development industry and the commercial banks, especially HFC Bank, with mortgage finance. Home improvements are financed through home equity loans (second mortgages) or cash.

However, we would recommend at least three non-conventional strategies aimed at this market segment. First, we would recommend that plot sizes should be reduced for separate houses as a general rule to bring down the costs of servicing these dwellings. Regulations should allow greater plot coverage so as to enable more compound style housing to be constructed that could be used for rental housing. In general, we recommend every effort be made, including the use of tax incentives, to create a greater supply of rental housing especially in Greater Accra, even in the high income developments. Second, the range, size and costs associated with housing that is produced by developers are very limited. We recommend a series of pilot projects that maximizes the use of local building materials, especially the use of timber and landcrete, to demonstrate cost-savings and aesthetics associated with these materials. Experience from other countries suggests that more widespread use of local building materials occurs throughout the housing supply chain when they are first acceptable to high and middle income groups. Third, CHF anticipates more intensive construction in city centers as the economy continues to improve. Government must be prepared for this eventuality and impose cross-subsidization on high-end developers to release a percentage of land (or a land swap) and/or housing units that meet the housing or economic development requirements of the informal sector living and operating in these urban areas. This approach is achieved through “inclusionary” zoning practices applied by metropolitan, municipal and district assemblies to protect their most vulnerable citizens.

Household-driven incremental housing

The IH approach incorporates two market segments: household-developed new house (about 10% of the market), and household-driven incremental housing extensions and improvements primarily on customary land (about 50% of the market). The household-developed new house may rest on either formally recognized land with clear title or on customary land. The household-developed new house is generally an informal process happening one house at a time and it is with these houses that land disputes abound in some urban areas. However, CHF recommends re-visiting and learning from the approach of “sites and services” on formally recognized land that was unfortunately mismanaged in the Dunkonah project. To facilitate more affordable household-developed new houses, we recommend this approach especially for the significant numbers of households who have applied and been rejected for mortgage finance at the HFC Bank. The “sites and services” approach requires a commitment to labor-intensive development, low-cost solutions to roads and drainage and technical support for vertical incremental housing development (taking occupancy of a core house, then extending) rather than horizontal IH (taking occupancy only after the envisaged larger house is completed.

The majority of Ghanaians are building, extending and improving their houses as circumstances and household resources warrant. CHF recommends that financing incremental housing may be facilitated and “scaled up” through forging a link between commercial banks and the RCBs, NBFIs and other MFI. This market segment is discussed in detail in the second recommendation below.
Community-led settlement upgrading

At least 35% of the total national housing market is unable to afford micro-finance to incrementally build their housing. However, those people who are living in extreme poverty or those who have no access to finance are living in deep rural areas and increasingly in overcrowded informal settlements. There are essentially no housing subsidies in Ghana today. Subsidies are slated for infrastructure, water and sanitation and CHF consultants concur that this is where any currently available subsidies should be targeted, especially in rural development projects and settlement upgrading projects.

CHF recommends that government facilitate informal settlement upgrading in Agbogbloshie by the different groups that reside there with technical support from specialists in this field. Such a decision will release an enormous amount of good will. The ensuing results, which will take several years to unfold, will be striking.

Settlement upgrading, however, founders on the “de-densification” or resettlement of some families which are occupying land that is either completely unhealthy or is required for laying infrastructure or developing community facilities. Upgrading efforts also founder on noble intentions that view the settlement as an undifferentiated whole. Therefore, the “sites and services” approach we discussed above may assist some few households with considerable income that reside in Agbogbloshie to choose to build their own houses elsewhere. However, in these cases it is extremely important to allow households to transport their second-hand building materials to their new sites, even if it means using these materials as extensions on to a new core house. Furthermore, some of the remaining households may be able to borrow funds for improving their dwellings, much of it with second-hand building materials, and many for rooms for rent. These households, including landlords must be encouraged. Most will not be able to afford either IH credit or the option to purchase a site and service plot. These households will need other technical support services to assist in making their existing shacks more livable and healthier, and they will benefit from greater community access to water, sanitation and lighting.

9.2 Promote wholesale lending link between commercial banks and RCBs and MFIs to finance incremental housing throughout the country

The most significant market segment is the population residing on customary land in both urban and rural areas and building, extending and improving their homes through informal processes (about 50%). CHF recommends that key stakeholders promote a wholesale financing arrangement between commercial banks and qualifying rural banks and micro-finance institutions to ensure continuous funding for this market segment engaged in incremental housing across the country. Such an arrangement exploits the comparative advantages of each tier in the finance system as well as the strengths of government. Commercial banks are less accessible to low and moderate income households for a number of reasons, not the least of which is the limited number of retail branches around the country.

