



# **MASTER'S PROGRAMME IN URBAN MANAGEMENT AND DEVELOPMENT**

**(October 2006 – September 2007)**

## **Redefining the "Enabling Environment": Reform in Housing Production for the Low-Moderate Income Market - A Case of the Commercial Developer in Lusaka, Zambia**

**Mphangela Tembo  
Zambia**

**Supervisor: Ester van Steekelenburg**

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## Summary

The outcomes of the housing market in the City of Lusaka are less than desirable. With approximately two-thirds of the population residing and seeking for housing solutions in the informal sector it is safe to say that the formal market has failed to meet the needs of the majority. Constrained formal housing supply is not an unknown problem to the sector and has become increasingly worse over the years.

The commercial developer was identified as a private actor that has the potential to contribute positively to the sector. The objectives of the research in this regard were firstly to determine based on theory which instruments could be used to stimulate private developer activity. Secondly to ascertain the challenges and constraints the Zambian residential market presented to this actor. Finally, to outline suitable instruments that could be employed in the Zambian context to stimulate private developer activity in housing for the benefit of the low-middle income market

The study was undertaken as an exploratory study using as its main instrument the interview guide. Respondents were selected from a cross section of players active generally in the housing sector and specifically on commercial projects currently active in the housing market.

The main research findings highlighted that many of the constraints in the production of housing were as a result of a lack of a basic framework for a healthy functioning housing market – adequate provision of infrastructure; an enabling regulatory environment for housing and land development; a healthy and competitive building industry. The constraints present in the Zambian housing market results in a low income market that is served and dominated by the informal sector.

The research concludes that in order for private actors to contribute to the low income market the government on the one hand needs to identify and play its role as facilitator in the market. On the other, private formal actors need to identify solutions that are sensitive to the context and that bridge the huge gap that exists between the formal and informal markets.

## **Dedication**

My two Kalengas – this one is for you.

## Acknowledgements

Thank you to the following for your contribution in one way or another in making this thesis possible:

Ester van Steekelenburg, my supervisor, for continually pushing me beyond my comfort zone;

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My family for supporting me through everything.

## Foreword

## Abbreviations

CBD	Central Business District
DCA	Direct Credit Authority
ECZ	Environmental Council of Zambia
EIA	Environmental Impact Assessment
EPB	Environmental Project Brief
LCC	Lusaka City Council
MMD	Movement for Multi-Party Democracy
NCC	National Council for Construction
NHA	National Housing Authority
UNIP	United Independence Party

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## Chapter 1: Introduction

### 1.1 Background & Rationale

#### *Residential Development in Sub-Saharan Africa*

Residential supply in developing countries has typically been found to be unable to respond to the growing demands of their urban populations. A common feature of residential sector development in Sub-Saharan Africa is that the demand for housing far exceeds the supply. Indicators that provide evidence of this include huge backlog of housing in most of these countries; large informal development similar in scale to formal development (*see Table No. 01*); high land and housing prices and lack of infrastructure to support new residential development.

#### *Housing Strategies and Policy Responses*

The common policy responses of government in this region have not been able to stimulate adequate production of housing (Gross et al., 1986). It is argued that in most cases these policy responses have been counter productive due to the lack of understanding by the implementing governments of how the housing sector actually works. Though well-meaning, interventions introduced by governments failed to alleviate the housing problems faced. Okpala (1986) provides an account of common strategies adopted by African governments from the slum clearance programmes in the 1950s to the slum upgrading programmes in the 1980s. The slum clearance programmes of the late 1950s were pursued in an attempt to clear and redevelop areas that were “considered” sub-standard<sup>1</sup>. These programmes were undertaken simultaneously with large scale public housing projects, the majority of which failed poorly to meet their defined targets with governments eventually realising that it was not an approach that could be sustained with their limited resources. The site-and-service schemes adopted during 1970-1980 and largely supported by the World Bank was yet another approach pursued with much vigour. Kenya, Tanzania and Zambia are countries that adopted this approach in acknowledgement of the fact that governments could not sustain direct provision of housing. Having had little success with housing strategies implemented thus far the governments began to recognise the validity of slum upgrading programmes in the 1980s.

From the 1980s the UNHabitat pushed forward the enabling strategy agenda (UN-HABITAT, 2005a). This followed with the influential publication by the World Bank, *Enabling Housing Markets to Work* (1993) influenced most countries to adopt enabling shelter strategies. These strategies were formulated as a result of the inadequacies and failings of the project based approaches that had been previously adopted (Keivani and Werna, 2001). They emphasised a shift from the state as a direct producer of housing to that of facilitator of other identified actors in the housing process.

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<sup>1</sup> Okpala notes that between the 1960s and 1970s many African countries spent between 1-5% of their total national investments on slum clearance programmes

## ***Macro-Economic Environment and Urbanisation***

The macro-economic environment of any country has specific implications for the development of any sector. A country's economic productivity, employment rates and income levels determine their ability to pursue development programmes. Sub-Saharan countries are particularly lacking in this respect because of the generally poor economic conditions. Groves (2004) highlights that with a population of over 600 million the continent's share of world trade is less than 2% and incomes are significantly low with over 40% of the continent's population living below the poverty datum line. The significant presence of poverty inhibits development in many key sectors and not just housing. UNHabitat (2005b) predicts that despite general positive economic growth, it is unlikely that Sub-Saharan African growth will translate into improvements in the poverty situation. In addition to the above many SSA countries are still haunted by the legacy of external debt that has contributed to crippling of economic growth for the majority of nations in the region.

Urbanisation in African cities is growing at an alarmingly fast rate and presents considerable pressure in these locations. The Table below indicates that at 4.58% the urban growth rate in Sub-Saharan Africa is the highest in comparison with other developing regions. What is additionally worrying is that the informal settlement is proceeding at the same pace. The constraints faced in the residential sector mean that not only the poor are turning to the informal settlements as a solution to their housing needs but also those with moderate incomes (Groves, 2004). There is growing evidence, for example, of informal land transactions and activity that are benefiting more affluent households (Rakodi and Leduka, 2004).

**Table No. 01 Urban and Slum Growth Rates by Region**

	<b>Regions</b>	<b>Urban Growth Rate</b>	<b>Slum Growth Rate</b>
<b>Urban growth significantly higher than slum growth</b>	Latin America and the Caribbean	2.21	1.28
	Northern Africa	2.48	-0.15
	Eastern Asia	3.39	2.28
	South-Eastern Asia	3.82	1.34
<b>Urban and slum growth similar</b>	Western Asia	2.96	2.71
	Southern Asia	2.89	2.20
	Sub-Saharan Africa	4.58	4.53
<b>Developed World</b>		0.75	0.72
<b>World</b>		2.24	2.22

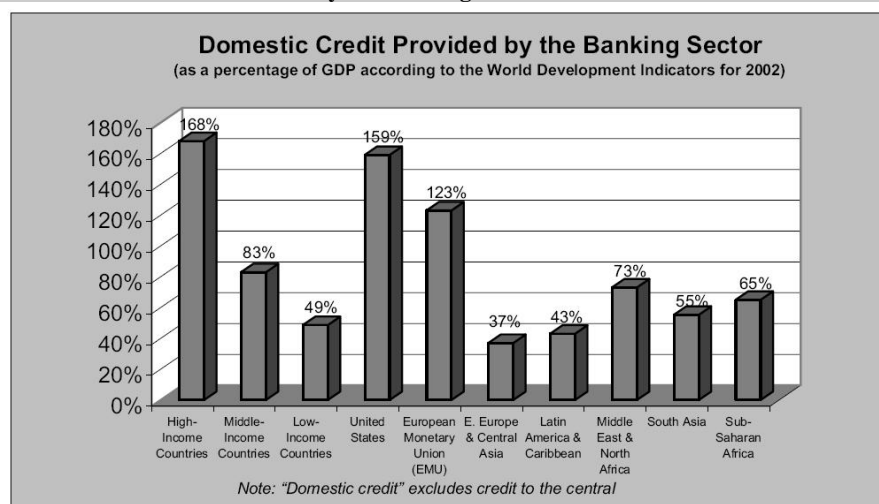
*Source:* UN-Habitat (2006), *State of the World's Cities*

## ***Sources of Housing Finance and Availability of Credit***

The availability and access to housing finance and credit in the majority of the Sub-Sahara African region remains limited. The finance that does exist represents small sums that have not been sufficient for addressing the backlog of housing needs (Groves, 2004). Freedman (2004) points out that in comparison with other markets

(see Figure No. 01) developing countries extend much lower levels of credit to support the productive sectors. The non-existence of strong credit markets in developing countries, notes Freedman is a major impediment to sustained economic growth. Where credit is available stringent conditions are attached that make it difficult to access finance for long term investments. The low domestic savings levels in the region have adverse effects on the financial institutions operating there (UN-Habitat, 2005b). *Table No. 02* shows national savings rates of different regions as a percentage of GDP with South Asia and Africa displaying the lowest levels.

**Figure No. 01 Domestic Credit Provided by the Banking Sector**



Source: Freedman (2004), *Designing Loan Guarantees to Spur Growth in Developing Countries*

**Table No. 02 Gross Domestic Savings by Region**

Region	Percentage of GDP	Current US\$
Sub-Saharan Africa	14	1,783,690,767
Middle East	24.5	27,261,325,959
Southeast and East Asia	35	321,936,208,750
South Asia	13	37,536,526,160
Latin America	16	38,121,260,000
North America	19	817,705,450,000
Europe	21	305,467,000,000

Source: UNHabitat Finance

### ***Private Investment in Housing***

Past shelter strategies in Sub-Saharan Africa were based on socialist policies and therefore precluded private investment. The adoption of enabling shelter strategies by most developing nations shifted focus to the private actor as central in housing supply. The majority of these countries, however, fail to support private activity in the residential sector. Constraints outlined above preclude healthy private activity (limited access to finance for investments and constrained land supply) and mean that residential development by commercial entities is limited. Hammond (2006) concludes that the monopolistic tendencies of governments which have carried on from previous socialist era provide disincentives for private investment. He identifies that the constraint with land presents the greatest case of this – *“problems associated with land acquisition continue to thwart efforts to encourage both local and foreign*

*investors and this has been detrimental to some economic policies of the government”.*

## ***Conclusions on Developing Countries***

Constraints in housing supply peculiar to Sub-Saharan African countries equate to inadequate housing for all irrespective of income. The also fuel the informal land and housing markets and exacerbate poor housing conditions. Reforms in the productive side of the housing sector have been argued to offer the greatest scope for improving the housing sector in low income countries (The World Bank, 1993). The extent to which these strategies can do this in the promotion of the private actor in the Zambian context forms the basis of this study.

## **1.2 Definition of Problem/Research Questions**

### ***Problem Statement***

The national housing stock in 1991 was estimated to be 1,501,898 (GRZ, 2006). Only approximately 20% of this number accounts for low, medium and high cost conventional units as illustrated in the table below. In 2001 this number increased to 2,311,988 with similar proportions being formal and informal (i.e. 20 and 80% respectively). The National Housing Policy adopted by the Government in 1996 stated that at the time of adoption that the country would have to produce 110,000 units/year if it was to clear the housing deficit over a 10 year period (MLGH, 1996). The country's population growth rate between 1999-2000 was 2.9% and the rate of increase of housing units was less than 1% of what is required annually (Overseas Private Investment Corporation, 2006). There is, therefore an urgent need for the country to find formal housing supply solutions that can adequately meet the existing demand of a growing population.

**Figure No. 02 Housing Stock, Zambia – 1991 and 2001**

Housing Type	1991		2001
	No. of Houses	% of total stock	No. of Houses
Traditional	988,249	65.8	1,527,301
Squatter	160,703	10.7	242,771
Site and Service	58,574	3.9	87,743
Low cost	241,806	16.1	381,498
Medium cost	24,532	1.7	32,369
High cost	26,034	1.8	39,306
<b>Total</b>	<b>1,501,898</b>	<b>100</b>	<b>2,311,988</b>

NHA 2001 Annual Report

Source: *Fifth National Development Plan*, (GRZ, 2006)

The private actor is identified in the National Housing Policy as a key participant in the production of housing. The figures above indicate that there is a severely constrained supply of housing units implying also that private activity is limited. In exploring ways of finding a solution to the problem highlighted, the research focus is on the commercial developer, a private actor identified in the study as a potential producer of housing in the Zambian market.



## ***Research Question***

As explained above, the study identifies the commercial developer as a key potential actor in increasing production of housing. The majority of the country's population fall in the lower income groups and thus provide the greatest demand for housing. This presents the challenge of ensuring private activity benefits the lower income levels of the population. The study, therefore, poses the following main question and the subsequent sub-questions:

**How can the production of private commercial developer-led housing construction be increased to benefit the low-middle income market in Lusaka?**

## ***Sub-Questions***

- What are the constraints and challenges that commercial developers currently face in entering and participating in the Zambian residential market?
- What kind of instruments or incentives could be used to stimulate developers to respond to the low-middle income market?

## **1.3 Aim/ Objectives**

The main aims and objectives of the research are:

- To determine which instruments within the enabling housing strategy can be used to stimulate private sector activity in the residential sector
- To ascertain the challenges and constraints the Zambian residential market presents to private developers that are currently active or wishing to participate in the residential sector
- To outline, based on existing theory and research data, suitable instruments that could be employed in the Zambian context to stimulate private developer activity in housing for the benefit of the low-middle income market

## ***Motivations***

The study aims to contribute to the current body of research on the use and adoption of enabling shelter strategies as a way of improving the outcomes of the housing market. The motivation to undertake the research arose from recognition of the fact that the private actor provides an opportunity through which the housing market can become more responsive. However, in order to achieve this there is a big role that the government has to play in order to ensure that the benefits of private activity spread out to the majority of the population. This research presents an opportunity to begin to understand the opportunities and limitations of the private actor in the low income housing market by way of looking at the motivations of and challenges faced by the commercial developer. It also serves as a way of outlining the role the government must play in order to streamline the activities of the commercial developer in this market.

## ***Research Propositions***

The following are propositions that this research aims to put forward:

- Enabling instruments and incentives can improve the responsiveness of the housing market for the low-middle income population in Zambia
- The commercial developer is a potential actor through which the positive effects of these interventions can be accomplished

### **1.4 Scope and Limitations**

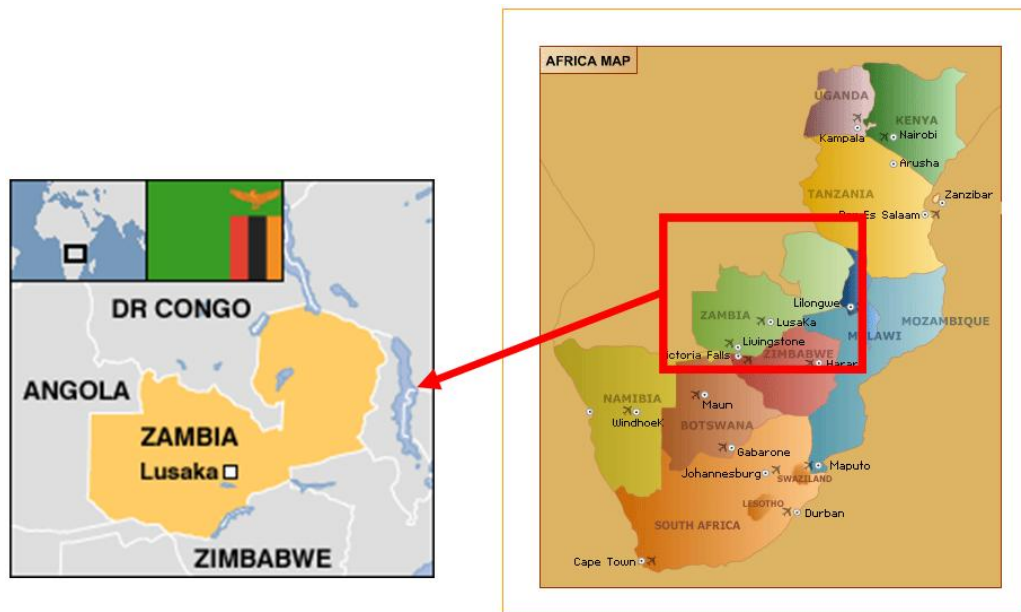
The scope of the study is limited to private sector-led commercial developments in Lusaka city. Within the last ten years several commercial developers have emerged on the residential market offering an option in the supply of housing that was lacking in the previous years. Meanwood Property Development Corporation was one of the first to emerge with its projects targeting the high income market and recently it has begun to engage in projects that are aimed at the middle income market. Most notable of the projects currently ongoing, is the Lilayi Housing Estates, which is a project comprising low and medium cost conventional housing units (Overseas Private Investment Corporation, 2006). These projects are relatively large scale in comparison with the housing produced during Zambia's post-independence residential sector history. As information on other smaller developers activity in the market is not readily available or documented, these two developers serve as the basis of analysis for the study

There were limitations in selecting and identifying an adequate research sample. Due to financial and time constraints, purposive sampling methods had to be used to clearly identify and select respondents that are experienced and have a command in the subject area identified. In addition, as a result of the researcher's limited network within the field snowball sampling methods had to be adopted during the fieldwork to increase and adequately formulate a representative sample.

### **1.5 Description of the Research Area**

The research area is Lusaka City, the capital city of Zambia, which has a population of approximately 1.3-2 million people. Formal housing is estimated to be only approximately 10% of the city's housing stock with the remaining 90% being informal and housing approximately two-thirds of the city's population (SIDA, 2006). There exists, therefore, a huge deficit in housing more especially for the lower income groups in the city. Estimates indicate that approximately two-thirds of the population resides in informal settlements with the population density in these areas estimated at 1450 persons/hectare compared with 5 people per hectare in the suburbs (SIDA, 2006, ATU 1 & 2 (World Bank), 2002). Lusaka has a total number of 37 informal settlements in Lusaka, out of which 9 are site and service settlements and 15 out of the remaining 28 informal settlements have been given legal status (LCC, 2000).

**Figure No. 03 Map – Zambia and Southern Africa**



Source: Africa Map: <http://www.africanimpact.com/africa/map/>  
Zambia Map: [http://news.bbc.co.uk/cbbcnews/hi/newsid\\_2680000/newsid\\_2687200/2687213.stm](http://news.bbc.co.uk/cbbcnews/hi/newsid_2680000/newsid_2687200/2687213.stm)

## 1.6 Thesis Structure

The thesis research is divided into five main chapters. The preceding chapter outlines the theory that supports the study highlighting basic themes and concepts that have guided the research. The Third chapter describes the research methods used to meet the objectives of the study and the analytical framework used to evaluate the research findings. The results of the field work conducted are described in the fourth chapter and conclusions and recommendations are made in the fifth and final chapter.

## Chapter 2: Literature Review & Theory

### 2.1 Introduction

Past housing strategies adopted by many governments in developing countries highlighted the limitations of governments in being directly involved in housing provision. After the failure of project based approaches such as the site and service schemes the United Nations shifted its position on housing strategies. The 1<sup>st</sup> Habitat Conference in Vancouver in 1976 emphasised the need for governments to adopt policies, strategies and programmes through the use of enabling instruments (UN-HABITAT, 2005a). The formulation of the *Global Strategy for Shelter to the Year 2000* marked a fundamental shift in policy change. It was highlighted that the decision for people to choose their housing solutions rested on the people themselves. This was to be achieved by realizing the full potential of all actors involved in the housing production and rehabilitation process. The World Bank (1993) through its influential publication *Enabling Housing Markets to Work* endorsed this line of thought and adopted the enabling approach as a guide for its shelter lending policy. The basic premise of the enabling approach is for governments to withdraw from the direct provision of housing and enable other more effective actors in this regard to contribute fully to the achievement of meeting housing needs.

Advocating for the enabling strategy, Angel (2000) notes that governments have made futile attempts in the past to provide low-income housing by being actively involved in production. Instead, he and other advocates of the enabling approach find it more beneficial for governments to first understand how the housing market works<sup>2</sup> and rather than be active in direct production, facilitate the role that others can play. The focus as Angel puts forward should be on ensuring that the market is functioning properly. Based on these assertions put forward by enabling strategy advocates there is considerable scope for developing countries to improve the outcomes in the housing market by using instruments that improve the conditions in the market.

Even with the adoption of these strategies there still is a case for government intervention. Unlike other markets, the outcomes in the housing market have important and in many cases significant implications on the economic, social and political realms. The failure of the market has had significant repercussions not only in Sub-Saharan Africa but in other countries of the world<sup>3</sup>. In a review of past experiences with enabling strategies, the UN-Habitat (2005a) state that “*governmental intervention may be required in many instances to remove or offset market*

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<sup>2</sup> It is for the is reason, i.e. not understanding how the housing market works, that Malpezzi et al 1983 state that past housing policy strategies adopted in developing countries have failed to produce desirable outcomes.

<sup>3</sup> The proliferation of informal settlements in cities worldwide is just one example of the failure of the residential market. In 1990 715 million people worldwide were residing in informal settlements and in 2000 this number increased to 912 million, UN-HABITAT (2006) *State of the World's Cities 2006-7*, Earthscan, London. Currently the number of people in informal settlements is 998 million. The UN-Habitat estimates further that if the trend continues in the same pattern there will be 1.4 billion people living in informal settlements in 2020.

*imperfections, and, in some specific cases, a policy may be justified to meet the social welfare requirements of the very poor and destitute”.*

This section will analyze, within the context of the enabling strategy paradigm interventions that can be employed to stimulate housing production by private actors. A conceptual framework that shall form the basis of analysis shall first be outlined. The next section will be a detailed examination, based on literature related to the subject, of these supply interventions.