Even these subsidies are unsustainable in the long term, and a municipal bond system should be developed in the future. CHF recommends that MoWH, MLGRD and the metropolitan assemblies work with the HFC Bank, which has more experience in domestic resource mobilization than any other commercial bank, to develop a municipal bond system.
However, as depicted below, commercial banks are capable of mortgage lending, and we have suggested a few ways in which they and the real estate developers may “go down market” with smaller mortgages on lower cost house products. Nevertheless, the market for such loans is still very limited. Commercial banks have also experimented with micro-lending (as depicted by the dotted lines), but they are more capable and cost-effective at making one large commercial loan than hundreds or thousands of small ones. On the other hand, rural and community banks, NBFIs and other MFIs possess substantial outreach into both rural and urban communities and increasingly know how to make and collect micro-loans. As noted earlier, the best managed RCBs and NBFIs are constrained from a lack of additional fresh funding for on-lending. The commercial banks are well-positioned to make that funding available.

9.2.1 Operating principles of wholesale financing

In developing a linkage between the commercial banks and the nascent micro-finance industry, a set of operating principles would take into account GoG’s policies for promoting the private sector and financial sustainability, Ghana’s macroeconomic conditions, the generally unsuccessful and costly experience of previous development finance institutions, and international “best practice” in development finance.

The basic concept is to create a wholesale lending operation to channel commercial bank (and possibly governmental and donor) funds through qualifying MFIs to low-income rural and urban households in the form of credits for housing improvements and economic development. Other African institutions have found that financing appropriately governed and capitalized intermediaries is conducive to:

- cost-effective, geographic market outreach around the country;
- rapid and efficient service to applicants and end-users;
increased responsiveness to the effective economic demand, credit risks, transaction costs and basic needs of local communities in regions across a large country;

the economic empowerment of entrepreneurs who operate and own RCBs, NBFIs and other MFIs; and

high repayment rates (depending on loan repayment mechanisms) because of the management capacity and local knowledge of the intermediaries.

Market-related interest rates, charged at both the wholesale and retail levels, accompanied by sound financial and risk management, would permit the possibility of sustainable financial sector integration. The use of market-related interest rates will enable the wholesale operation to gear additional private savings from other private institutions and develop a sound secondary market. Moreover, more low-income households would have the opportunity to establish sound, transferable credit histories and become repeat borrowers from MFIs to address their myriad household needs, especially housing-related but also other needs over time.

All potential MFIs would be required to submit to the wholesale lender complete business plans, financial projections, credit policies, a description of their intended target group, and to comply with conditions established by the Bank of Ghana, when applicable, and in the wholesale bank’s Risk Management Policy. CHF also recommends that all MFIs receiving the bank’s wholesale funding should be registered with a credit bureau and actively submitting data.

9.2.2 Some recommended loan facility terms and qualification criteria

The wholesale lending program would focus on rural and urban RCBs and MFIs (e.g. NBFIs, S&Ls, Financial NGOs, credit unions) that can target lower income earners. The main objective of the bank’s wholesale function is to extend credit to fund loans to low-income people for improving or adding rooms on the house, buying land, developing home-based businesses, purchasing a new house or for any other purpose as defined by the bank. The bank would offer finance to institutions through a Structured Loan facility.

- Loan facility size would possibly range between US $.5m and US $3m based on the potential market, realistic financial projections and organizational capacity of the MFI to manage growth
- Advances on the facility would match disbursement of end-user loans
- Loan repayment period should match end-user loan repayment profile

Recommended facility terms:

- Repayment period: Maximum of 5 years
- Interest rate: Linked to the prime rate, plus margins for HFC Bank’s risk, cost and profit. Interest rates may be fixed on an annual basis at the time of each advance.
- At a minimum the facility would be secured by a cession over that portion of the intermediary’s loan book funded by HFC Bank
- Moratorium may be allowed on initial capital repayments

RCBs, MFIs and NBFIs would be eligible for funding if they have:

- Operational and management capacity to provide housing finance
- Ability and collection strategy to maintain acceptable recovery rates (at least 93%)
- Provide finance that properly prices for risk and cost per loan product on a sustainable basis
• Complied with all regulatory requirements of the Bank of Ghana
• Agreed to support and use the services of a credit bureau