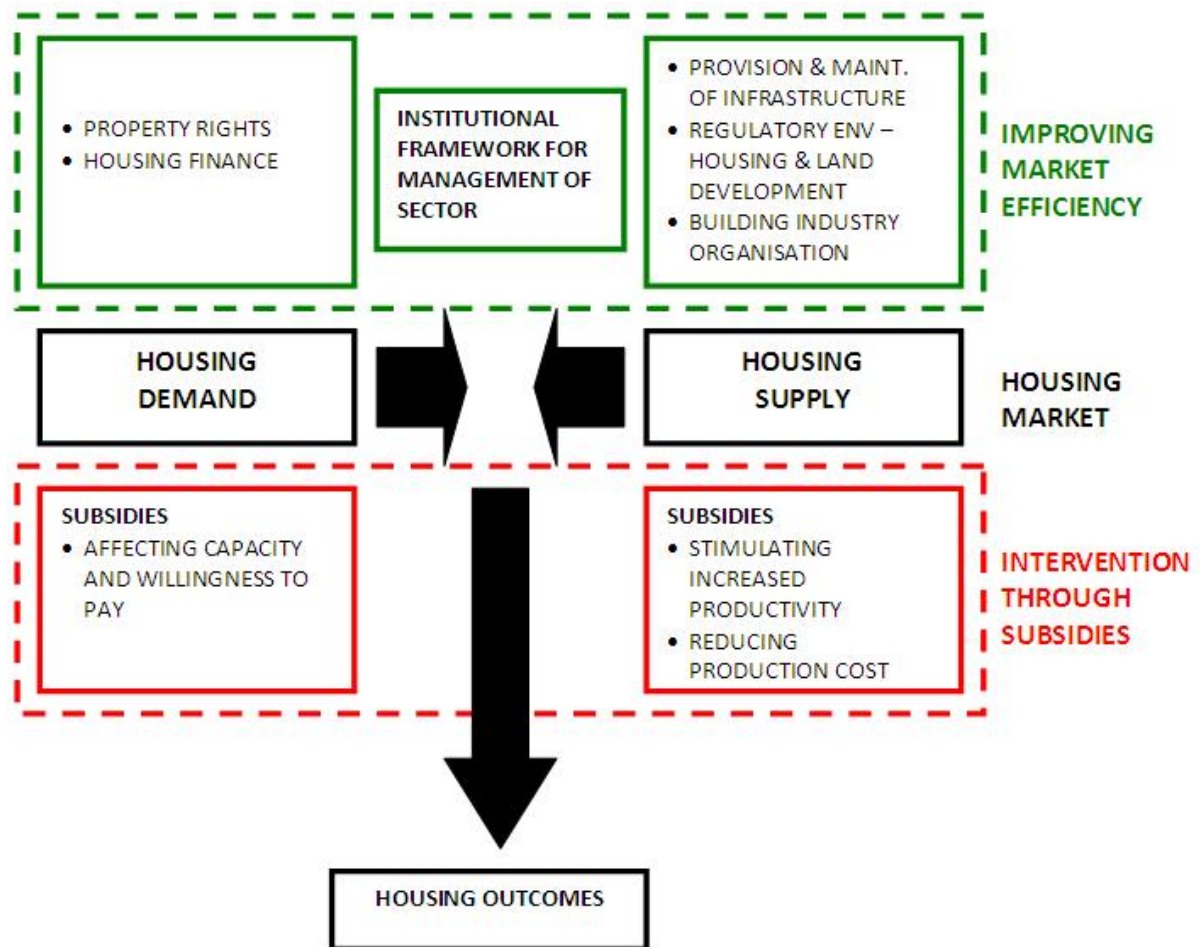
## **2.2 Conceptual Framework**

The conceptual framework outlined here stems from strategies put forward by Angel (2000) and The World Bank (1993), both influential advocates of the enabling policies. The starting point of departure is the housing market where consumers and producers interact to produce specific outcomes. The outcomes reflect the performance characteristics of the housing stock e.g. housing prices and rents, quality and quantity of housing and the ability of the stock to satisfy the needs and expectations of the dwellers. The effects of policy action can be seen through the housing market and if interventions are selected correctly then they can positively influence the market outcomes.

Instruments prescribed for the demand side of the housing market equation are develop property rights; develop mortgage finance and rationalize subsidies. A common instrument prescribed for both the demand and supply side of the sector is to develop an institutional framework for managing the housing sector. This centres on providing a support framework that provides policy direction and institutional links to all the various aspects of the housing sector. On the other hand, supply instruments prescribed are improving the organization of the building industry; provision and maintenance of infrastructure and improving the regulatory environment in terms of how it affects land and housing development.

The enabling theory advocates that the best course of action to increase production is to ensure the market is functioning properly by using instruments that influence important aspects of this part of the housing market. It is on the strong foundation of this necessary pre-requisite or as a complementary measure that interventions can be applied. Supply-side interventions are applied to influence the production activity and production cost. Demand-side interventions, on the other hand, and also shown in the illustration below, are applied to influence a household's ability to pay for housing. It is within this general framework that the more detailed discussion that follows on stimulating housing production is based. The diagram overleaf summarises and illustrates the conceptual framework prescribed.

Figure No. 04 Conceptual Framework



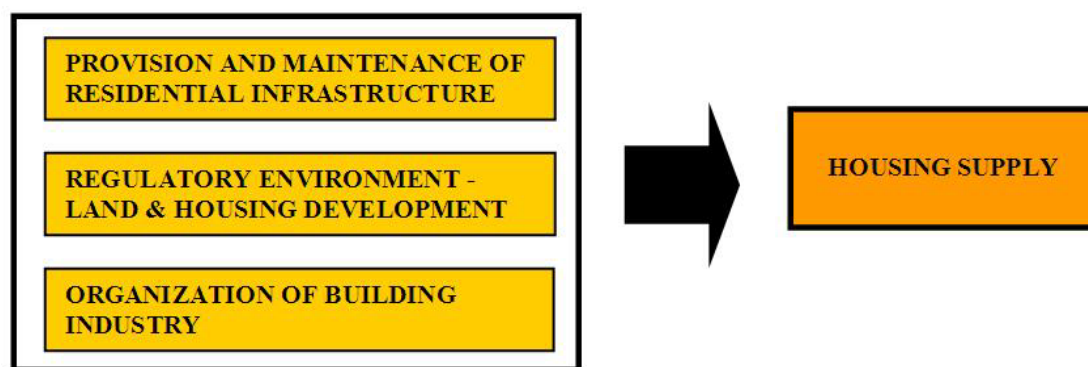
### 2.3 Improving Market Efficiency

In analysing supply it has been found particularly important to deliberate over the “*responsiveness of housing supply*”. Price elasticity of housing supply has been described as an important parameter for the analysis of supply responsiveness (The World Bank, 1993). It describes the way supply responds to price and demand shifts, where inelastic supply is indicative as non-responsive and elastic as responsive. In an ideal situation where supply is competitive housing price in the long run will be determined for the most part by cost of production rather than demand. A demand increase will be reflected in increased housing output instead of an increase in price. At the other end of the scale in an uncompetitive environment when price increases housing supply will become inelastic relative to demand. Housing prices in this case are dependent on input costs, production efficiency and on how supply responds to demand shifts. Where supply elasticity is low then the response in terms of housing output will be relatively low and corresponding prices will remain high (Bramley et al., 1995).

Measures to improve the functioning of housing markets as it relates to production are centred round improving the way supply responds to demand changes or requirements. From the discussion above, the ideal situation in this regard is when for instance an increase in demand will result in an increase in supply and not in price.

Three main instruments, as mentioned earlier, can be used at the policy level to help achieve this. The section below looks at how each of these instruments can be utilised to improve the “*responsiveness*” of supply.

**Figure No. 05 Supply-Side Instruments**



### **2.3.1 Provision and Maintenance of Residential Infrastructure**

The responsiveness of supply to shifts in demand is influenced in part by the presence and provision of residential infrastructure. Infrastructure covers and includes roads, electricity, water supply and sanitation. Adequate provision of infrastructure in response to a change in demand ensures that the price of serviced land remains low (The World Bank, 1993). A scarcity premium is attached to the price of land in areas where the supply of infrastructure does not change with consequent changes in demand. This results in a higher cost of serviced land and subsequently construction cost. Provision of infrastructure refers not only to servicing existing and undeveloped land but also the co-ordination of parties involved in the process. Insufficient planning and investment in this area can lead to alterations in the spatial dimension of cities which are costly in terms of commuting time and expense, increased congestion and air pollution, more energy-intensive transport (Buckley and Kalarickal, 2004).

The most basic way of providing infrastructure, according to Angel (2000), is by extending the road network. This is seen as an essential mode of increasing land supply and therefore housing supply. Infrastructure such as the road network and sewerage and drainage networks are identified as a public good which the market would not adequately supply. The economic incentive for the market to provide them is not there and thus a role for government is found<sup>4</sup>. There are two established ways of creating an incentive so that sufficient infrastructure is provided. The general assertion in the provision of infrastructure is that it must be paid for in full through

<sup>4</sup> Angel notes in this regard, that even the government has no clear incentives to provide them and as such government action usually does not include extending infrastructure networks beyond the main grid.

sustainable cost recovery (The World Bank, 1993, Dowall, 2003, Angel, 2000). These incentives are based on the premise that serviced land is responsible for an increase in the economic value of houses and thus provides an easier avenue to extract payment for infrastructure elements. Firstly for on-site infrastructure, the cost can be recovered as a part of overall land costs, which within planned subdivisions can be captured and paid for by landowners who buy or own land adjacent to these services. The second incentive is provided by financing off-site infrastructure by capturing unearned increment in land value resulting from the provision of infrastructure and services. Where land has to be acquired to achieve these goals of providing infrastructure, acquisition methods should as far as possible be efficient and not time consuming and compensation should be as near to the market price as possible.

In conclusion provision of infrastructure under enabling terms prescribes methods whose costs for provision and maintenance can be visibly identified and paid for at market prices. This reduces the distortion effects that hidden costs have on the housing market. As residents and land owners benefit from the provision of these services (increased land value, good quality residential environments) then they should be taxed in order to pay for the provision of these services.

### **2.3.2 Regulatory Environment – Housing and Land Development**

Land and housing regulations are recognised for the role they play in directing the housing sector by way of setting minimum standards and guiding the course and location of residential development. Research has shown however that there are some unintended consequences that the regulatory environment may impose on the residential sector. The effect that regulations have on the responsiveness of supply has been found to be quite significant. Buckley and Kalarickal (2004) point to empirical evidence collected from studies in Malaysia, Korea and Thailand that supported the hypothesis that unresponsive supply could be attributed in part to the constrained regulatory framework<sup>5</sup>. Research conducted by Quigley and Steven (2004) on affordable housing in the United States offered similar results. They concluded that building regulations for new housing construction can provide artificial limits on construction thus making housing more expensive. As Glaesar and Gyourko (2003) note, the cost of housing can never be lower than the production cost and that building regulations do much to preclude the building of “*affordable housing*”. The World Bank (1993) further identifies that regulations and standards reduce the ability of a firm to be productively efficient by reducing the opportunity to substitute more expensive key inputs for less expensive ones which in turn increases construction costs. *Table No. 03* below describes three different cases and illustrates the varied negative effects that regulations related to the residential sector can have.

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<sup>5</sup> For a more detailed look at study refer to THE WORLD BANK (1993) *Housing: Enabling Markets to Work*, IBRD/World Bank, Washington D.C.



**Table No. 03 – Examples of Effects of Regulatory Environment on the Residential Sector**

<b><i>Indian Urban Land Ceiling and Regulation Act 1976, India</i></b> <b><i>Source: The World Bank (1993)</i></b>	
<i>Aim</i>	<ul style="list-style-type: none"> <li>• Reduce land speculation</li> <li>• Distribute urban land equitably to the urban poor</li> </ul>
<i>How</i>	<ul style="list-style-type: none"> <li>• Imposing a ceiling on vacant land an individual can own</li> <li>• Land owned in excess of that stipulated sold to the government who in turn use for affordable housing at below-market value</li> </ul>
<i>Effect</i>	<ul style="list-style-type: none"> <li>• Conflicts with landowners – lengthy appeals process</li> <li>• Scarcity premium attached to available land</li> <li>• Housing costs increased</li> </ul>
<b><i>Development Approval Process (1980s), Malaysia</i></b> <b><i>Source: The World Bank (1993)</i></b>	
<i>Aim</i>	<ul style="list-style-type: none"> <li>• Approval for residential development</li> </ul>
<i>How</i>	<ul style="list-style-type: none"> <li>• Developers required to satisfy 55 different steps in the regulatory process</li> </ul>
<i>Effects</i>	<ul style="list-style-type: none"> <li>• Increases risks associated with taking part in residential construction – developer may take between 5-7 years to deliver residential projects</li> <li>• Limits participation in the sector to relatively large and well capitalized firms</li> </ul>
<b><i>Regulation for Low-Income Housing, United States</i></b> <b><i>Source: Quigley and Steven (2004)</i></b>	
<i>Aim</i>	<ul style="list-style-type: none"> <li>• Increase standard of living (i.e. by improving quality) for low-income rental units</li> </ul>
<i>How</i>	<ul style="list-style-type: none"> <li>• Setting minimum habitation standards e.g. provision of private kitchens; complete plumbing; multiple exits</li> </ul>
<i>Effects</i>	<ul style="list-style-type: none"> <li>• Raises level of housing consumption of low-income households above what they would normally consume</li> <li>• May either price out poorest households from the market or reduce overall economic welfare.</li> </ul>

Regulation as it relates specifically to land is of particular importance because it is a vital input in the whole process. Parallels can be drawn between supply in a housing market and that in the land market (Dowall, 2003). As with housing, as demand increases (e.g. through population growth or rise in incomes) the price of land increases. Unless the supply of land increases with this demand its price will be substantially high. Land is by its very nature, scarce and thus the residential sector competes with other sectors for the resource (Golland and Gillen, 2004). Various conflicts arise because of the different motivations that the different classification of users have.

There is an extensive body of current literature that supports the view that policy in general and regulations in particular relating to land supply have a significant impact on the production of housing. Examples of regulations being referred to include land use regulations, zoning laws, master planning instruments and building codes. This particular aspect is perhaps the most emphasised in discussions on regulations and standards in the housing sector. Economic writers are the greatest advocates of this view. Muth (1989) and Alonso (1960)<sup>6</sup> one of the earlier economic writers on the subject questioned the validity of the role that these regulations play in achieving economic efficiency (Quigley and Rosenthal, 2005, Glaeser and Gyourko, 2003) share this view). The World Bank (1993) and researchers that have influenced the organisation's shelter policy (see Angel (2000) and Malpezzi (2005)) question the

<sup>6</sup> Muth and Alonso's contributions to the development of economic theory in relation to housing was quite influential on the writers today.

“economic merits” of inherited standards and regulations applied in most developing countries. The underlying premise for disdain of these types of regulations is that they restrict land supply thus causing an increase in price of one of the most important inputs of housing production. The World Bank (1993) gives an example of policies that nationalize land. They explain that the effect that this has is to create a monopoly in the supply of one of the key inputs and in effect reducing the market’s responsiveness to changes in demand. Dowall (2003) notes that decentralizing land management authority of land agencies increases the efficiency in the supply of land. It also reduces the monopolistic effects that arise as a result of national control of land. *Box No. 01* overleaf provides a more detailed outline (based on Dowall) of instruments that can be used to improve the efficiency and thereby having an effect on the cost of land in urban markets.

This section has described the ways in which the regulatory environment that governs housing and land development can cause supply in housing to become unresponsive to changes in demand and increase the costs of final outcomes.

1. For regulations that relate to housing development this would mean:
  - Reducing bureaucratic hurdles and processes that:
    - Limit participation by creating ease of entry into the market thereby promoting monopolies
    - Make the process long and expensive
  - Reducing high building standards that:
    - Increase the cost of housing outcomes
    - Reduces the possibility to substitute inputs
2. For regulations that relate to land supply this would mean:
  - Review of regulations that restrict land supply thereby increasing its value
  - Preventing the creation of monopolies in the supply of land

**Box No. 01 Instruments to Improve Efficiency of Urban Land Markets**

Source: Dowall (2003)

**Assess Land Market Performance**

- Land market assessment in a bid to provide accurate and up-to-date database on the operation of the land market
- Used as a tool to support:
  - Providing information for governmental planning & decision making
  - Evaluating government policies and actions
  - Foundation for structuring land-based taxation systems
  - Providing information for private sector investment and development decisions

**Decentralize Land Management Authority**

- After national-level assessment of legal and institutional considerations delegate responsibilities for reform of land policies to local governments – easier to implement initiatives

**Deregulate Urban Land Use Planning**

- Bring land supply in line with demand. Involves making estimates of city's future land requirements. Based on projections planning policies i.e. zoning & floor area ratios to be altered with demands for urban development – considerations economic, social and physical implications. Density and infrastructure systems should be adjusted to accommodate projected growth in other areas.
- Revise & reduce planning and sub-division standards. Cost analysis of standards should be made. Involve stakeholders (builders architects, bankers, real estate brokers & neighbourhood associations to draft more affordable standards
- Reduce complexity and time requirements of land use regulations. Convening professional associations and planners to review regulatory hurdles

**Restructure Public Land Agencies**

- In some cases when clear private land and housing development industry is capable of producing serviced residential plots - Restructuring, privatizing all or part or liquidating to make more efficient
- Turning development process to private sector

**Improve efficiency of Land markets**

- Where customary and informal systems of land trading occur – common titling registration system to support land transaction

**Facilitate the installation of Infrastructure Networks**

- Land policy needs to be linked with a sustainable program for infrastructure investment
- Prepare basic spatial structure for each city and use to estimate capital costs associated with providing necessary infrastructure to support development
- In order for financial programme to be sustainable to the fullest extent possible the users and beneficiaries of the system should pay for it
- Means also extending to informal areas – governments to take flexible approach in this regard e.g. copying incremental approaches to infrastructure provision used in informal upgrading schemes

### 2.3.3 Organization of the Building Industry

The contribution the construction industry makes to national economic activity is usually significant and therefore commonly used as an indicator of national economic growth (MacLennan, 1982, Ofori, 1990). Residential sector contributes to a significant portion of the construction industry – thus, its functioning and efficiency has significant effects not only on housing development but the national economy at large. The conditions in the construction sector in this regard are important to consider in the greater concerns of improving residential market productivity. Recommendations for the construction industry in this regard are focused towards increased competition; eliminating bottlenecks that confine its development; promotion of the use of local materials and construction technologies and minimizing barriers that apply to inputs (The World Bank, 1993).

The main inputs required are labour, materials, plant & equipment and finance. The absence of any of these resources in required quantities will translate into bottlenecks, delays, increased costs and inefficiencies in the construction process (Ofori, 1990). In order for construction to contribute to development it needs to be amongst other things efficient, highly competitive, and reliable, qualities that individual participants in the industry can contribute to (Kumaraswamy et al., 2007). There are certain conditions that have to be present for the industry to be able to do this which include strategic linkages with other sectors of the economy, a healthy business environment and a conducive, legal and regulatory environment.

Kumaraswamy et al (2007) outline the framework that needs to be in place for a sustainable building industry. This framework includes the main inputs mentioned above (capital, labour, expertise, plant and materials). Acquiring construction finance, for example, is cited as one of the biggest problems faced by small and medium sized residential developers (IDB, 2004). Where finance is scarce housing supply becomes dominated by larger firms, which then translates into higher housing costs. Construction costs are also affected, as the World Bank (1993) notes, on the ability to substitute material inputs in the process. This ability is enhanced by the use of local materials and technologies; advancements research and the quantity of the basic inputs that is imported.

In addition to the above, the organizational structure of the industry has an impact on how efficient and effective it can be. The structure can be broken into two parts, the first being government and other related agencies involved in the regulation of the industry and second, the principal players (e. g. clients, builders, consultants) involved in the process. The government is seen as being particularly important in this regard as the industry is particularly sensitive to policy action in the key sectors of the economy i.e. financial/economic sectors. They also provide direction as regards standards and regulation of the industry's activity.

In conclusion, organizing the building industry to produce favourable housing outcomes entails improving efficiency in the building sector by doing the following:

- Increasing competitiveness in the industry by discouraging monopolies in the supply of key inputs in the building process

- Improving the quality and quantity of labour and the availability of the key inputs.

## 2.4 Intervention Through Subsidies

The enabling housing strategies have also influenced a change in thinking in the use of subsidies to stimulate production and improve outcomes in the housing market. The main criticism of the application of supply-side subsidies has been their ability to distort housing markets and also the general inefficient and unsustainable manner that they have been applied (See Angel(2000) and Mayo (1999) for a lengthy discussion on this aspect). Advocates of the enabling policy identify that the best way to stimulate production is through subsidies targeted at demand which are seen to be more effective to use because they do not have distortion effects on supply. The precondition for the use of this option is that supply is responsive to demand, thereby ensuring that the housing produced is priced according to the market. The demand-subsidy then increases the housing choice for consumers, who would not have otherwise had access, by increasing their willingness and ability to pay for the housing produced.

The acceptance of this line of thought is reflected in the general trend to move towards market-provision of housing and away from public housing programmes that were common in most countries during the 80s and 90s (noted with approval by both Buckley and Kalarickal (2004) and Angel (2000)). Hoek-Smit and Diamond (2003), while acknowledging that supply-side subsidies distort markets, argue that demand subsidies can only be effective in combination with instruments that reduce investment uncertainties for both consumers and producers either through supply subsidies or through regulatory and institutional inputs (market efficiency instruments). They do however agree that for these instruments to work, particularly subsidies linked to finance, supply has to be responsive to demand shifts. Freedman (2004) and Torre et al (Torre et al., 2006), however, suggest an alternate view and argue, as will be discussed later, that finance-linked subsidies can be used in a way that does not conflict with the enabling paradigms. The following section will look in more detail at risk mitigation instruments, in particular guarantees and risk insurance. For developing countries, where the low income population are a majority a combination of the alternatives is required i.e. subsidies that stimulate private actors to increase housing production and those aimed at stimulating private actors to produce for the low-income market.

### 2.4.1 Definition and Logic

The definition offered by Hoek-Smit and Diamond (2003), sums up the general understanding across literature on subsidies and provides clarity on the subject at hand - *“A subsidy is an incentive provided by government to enable and persuade a certain class of producers or consumers to do something they would not otherwise do, by lowering the opportunity cost or otherwise increasing the potential benefit of doing so”*(Hoek-Smit and Diamond (2003), Section 3. Pg 8).

The “*underlying logic*” as Angel puts it, of subsidies is to modify behaviour in the housing market to achieve specified outcomes<sup>7</sup>. There is general agreement in the literature identified on the motivations for the use of subsidies based mainly on past experiences (Mayo; Angel; Hoek-Smit and Diamond). Hoek-Smit & Diamond summarise these motivations as improving public health; promoting equality by improving fairness and justice and societal instability; stimulating economic growth.

## 2.4.2 Production Subsidies

Supply-side subsidy programmes work by lowering the opportunity costs and risks for producers or lenders to deliver low/moderate income housing or by directing government action in housing development either through finance or construction of subsidized housing. There are a wide variety of ways that subsidies can and have been applied, both directly and indirectly, and it is beyond the scope of this analysis to detail them individually. Common forms of supply-side subsidies include the provision of below-market finance for housing development; provision of serviced land and/or infrastructure; various tax benefits and loan guarantees (Angel, 2000). A few examples are highlighted in Box No. 02 below to illustrate the application of a selected type of subsidies with particular reference to private developers.

## 2.4.3 Risk Mitigation Instruments

Many of the factors required for a well developed housing sector are generally deficient in developing countries. These include volatile macro-economic environments; undeveloped property rights regime; lack of information on investments and undeveloped capital markets. The social and economic environment adds a further dimension to limiting attributes in developing countries. Uncertainties created by political instability; corruption; prohibitive policies for doing business add further dimensions to the risks present in these areas. One of the necessary pre-requisites for investors to enter a developing market is an environment with social and political structures that are conducive for private activity (Heemstra, 2001)<sup>8,9</sup>. (For a more detailed description of the factors in developing countries that cause risk and the risks they present see *Table No. 04*). The bottlenecks in the finance markets peculiar to developing countries have significant effects on their economies by reducing productive activity (Freedman, 2004). The limited access to financing for long term investments acts as an “impediment” to sustained economic growth.

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<sup>7</sup> He asserts that these outcomes are in most cases politically motivated.