The retail operation must prove its capabilities through:
• Skills and competency of the management team
• Strength of the company's balance sheet
• Performance of governing board
• Ability to contribute and maintain 20% capital adequacy ratio at all times,
• Realistic 3 year growth and financial projections, including adequate loan loss provisioning
• Track record to loan and collect funds to and from the defined target market

Qualification Criteria:
• The institution qualifies in terms of legal form and eligibility criteria
• The institution undergoes a complete due diligence by the bank
• Institution's business model is in line with the bank's funding objectives
• The institution is in the business of offering credit for at least one year
• Detailed Business Plan covers:
  o Background history, mission, objective(s) of the company
  o Detailed operations and credit risks identified and risk management plan strategies in place
  o Marketing strategy, loan pricing and funding structure
• Satisfy the bank that the institution is sustainable/profitable in the long term
• The institution has adequate management information systems and policies in line with bank requirements
• Size of facility based on: potential market, capital adequacy and capacity to manage growth

Loan facility advance terms:
• The signing of a loan agreement
• The institution takes full responsibility for the application of the funds made available to them
• All advances to match disbursement of end user loans
• The institution commits itself to submission of monthly management reports against the financial projections
• The institution shall commit itself to an approved tendering procedure in the engagement of external consultants and suppliers for provision of goods and services thereof
• The bank reserves the right to access and review the records of the company at all times
• The bank reserves the right to appoint a representative to the company's Board

9.2.3 Risk management
The initial assumption of the strategy to link a commercial bank with MFIs is that rural and urban households lack sustainable access to finance and appropriate financial arrangements to improve their housing and shelter-related environments. Because many households are generally poor, live in dispersed areas that increase transaction costs and face numerous challenges equal or greater than their poor housing conditions, the bank must understand that this incipient market is high risk. The wholesale bank must specialize in understanding the risks of both the rural and urban housing sector and of particular financial and non-financial institutions.
Taking on greater risk requires the wholesale bank to undertake sophisticated risk management practices and investment strategies to protect both its shareholders and the end-user clients of the MFIs. To learn these micro-retail credit risks and to learn how to manage them, the commercial banking sector may need some sort of guarantee or concessionary finance to blend with its funding. It should, however, also learn from the experience of other wholesale finance operations. One such institution in South Africa is the Rural Housing Loan Fund, which has compiled its “lessons learned” about managing commercial micro-finance institutions that might be illustrative (see Annex 2).

9.2.4 Measuring impact of incremental housing micro-finance

In evaluating the housing impact of incremental housing in Ghana, two indicators are directly related to the building process:

- $x$ million private resources mobilized per $y$ 1,000 of loan
- $x$ m$^2$ of living area built by end-users @ $y$ $\phi$/m$^2$

These indicators represent among the most relevant housing impacts of any retail housing micro-finance program and need to be covered by any development impact evaluation study.

Here is a simple model of the end-users’ building process which allows government, banks or an MFI to measure the generated impact:

<table>
<thead>
<tr>
<th>1. Inputs</th>
<th>Monetary</th>
<th>Non-monetary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Finance</td>
<td>Own money (savings, other) &amp; Micro-Loan</td>
<td></td>
</tr>
<tr>
<td>3. Process</td>
<td>Stockpiled materials</td>
<td>Materials bought just before construction</td>
</tr>
<tr>
<td>4. Output</td>
<td>Quantity (m$^2$)</td>
<td>Quality (owner satisfaction)</td>
</tr>
</tbody>
</table>

The impact evaluation will shed light on the relevance and specifications of these categories. It will help confirm or reject the following impact hypotheses:

1. **Inputs**
   - The incremental housing process applies both monetary and non-monetary inputs efficiently. Households, who drive the process, use their money spent on housing efficiently, because the process values a number of non-monetary inputs, such as the time of family members and friends to work as laborers on site and the time of the head of household to organize the entire building process.
   - The proportion of monetary and non-monetary inputs to the building process reflects the relative level of poverty on one hand, but also the level of social network integration on the other. The poorer the head of household, the more s/he relies on unpaid labor; the household compensates for its level of poverty through the wealth of relationships among family members and friends.