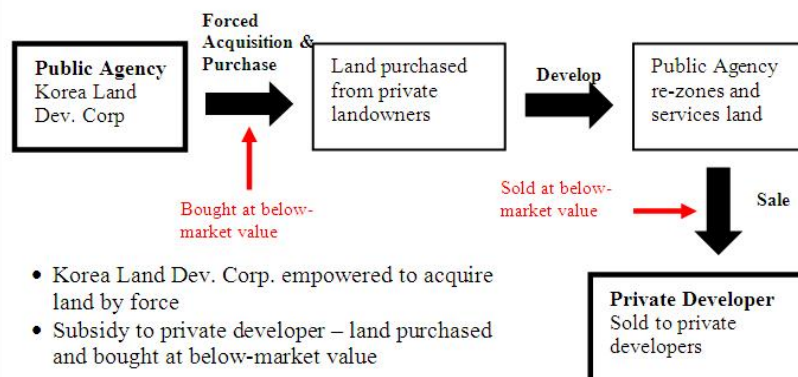
<sup>8</sup> See Marshella MARSELLA, T. (2001) Why is There not More International Project Financing for Emerging Economies Today?, *In Financing for Development. Proposals from Business and Civil Society*, HERMAN, B., PIETRACCI, F. & SHARMA, K. United Nations University Press.; OECD OECD (2003) *Global Forum on International Investment. Attracting International Investment for Development* OECD Publications, Paris

<sup>9</sup> An international investor’s perceptions of whether a market is a good place for investment will be affected by the perception of the political and economic environment. OPIC (2006) highlights that this is partly due to the lack of information about foreign markets. They highlight also that after the financial crisis in the Asian market there was a general perception that all developing countries were risky markets to enter – the crises instilled what OPIC calls a “*cautionary mentality*”

## Box No. 02 Selected Examples of Application of Supply-Side Subsidies

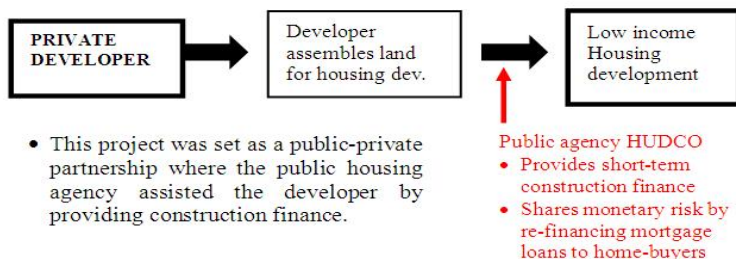
### South Korea, 2 Million Housing Programme – Land Acquisition and Sale

Source: Kim(2002)



### India, The Parshwanath Township – Construction Finance and Monetary Risk Sharing

Source: Mukhija (2004)



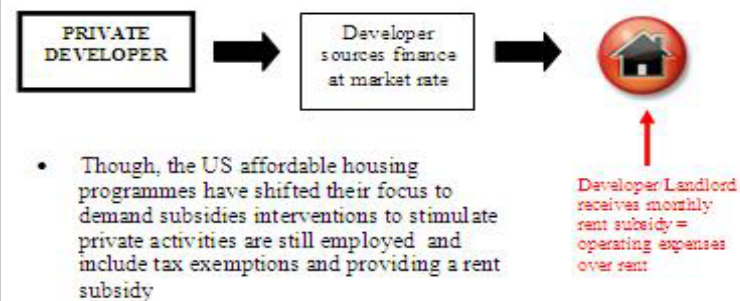
### United States of America, Affordable Housing Programmes

Source: Case (1991)

#### 1<sup>st</sup> Programme Section 221 of Housing Act of 1961



#### Rental Assistance/Homesteaders Programme



The context within which financial institutions in these countries operate, affects the services they extend to the productive sectors. Their perception of risk in these environments is reflected in unaffordable loan terms (i.e. high collateral requirements; short loan periods; high interest rates). In addition, the supply of funds that can be used to extend credit to potential investors is limited. Freedman attributes this in part to the preference of banks for less risky, short term investments to counter the heightened macro-economic risk and volatility. It is prudent for financial institutions to maintain a healthy volume of liquid assets in order to sustain their operations. For the housing sector this translates into unaffordable housing finance and by implication unaffordable housing.

There are a set of financial instruments available that have provided innovative ways of increasing access to finance by a particular sector or group of borrowers. The basic premise is that the various risks (both real and perceived) inherent in the context within which the financial institution operates prevents the institution from extending credit to a particular sector. The financial instrument intervenes in this situation by removing or minimizing the element of risk, thereby stimulating the financial institution to extend credit where it would not ordinarily do so (illustrated in *Figure No. 06*).



**Table No. 04 Causes and Types of Risk in Developing Countries**

Compiled from the following sources: Lea(2005), Freedman (2004), OPIC (2006)

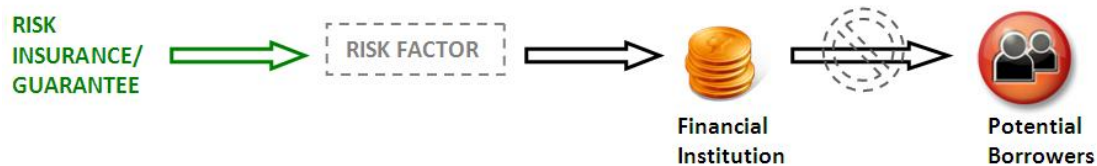
<b>Risk</b>	<b>Description</b>	<b>Constraints/Bottlenecks in Developing Markets that Create this Risk</b>
<b><i>Credit Risk</i></b>	<i>the risk that money will not be returned, with whatever interest or other charges are due, on a timely basis</i>	<ul style="list-style-type: none"> <li>• <b>Macro-economic Instability</b> <ul style="list-style-type: none"> <li>- Affects borrower/buyer's financial capacity to enter real estate market</li> <li>- Bank perceptions in this environment unfavourable for private sector lending</li> <li>- Limits supply of funds for long term investments</li> <li>- Reduces effect of financial instruments introduced to improve affordability</li> <li>- Creates uncertainty</li> </ul> </li> <li>• <b>Lack of information</b> – creates uncertainty on conditions in the housing finance market</li> <li>• <b>Inefficient legal and regulatory system</b> - e.g weak foreclosure laws, undeveloped land registration system</li> </ul>
<b><i>Liquidity Risk</i></b>	<i>the risk that the money will be needed before it is due</i>	<ul style="list-style-type: none"> <li>• <b>Macro-economic Instability</b> <ul style="list-style-type: none"> <li>- Banks favour and in most cases obliged by law to keep high liquid assets and make less risky investments</li> <li>- Bank perceptions in this environment unfavourable for private sector lending</li> <li>- Also as above</li> </ul> </li> <li>• <b>Low deposits</b> <ul style="list-style-type: none"> <li>- Limits source for long term funding</li> <li>- May be due to low incomes or failure by existing depository institutions to capture potential sources of savings</li> </ul> </li> </ul>
<b><i>Cash flow risk</i></b>	<i>the risk that changes in the market conditions will alter the scheduled cash flows among the parties involved in intermediation. This includes interest rate risk, prepayment risk, inflation risk, and exchange rate risk</i>	<ul style="list-style-type: none"> <li>• <b>Macro-economic Instability</b> <ul style="list-style-type: none"> <li>- Uncertainty with respect to expected inflation, actual inflation, real interest rates and exchange rates – precludes extension of credit for long term financing</li> <li>- Affects terms banks willing to give on financing – reduces affordability and availability of funds</li> </ul> </li> </ul>
<b><i>Agency Risk</i></b>	<i>the risk that a divergence of interests will cause an intermediary to behave in a manner other than that expected</i>	<ul style="list-style-type: none"> <li>• <b>Undeveloped finance markets</b> <ul style="list-style-type: none"> <li>- Increases chances of moral hazard displayed by institutions involved</li> </ul> </li> </ul>
<b><i>Systematic risk</i></b>	<i>the risk that a crisis at one institution or in one part of the system will spread to the rest of the system</i>	<ul style="list-style-type: none"> <li>• <b>Macro-economic Instability</b></li> <li>• <b>Undiversified economies</b></li> </ul>
<b><i>Political risk</i></b>	<i>the risk that the legal and political framework within which the lending takes place will change</i>	<ul style="list-style-type: none"> <li>• Political instability, Corruption, Government dominance in a sector</li> </ul>

**Figure No. 06 Risk Mitigation Instruments**

*Uncertain Environment without Risk Mitigation Instrument*



*Uncertain Environment with Risk Mitigation Instrument*



### ***Guarantees and Risk Insurance***

Credit guarantee systems are mechanisms in which a third party, the *guarantor*, pledges to guarantee loans to a particular group of borrowers (Torre (2006), Torre et al (2006)). They are aimed at reducing the lender's expected credit losses, thereby acting as a form of insurance against default. Their application is not something new with well established schemes being applied in most parts of the developed world and various programmes being applied extensively in the developed world through governments or non-governmental organisations (Vogel and Adams, 1996). Risk insurance schemes are intended to act in the same way - loans are insured against default in the face of market risks inherent in a particular housing market (Hoek-Smit and Diamond, 2003).

The common argument for the application of guarantee and insurance schemes is to stimulate lending that has not occurred due to market imperfections – uncertainties in legal, economic or political context (for a lengthy discussion see Vogel & Adams (1996); Hoek-Smit (2003) and also Freedman (2004)). Torre et al (2006) observe that the most frequently cited justification for the use of the schemes is as a substitute for collateral where uncertainties exist in determining, for example, the value of the collateral. In the housing sector guarantees have been applied in numerous ways. These include stimulating mortgage lending to low income borrowers; facilitating access to the capital markets by untested institutions; or for loans without an adequate performance history. The illustration overleaf provides some examples of different guarantee schemes used and how the schemes can vary.

### ***The Institutions Involved***

The examples highlighted show the various institutions that are active in taking the role as risk mitigator. There are numerous examples in both developed and developing organisations worldwide where governments take this role. Of particular interest also, is the participation by development institutions. The Overseas Private

Investment Corporation (Overseas Private Investment Corporation, 2006) is one such organisation. These institutions as part of their mission, support development programmes in developing countries. OPIC is a United States Government agency that supports and tries to stimulate its business interests in developing countries by acting as a risk mitigator in uncertain business environments. In the housing sector, their involvement has benefited low-middle income households who previously found it difficult to have access to affordable housing finance (2006). The USAID through its Development Credit Authority programme promotes economic growth through its guarantee programme aimed at stimulating lending to the private sector (Freedman, 2004)). Another example of a non-profit organisation that is involved in stimulating housing development is the Dutch International Guarantees for Housing Foundation (DIGH) ([www.digh.nl](http://www.digh.nl)). The organisation acts as a channel through which Dutch Housing Associations can provide guarantees to identified public housing projects in developing regions. International investors such as the ones mentioned above are able to invest in more risky environments because of the backing of their national governments. There are also numerous examples of how these institutions are involved (also highlighted in illustration) which include providing equity and debt on identified projects and providing insurance or guarantees. In addition to this they provide technical assistance to beneficiaries of their investment which plays the important role of building capacity and aiding reform where required.

### ***Pro-Market Application of Guarantees***

The application of subsidies generates considerable debate. For finance-linked subsidies such as guarantees this is no different. There are certain key themes that arise in literature on the subject that express concern on the effectiveness of such subsidies<sup>10</sup>. The general thought is that extreme caution and thought is required before considering the application of these subsidies. Torre et al (2006) point to “poor to mixed” historical experience with guarantees, especially in developing countries (see also Hoek-Smit (2003) on state-sponsored guarantees). They note that most schemes have failed due to depletion of resources caused by high credit losses; bad investment decisions and channelling funds to certain sectors without due regard to rates of losses.

A common argument for the application of subsidies, as highlighted earlier, is the need to address the results of market failure. Vogel and Adams (1996) argue that the market imperfection argument on its own does not provide sufficient justification for a loan guarantee program as there may be other interventions that are more appropriate to dealing with the imperfection. However Freedman argues that without this imperfection then there is little basis for intervention. Torre et al contend that Vogel and Adam’s argument could be reasonable where, for example, there are imperfections in the legal system and these imperfections should ideally be addressed through reform in the system itself rather than through an intervention. They do, however, note that it can also be argued that these instruments can be used while institutional reform is being established. There is a danger, if not carefully thought out, that the guarantee will do more to distort the market rather than remedy an imperfection.

The design of guarantees should then be, such that they correct market failures rather than distort them and the imperfection should be clearly identified as the cause of the

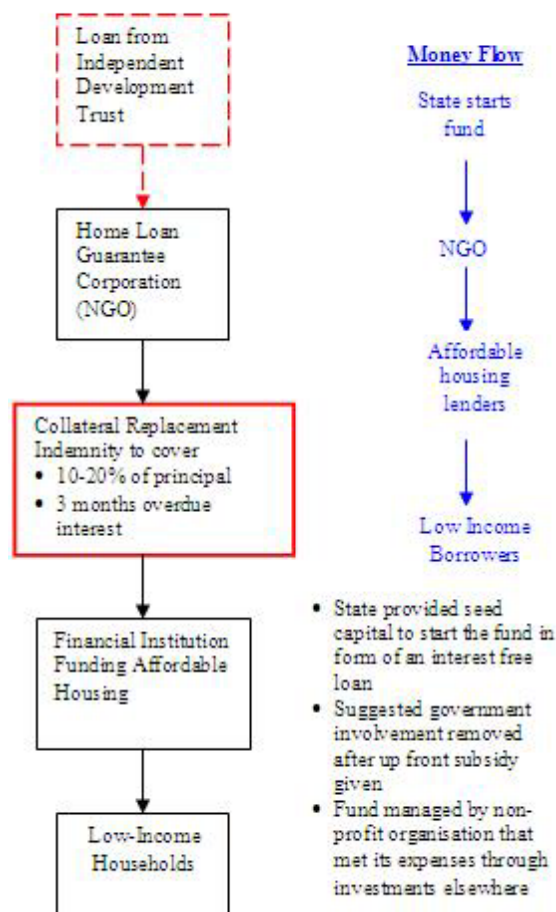
problem. There is then agreement that an intervention through subsidies must be targeted as directly as possible to the perceived imperfection.

A further case for the “pro-market” application of subsidies is that in order for them to be effective they need to create “additionality”. This occurs, for example, when a lenders’ activity is influenced to benefit a disadvantaged sector. The intervention stimulates activity in a situation where if it (the intervention) was not applied the situation would not have occurred.

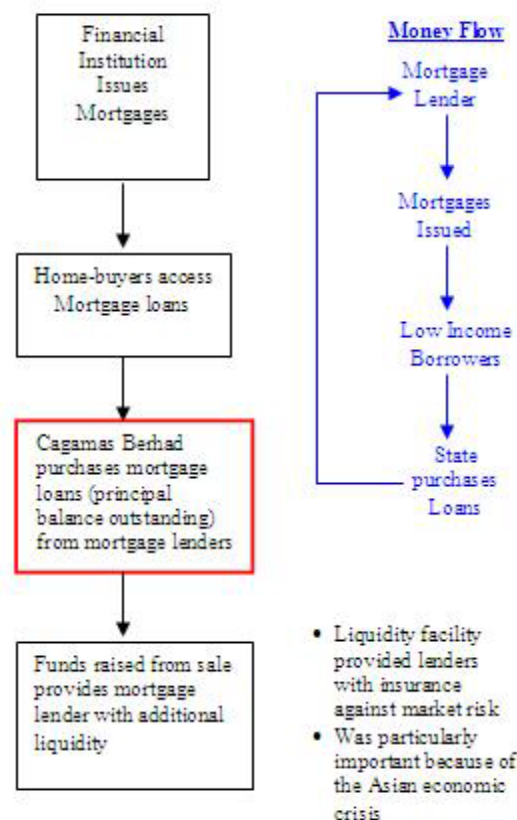
Additional criticisms of instruments such as guarantees, is their ability to cause moral hazard - reckless conduct (by beneficiaries of a guarantee) induced by the presence of a guarantee is what is referred to as moral hazard (Freedman, 2004). Borrowers may not feel obliged to repay the loan and lenders may neglect to monitor and screen lenders as the cost of doing this is covered by the guarantee (Torre et al., 2006). It is argued, however, that they can be designed in a “market-friendly way” to minimize their unintended consequences (see box for Chile example). A variations on the design of guarantee schemes to reduce moral hazard includes offering partial guarantees. The Direct Credit Authority (DCA), under the USAID, provides guarantees that cover 50% of the loan as a way of leveraging the private sector’s resources (Freedman). This is based on the premise that the guaranteed party is more likely to pursue due diligence because they have equal or greater incentives than the guarantor to avoid borrower default.

### Box No. 03 Examples of Risk Mitigation Instruments

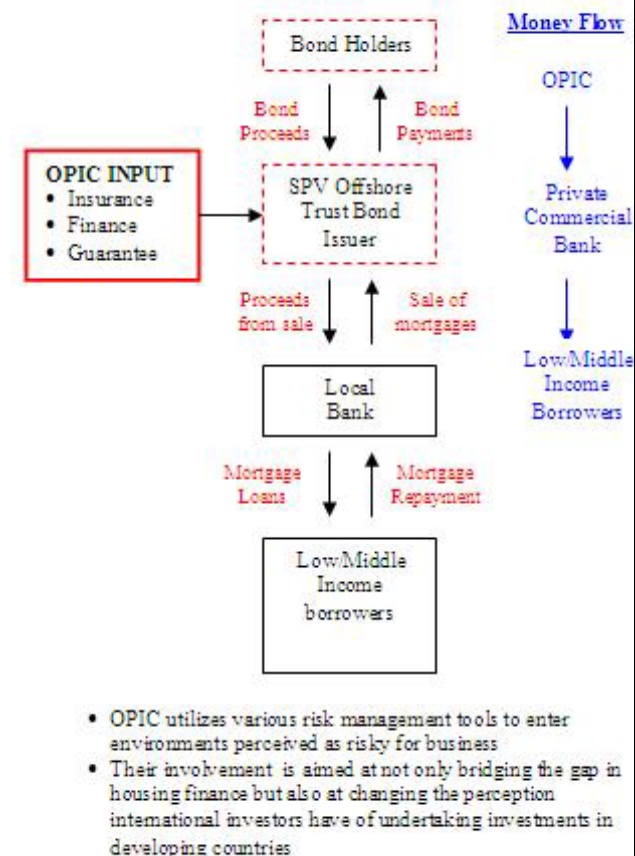
*Home Loan Guarantee Corporation, South Africa*  
Source: Lea (2005); Hoek-Smit and Diamond (2003)



*Cagamas Berhad Liquidity Facility, Malaysia*  
Source: Lea (2005), Kim (1999)



*OPIC Risk Mitigation*  
Source: OPIC (2006)



## 2.5 Conclusions

This chapter has been an overview of literature on enabling strategies in the residential sector with specific regard to the production of housing. The conceptual framework on which this analysis was based outlined the instruments available that can influence more favourable outcomes in the housing market in developing countries. Interventions prescribed for the production of housing are broadly grouped into two main themes. Firstly and what is regarded as the most important is ensuring that markets function properly. The next group of interventions describe supply-side subsidies that either increase production activity of private actors or stimulate private actors to produce housing for the low-middle income market. The main consideration in the use of any of the interventions is that they should not distort the production side of the housing equation.

### 2.5.1 Increasing Market Efficiency

Instruments described to improve the efficiency of the housing market are aimed in general terms at:

1. Ensuring that no barriers to entry in the market exist
2. Increasing competition in the various aspects considered
3. Improving efficiency through streamlining the various process and regulations that govern the housing market

For each instrument highlighted it can be concluded that the following should be the objectives and focus:

#### ***Provision and Maintenance of Residential Infrastructure***

- Increase land supply by provision and maintenance of residential infrastructure
- Ensure services are paid for using clear and identifiable cost recovery methods

#### ***Regulatory Environment – Land and Housing development***

- Reducing bureaucratic hurdles and processes that present various barriers to entry
- Reducing high building standards that increase the cost of housing

#### ***Organization of the Building Industry***

- Increasing competitiveness in supply of key inputs
- Improving the quality and quantity of labour and the availability of the key inputs.

### 2.5.2 Subsidising Housing Production

In general, enabling strategy advocates view with slight disdain the use of supply side subsidies favouring direct demand subsidies. The premise is that the production side of the market remains undistorted and the subsidies act to increase the capacities of the population to be able to pay and consume housing at market produced prices.

The principles to be followed to ensure “*pro-market*” application of supply-side subsidies are:

- Where an imperfection in the market exists and it can be corrected through reform in the market then this should be the preferred course of action
- In the event that this cannot be done or the subsidy is being applied as reform takes place then it should be targeted directly at the market imperfection
- The subsidy should create additionality

## Chapter 3: Research Methodology

### 3.1 Research Methods

#### *Research Design*

The research was conducted as a qualitative study that sought to explore ways in which private developers could be stimulated in their activity to produce housing for the low-moderate income majority. The main instrument used for information collection was in-depth interviews. There were two main approaches used to conduct the interviews.

1. **Interview guides** were prepared for key respondents identified and were used to obtain information on considerations and issues that the researcher was seeking to investigate.
2. The **informal conversational approach** was used in some cases to provide leads as to where to search for more information on the subject and to stimulate discussion, based on the respondent's experience, on the topic at hand.

#### *Research Sample*

Purposive and snowball sampling methods were used to identify the key respondents of the research. The respondents were selected according to their role and active participation in the subject area. The purposive method was convenient for the researcher to use to support the exploratory nature of the research. The latter method also proved useful for the study. The identification of the respondents in this manner was as a result of information put forward to the researcher during interviews with respondents that were purposively selected. It was also as a result referrals made by persons involved in the research subject area that the researcher had contact with. *Table No. 05* describes in detail the category, sampling method, interview approach and reason of selection of the respondents identified.

### 3.2 Data Analysis and Collection

#### *Issues Considered*

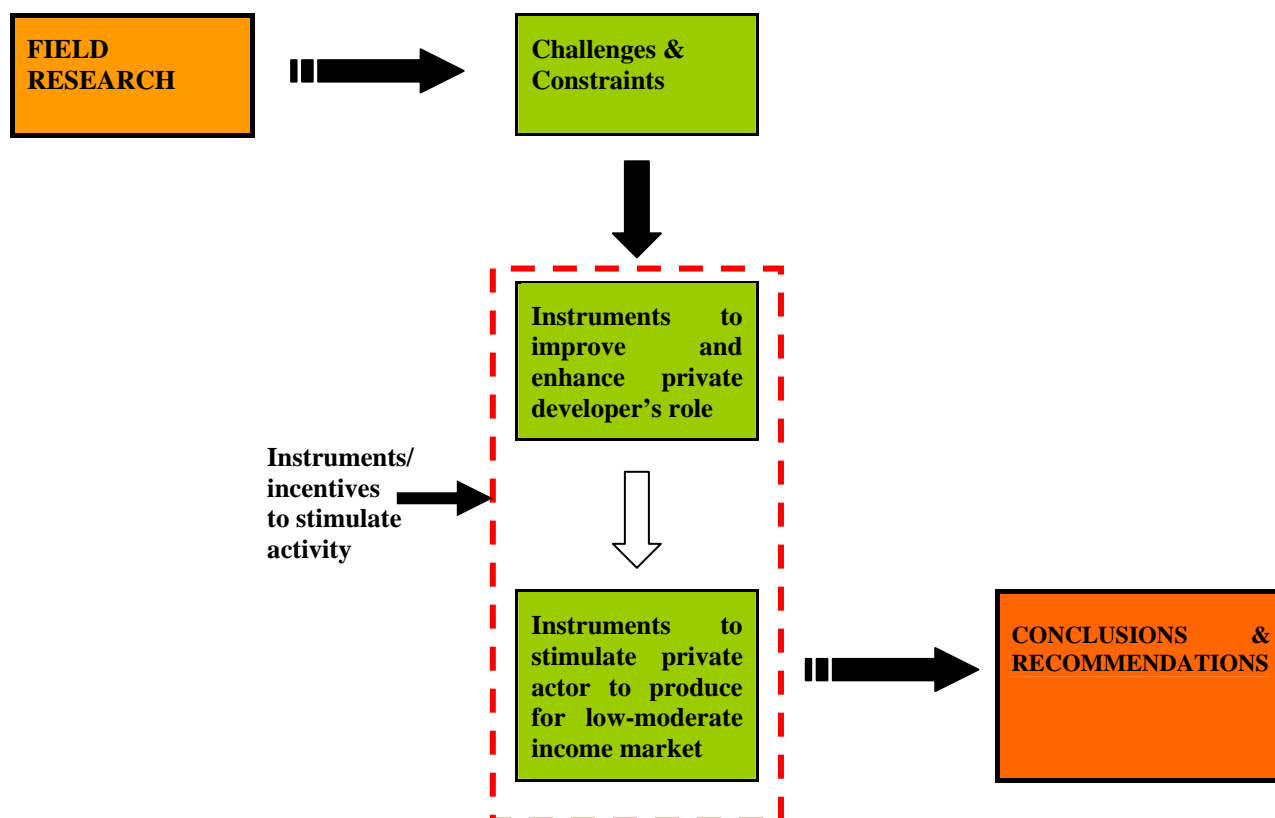
The issues considered were selected in line with the aims and objectives formulated for the study. In order to do this the first point of departure was to investigate the challenges and constraints that private developers faced in participating in the housing sector in Zambia. Also to investigate, additionally, whether there were any instruments or methods being used to stimulate their activity for the benefit of the housing market. With this contextual foundation, the considerations were then focused on investigating which instruments could be used to improve and enhance the role this private actor played in general and more specifically to benefit the low-moderate income housing market.