2. **Finance**
   - The micro-loan finances only part of the total costs of the building process. It is almost always completed by the household’s own money, coming from different sources, such as savings, loans from family members or friends, remittances, pension or provident fund payouts, etc.
   - The loan is crucial for the building process; without the loan the building process would be significantly delayed, or in the case of Ghana especially the house would not be completed. Even if it represents a small share of total finance, it
helps financing the most important elements of the building process, such as the building materials that cannot be stored and the cost of a builder, if required.

(3) Building process

- The building process may still take a long time. It starts with stockpiling materials: e.g. materials that can be stored easily such as bricks and materials, and those that become available at special opportunities, such as second hand windows, doors and their frames.
- Once finance is secured for the next construction stage, the household buys the more sensitive building materials such as cement, steel rods and roofing sheets, hires the builder and organizes the assistance of family members and friends.
- The entire building process is complex; it requires management skills and networking. The formal micro-loan is the crucial step to make it happen; it helps the households to get organized, to realize their own potential, to develop their own capacity and to live without depending on others.

(4) Output

- The physical output of the building process has a quantitative and a qualitative dimension. The new living area constructed can easily be measured in m². Sometimes a construction stage improves quality without adding new living area. Obviously, quality aspects cannot easily be quantified, though consumer satisfaction may be. Here a qualitative assessment should suffice.
- Self-builders tend to build sufficiently good living space substantially cheaper than the construction industry.
- Even more important is the impact on learning, self-confidence and mature citizenship. Self-builders do not blame the government because the house is too small, nor do they blame the contractor because of cracks in the walls. They learn by doing themselves and through their own mistakes for which they do not blame anybody and usually obtain greater space for the price. After having successfully managed one or two construction stages of the building process, self-builders are more mature citizens and often share their skills and experience with others (Hokans and Ziss, 2003).

Finance for IH: what are some of the lessons learned?

Regardless of what people may originally say in their loan applications to MFIs, some of the end-users use all or a portion of their loans for non-housing purposes. These include especially educational purposes, such as school fees and training levies, working capital for small businesses and family emergencies. Housing is not the highest priority of all low-income households who are getting access to credit for the first time, and from a banking perspective it does not matter as long as they repay their loans. Money is fungible. In response, some MFIs have adopted the strategy to promote third party payments to building materials suppliers and merchants on behalf of the borrowers.

Also, other wholesale lenders in Africa have learned from their MFI clients that women are generally more reliable at loan repayments than men and are more likely to use the loans for developmental purposes. Similarly, their experience has shown that the higher income end-users are often over-extended, less reliable payers and are more likely to use the funds for non-productive purposes.
9.3 Support widespread housing consumer education now not later

Finally, CHF strongly recommends a two-fold strategy of the government (MoWH, BoG and others), the commercial banks and other partners supporting special consumer education on 1) managing credit, and 2) building information to ensure that people who can afford credit are able to obtain the best quality of housing improvements, extensions and access to basic services as possible through their largely self-help efforts and their use of community builders. Equally important, the materials must also include methodologies that Ghanaian households may choose to follow in terms of family budgeting for managing credit.

In general, the commercial bank making wholesale loans available to the RCB/MFI does not engage directly with end-users, but the loan agreement with the retail lenders is the basic tool that should include criteria for consumer education and support. The MoWH, the commercial bank making wholesale finance available and the recipient RCB, MFI or NBFI should also endeavor to promote acceptable construction quality in all housing it finances. We recommend that the parties jointly fund Housing Construction Quality Surveys of households who recently built incremental housing to find out the common building problems they faced. For example, we suspect from experience around Africa that those end-users experiencing common building problems were predominantly working women who were not on site to manage their builders. Various support strategies could be developed, for instance: preparation of technical assistance booklets, including prototype plans that describe the best way to realize the most typical construction works that will be implemented (i.e. building a house, adding a room, connecting to a water network). These booklets could then be adjusted for local conditions/ languages in different parts of Ghana and take into account special problems facing rural women.

At the time of granting a loan, the RCB/MFI/retail lender hands out to the client copies of the relevant plans and information leaflets. Together with the commercial wholesale bank, the MFI/RCB could also develop joint marketing and awareness campaigns especially by radio. Households must also know their responsibilities for re-paying their loans and how to budget their repayments within their household expenditure. These consumer education materials also offer a marketing and branding opportunity for government, the wholesale commercial bank and the retail lender. Consumer education requires dedicated resources sustained over many years and should commence as soon as possible before any "debt bubble" may appear in the micro-finance market.
References

Ghana Investment Promotion Center website www.gipc.org.gh


**Newspaper Articles**