### *Data Analysis*

The analysis of data collected was grouped according to the research objectives outlined and grouped in line with the issues highlighted above. The illustration below clearly describes the analytical framework employed to organize the fieldwork information findings.

**Figure No. 07 Analytical Framework**



**Table No. 05 Research Respondents, Sampling Method and Selection**

INSTITUTION	KEY INFORMANT	METHOD	APPROACH	REASON SELECTED	NO.
<b>Category 1 – Developers</b>					
Lilayi Development Holdings	Foreign Investor – Partner	Purposive	Interview Guide	<ul style="list-style-type: none"> <li>Commercial developer of conventional housing units in middle income category</li> <li>Identify constraints and instruments to improve based on experience in the market</li> </ul>	01
Meanwood Development Corporation	Executive Director	Purposive	Interview Guide	<ul style="list-style-type: none"> <li>Commercial developer active in land development projects in high and middle income category</li> <li>Identify constraints and instruments to improve based on experience in the market</li> </ul>	01
<b>Category 2 – Building Industry Professionals</b>					
Bi-Trust Real Estate	Executive Chairman Senior Property Consultant	Snowball	Informal Conversational	<ul style="list-style-type: none"> <li>Experienced and senior consultants in the Zambian real estate industry</li> <li>Contextual Information</li> <li>Identify constraints and instruments</li> </ul>	03
	Valuation Surveyor	Snowball	Informal Conversational		
Rinceau Designs	Architect	Purposive	Interview Guide	<ul style="list-style-type: none"> <li>Current ZIA President and also consultant on Lilayi Housing Development</li> <li>Experienced in industry and on commercial development projects</li> <li>Identify constraints and instruments</li> </ul>	01
DH Engineering Consultants	Electrical & Mechanical Engineer	Purposive	Interview Guide	<ul style="list-style-type: none"> <li>Experienced in engineering aspect of projects</li> <li>Experienced in EIA and EPB applications</li> </ul>	02
	Civil Engineer	Purposive	Informal Conversational	<ul style="list-style-type: none"> <li>Consultant on Lilayi project</li> <li>Identify constraints</li> </ul>	
REMAX Properties CM Architects	<ul style="list-style-type: none"> <li>Real Estate Agent</li> <li>Architect</li> </ul>	Snowball	Informal Conversational	<ul style="list-style-type: none"> <li>Opinions on commercial projects</li> <li>Identify constraints</li> </ul>	02
Peter Richards & Partners	Quantity Surveyor	Purposive	Informal Conversational	<ul style="list-style-type: none"> <li>Construction costs – contextual information</li> </ul>	01
Barclays Bank	Property Manager	Purposive	Interview Guide	<ul style="list-style-type: none"> <li>Contextual information on housing market</li> <li>Finance perspective</li> <li>Constraints and instruments</li> </ul>	01

**Table No. 05 Research Respondents, Sampling Method and Selection continued**

INSTITUTION	KEY INFORMANT	METHOD	APPROACH	REASON SELECTED	NO.
<b>Category 3 – Private Sector Representatives</b>					
<ul style="list-style-type: none"> <li>Zambia Chambers of Commerce and Industry</li> <li>Zambia International Trade Fair</li> </ul>	Chairman Chairman	Purposive	Informal Conversational	<ul style="list-style-type: none"> <li>Experienced in private enterprise in Zambia</li> <li>Constraints Private Investment</li> <li>Instruments to improve</li> </ul>	01
<b>Category 4 – Government</b>					
Ministry of Local Government and Housing	Principal Housing Officer	Purposive	Interview Guide	<ul style="list-style-type: none"> <li>Government Role</li> <li>Instruments</li> </ul>	01
National Housing Authority	Chief Architect	Purposive	Interview Guide	<ul style="list-style-type: none"> <li>Role of Government</li> <li>Role of institution</li> <li>Instruments to improve</li> </ul>	01
	Architect	Purposive	Informal conversational	<ul style="list-style-type: none"> <li>Role of institution</li> <li>Institution activity in the market</li> </ul>	02
<b>Category 5 – Parastatal</b>					
Zambia State Insurance Corporation	Real Estate Manager	Snowball	Informal Conversational	<ul style="list-style-type: none"> <li>Experience in real estate market</li> <li>Role institution plays in housing market</li> <li>Identify Constraints and Instruments</li> </ul>	02
	Treasury Manager	Snowball	Interview Guide	<ul style="list-style-type: none"> <li>Investment policy of institution</li> <li>Role institution plays in housing market</li> </ul>	
Zambia National Building Society	Senior Property Estates Manager	Snowball	Interview Guide	<ul style="list-style-type: none"> <li>Role of institution</li> <li>Contextual information on housing market</li> <li>Instruments to improve</li> </ul>	01
<b>Category 6 – Financial Institution</b>					
Stanbic Bank	Corporate Accountant	Purposive	Informal Conversational	<ul style="list-style-type: none"> <li>Constraints &amp; Instruments to improve</li> </ul>	01
FMO	Manager Business Dev.	Snowball	Interview Guide/Informal Conversational	<ul style="list-style-type: none"> <li>Financing part of Lilayi Housing Estates</li> <li>Gain insights from experiences on investing Zambia – input on constraints and challenges</li> </ul>	04
	Housing Finance Officer Senior Social Specialist Risk Management Officer	Snowball	Informal Conversational		
<b>TOTAL SAMPLE SIZE</b>					<b>21</b>

## Chapter 4: Research Findings & Analysis

### 4.1 Background

The Zambian economy has evolved in the last 36 years from a state-controlled economy under the United Independence Party (UNIP) Government to a free market one under the Movement for Multi-Party Democracy. The table below briefly describes how this transition has taken place.

**Table No. 06 Historical Events Leading to the Adoption by the Zambian Government of the Enabling Shelter Strategy**

Year	Event
1964	<ul style="list-style-type: none"><li>• Independence – Government led by (UNIP) under the leadership of Dr. Kenneth Kaunda</li><li>• Free market economy</li></ul>
1968	<ul style="list-style-type: none"><li>• Mulungushi Reforms<ul style="list-style-type: none"><li>- State announces a program to nationalize private-owned companies</li></ul></li><li>• Matero Reforms<ul style="list-style-type: none"><li>- Measure to implement nationalization of the mining companies announced</li></ul></li></ul>
1973-1984	<ul style="list-style-type: none"><li>• State controlled economy</li><li>• By 1980 the UNIP Government had established itself as a dominant player in the country with 80% of all companies publicly owned by this time</li></ul>
1985-1990	<ul style="list-style-type: none"><li>• The collapse of the economy, which had started showing signs of decline in the 1970s, forced the UNIP government to undertake economic reform</li><li>• Government briefly embarked on Structural Adjustment Programmes (SAPs) prescribed by both the World Bank and IMF, then chose to abandon them and take its own economic reform measures</li></ul>
1990	<ul style="list-style-type: none"><li>• UNIP government abolishes one-party state role and allows stage to be set for a multi-party democracy</li></ul>
1991	<ul style="list-style-type: none"><li>• Movement for Multi-Party Democracy wins national elections</li><li>• Campaign strategy was focused on restoring the national economy (which at this time was in a serious state of decline) based on neo-liberal economic policies</li></ul>
1992	<ul style="list-style-type: none"><li>• Minister of Finance Budget Address – Government announced its intention to promote the private sector, remove itself from being actively involved in the state-owned companies and move “<i>expeditiously</i>” with the privatization program</li></ul>
1997	<ul style="list-style-type: none"><li>• 224 companies out of a total of 275 had been privatized</li></ul>

Source: Table compiled with information from Bigsten and Kayizzi-Mugerwa (2000), (Fundanga and Mwaba); Mashamba (1997), The World Bank (1997)

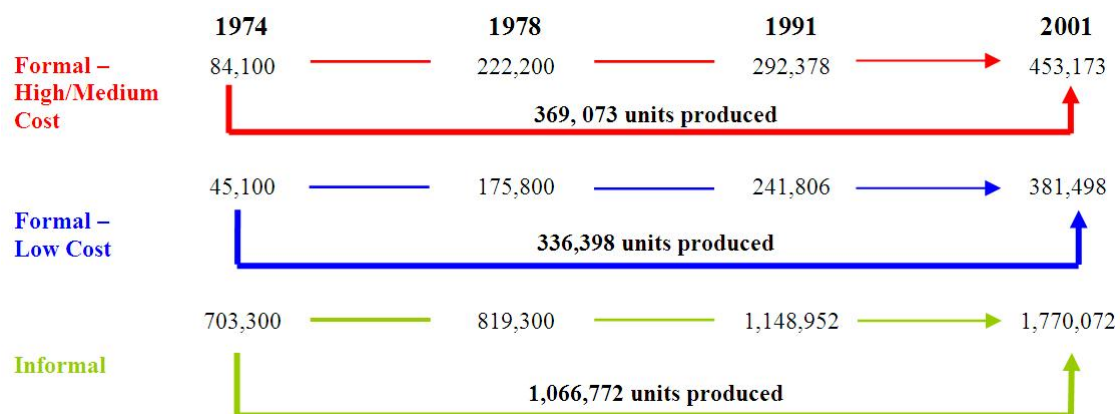
The events in the economy have influenced the progression of housing policy and the strategies that successive governments have adopted.

During the UNIP era under the Kenneth Kaunda regime, the main actor involved in the provision of conventional housing was the public sector. Rakodi (1986) notes that much of the housing for low-moderate income groups in Lusaka were produced by the local authority, Lusaka City Council (LCC). The remaining public sector housing was produced by the central government and state controlled companies (i.e. parastatals). The Zambian people had numerous expectations and aspirations after gaining independence one of which was to improve the living conditions and

standards of the indigenous population. Housing programmes were thus targeted at meeting these aims and the government embarked on mass housing programmes to meet these aims. There was a decline during the United National Party for Independence (UNIP) rule in the targeted number of housing units that the government was able to produce. The targets were unrealistic considering the resources the government had available and the high standard of housing they wanted to achieve. Almost all the targets they set were not achieved and huge numbers of the population were accommodated in the informal sector.

In the midst of economic decline and reduced public expenditure, the supply of formally produced housing reduced drastically and the informal sector played an increasingly important role in helping the majority of the population to meet its housing needs. Figure No. xx below shows clearly how much of a contribution the informal sector has contributed to the housing sector. Over a 30 year period the informal sector has contributed to more than three times the number of units produced in the formal sector categories (i.e. high/medium and low cost).

**Figure No. 08 Housing Stock Timeline**



Source: Based on figures from Muchima (2004); Fifth National Development Plan (GRZ, 2006)

### ***Transforming to a Market System in the Housing Sector***

The adoption of *The National Housing Policy* in 1996 (MLGH, 1996) marked a turning point in the government housing strategies. The key themes emphasised in the policy were the promotion of homeownership; the removal of rent control and withdrawal of employment tied housing and also the role of other actors (private sector, NGOs and local communities) in the implementation of the housing policy. Schlyter (1998) notes that the policy and its accompanying development programme had strong influences from the international community. The implementation strategy outlined was influenced by UN's "*The Global Shelter Strategy to the Year 2000*" and other influences also came from the World Bank's activity in the Poverty Assessment programmes it conducted in the country.

The housing stock in the country in 1991 was estimated to be 1,501,898 (MLGH, 1996). Approximately 20% of this figure accounted for low, medium and high cost conventional units. In 2001 this number increased to 2,311,988 with similar proportions being formal and informal (i.e. 20% and 80% respectively). In 2000 the

number of housing units in Lusaka Province was 242,684 units and 83% of this total comprised conventional units and 11% traditional structures (CSO). Other categories of types of units included mobile; part of commercial building; collective/institutional of which the remaining units are categorised under.

It is estimated that approximately two thirds of the population is accommodated in informal settlements<sup>11</sup> which gives an indication of the contribution the formal market makes to in the housing sector. From the statistics available it is difficult to tell in numbers of units how much of a contribution that the private commercial sector has contributed to housing. From literature on the development of the sector in Zambia the indication is that the majority of formal housing units are from previous stock. The private market has been fuelled by the transfer of public properties to individuals<sup>12</sup>. Additional units constructed have been as a result of the activities of individual households and minimal production by the public sector. *Table No. 07* highlights the contribution government agencies have made in the production of formal housing from the period 2001-2006. Government housing programmes have been undertaken mainly by the National Housing Authority whose efforts have been mostly concentrated in Lusaka (GRZ, 2006). The Housing Authority produced 954 conventional units (an approximate average of 200 units per annum during the period 2001-2006) the majority of which can only be accessed by high income earners.

**Table No. 07 Public Sector Housing Production Between 2001-2006**

Organisation	No. of Units
National Housing Authority	954
Zambia Low Cost Housing Development Corporation	435
Ministry of Local Government and Housing	21
<b>TOTAL</b>	<b>1,410</b>

Source: Fieldwork Interview – Ministry of Local Government and Housing

There has been no significant formal residential development that has catered for and produced conventional housing units for the low-moderate income market<sup>13</sup>, which is why the emergence of private-led commercial developers on the Zambian housing market draws attention in the sector. There are a number of private-led housing initiatives that have emerged on the housing market that have the potential, especially if they can be replicated, to contribute positively to the production of low-middle income housing.

These projects mark a turning point in the production history of the residential sector, firstly because they are private-led and initiated. Secondly they seek to serve the low

<sup>11</sup> This gives an indication that even in the informal settlements the type of units are of conventional material quality (i.e. constructed with materials such as concrete; asbestos roofing sheets etc.).

<sup>12</sup> Out of the units classified under owner-occupied housing, the report indicates that approximately 65% of these units were self-built 22.1% were purchased; only 1.7% was acquired through a mortgage and the remaining were either freely acquired, inherited or fell in category titled “other”.

<sup>13</sup> Even though it was the objective of the UNIP Government to produce housing for the low income population, the high standard of the units produced meant that they were not accessible by their intended market. Their schemes therefore catered more for the middle income market (Mashamba, 1997).

to middle-income market, which according to housing data available is the group largely excluded from the formal residential market. These projects then have the potential of increasing their housing options. The projects currently underway that fall under the low-middle cost category are the Ndeke Village, Kwamwena and Vorna Valley projects under the Meanwood Property Development Corporation Limited and the Lilayi Housing Estates being developed by the Lilayi Development Holdings. A description of these projects is provided overleaf in Box No. 04.

#### Box No. 04 Commercial Developer Solutions

##### Meanwood Development Corporation

Source: Developer website [www.meanwood.co.zm](http://www.meanwood.co.zm)

##### Low to Medium Cost Housing Projects

- Ndeke Villlage
- Kwamwena Village

##### Role Developer Plays:

- Provides basic road infrastructure
- Cadastral survey and Title Deeds
- Approves and monitors construction activity
- Builder services required if

##### Plot Sizes:

- Range from 20x20m (400m<sup>2</sup>) to 20x30m (600m<sup>2</sup>)

##### Prices:

- Range from ZMK4,500,000 for 400 m<sup>2</sup> to ZMK6,500,000

##### Conditions:

- Customers are allowed to commence construction after full payment of the purchase price
- A household is allowed up to a maximum of 4 years in which to complete house construction
- Developer does not provide finance but customers have the option of paying in instalments if arranged with Finance



##### Kwamwena Village Housing Project

- Housing settlement of 7 500 residential plots

##### Lilayi Development Holdings

Source: Promotional Material; Developer Website [www.lilayiestate.com](http://www.lilayiestate.com)

##### Low to Medium Cost Housing Project

- Lilayi Housing Estates

##### Role Developer Plays:

- Provides a complete development solution
  - Fully serviced house
  - Mortgage Financing

##### House and Plot Sizes:

- Range from 40m<sup>2</sup> house on a 200m<sup>2</sup> plot to a 97m<sup>2</sup> on a 400m<sup>2</sup>

##### Prices:

- Range from ZMK170,000,000 for 40m<sup>2</sup> house to ZMK285,000,000 for 97m<sup>2</sup> house

##### Features:

- 15 years maximum repayment period
- Home-owner able to save for down-payment in specially created savings account
- Fixed interest rate of 14% for entire repayment period



Top – Semi-detached 1 Bedroom House (40 m<sup>2</sup>); show House – Show House

Bottom – 2-Bedroom House (63 m<sup>2</sup>) - Impression

Source: Developer Website [www.lilayiestate.com](http://www.lilayiestate.com)



## **4.2 Constraints and Challenges for Private Developers**

The constraints in the housing market in Zambia are well documented in a considerable body of literature (Housing Policy (MLGH, 1996), Schlyter (1998), Rakodi and Leduka (2004), Rakodi (1986) just to mention a few). Little attention is, however, paid to how the market context presents challenges to commercial entities wishing to invest in housing. Based on in-depth interviews with research respondents, the private commercial developer herein provides the focus for this section.

### **4.2.1 Finance**

A number of issues were raised on how finance for housing development had created and continues to create a serious bottleneck in housing production. The current climate for investment in long term development projects is viewed as unfavourable as current costs to access this finance are very high. The private sector representatives interviewed expressed particularly strong opinions in this regard. Access to long term borrowing for housing development, whether as an individual or commercial entity is extremely difficult because of the risks perceived by financial institutions. Box No 05 explains how constrained the environment is for private entities to have access to finance from commercial banks.

The private sector representatives attributed this to among other things a lack of a favourable national credit rating and the lack of capacity of commercial banks to embrace ventures such as housing developments. They viewed the subsequent high interest rates resulting from the perceived risk as counter-productive as they work to increase the chance that a borrower will default on payments.

Due to a lack of long term capacity to finance, the little pockets of housing development that are on-going are based on individuals' initiatives to mobilise finance and build as and when these funds are available. They highlight the paradox that funds are going into these developments, which is a reflection of people's capacity to pay but commercial banks do not extend favourable services to make this process easier. They further highlight that on the part of developers, lending institutions are not interested in taking the risk of partnering into such ventures because they do not want to bear the risk that comes with it. It was also strongly believed that commercial banks could play a much greater role in stimulating productive sectors of society but they choose to remain unsupportive. It was also strongly believed that commercial banks could play a much greater role in stimulating productive sectors of society but they choose to remain unsupportive.

## Box No. 05 Private Sector Development

### The Climate for Private Sector Investment

Despite being one of the most liberalised economies in the region, government policies have not translated into significant economic growth or the development of a strong private sector. *African Economic Outlook Report* for 2003 (OECD) notes that the privatisation programme embarked on in the early 1990s was tainted by political influence and also resulted in negative outcomes because of poor sequencing of events. Martinez observed this also and states that the process commenced before putting in place regulatory and institutional instruments that would adequately deal with the transition of the economy from state-run to market-led. They (the OECD) highlight further, that the companies that managed to survive after privatisation were those that had a foreign capital input. Government efforts to promote ownership of privatised firms by Zambians did not help many small and medium enterprises that crumbled under stiff competition and because they lacked management capabilities to run these enterprises. The *African Economic Outlook Report* for 2003 highlights that private sector participation during this period was hampered by instability in the macro-economic environment; lack of appropriate economic infrastructure; high inflation and interest rates; exchange rate volatility and high cost of essential inputs. These elements present an environment of uncertainty and risk that make investment planning difficult.

Even with the successes the country has recorded in the macro-economy the country still struggles with economic growth. Development of a strong private sector remains constrained in the face of a lack of accessibility to cheap finance for re-investment.

### Credit to the Private Sector in Zambia

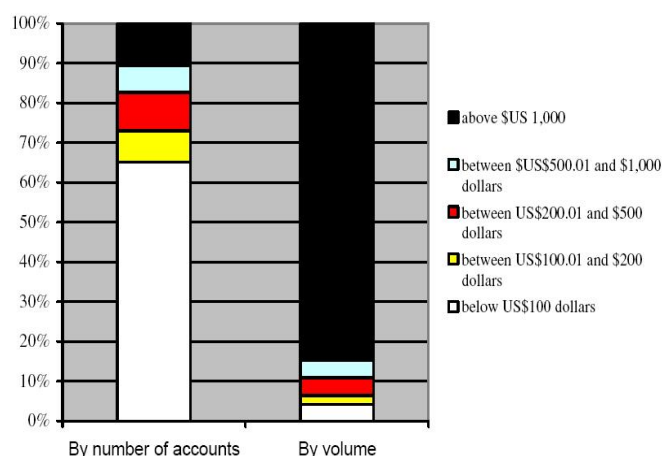
Source: Martinez (2006)

#### Credit is Scarce

- Loans granted to private firms accounted for 73% of total loan portfolio of banks
- 69% of loans to private firms concentrated in the following sectors: agricultures, forestry and fishing, wholesale and retail trade manufacturing

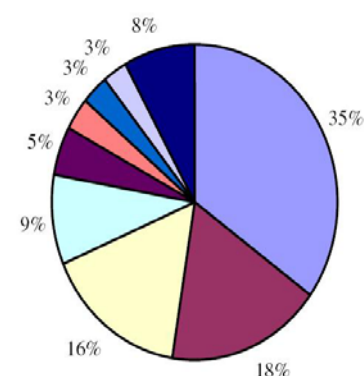
#### Credit is Expensive

- In 2005 the average annual interest rate on loans was 48% (inflation rate of 20%)
- Most loans had a short term-maturity of 1-3 months and few loans with a maturity of 1 year or more



### Distribution of Bank Loans and Advances in March 2006

Source: Martinez (2006)



### Distribution of Bank Credit to Private Firms in Zambia in 2005

Source: Martinez (2006)

- Credit extended to the private sector in 2005 by banks corresponded to only 8% of GDP
- Credit to both the real estate and construction sector only accounted for 3% respectively of total loans advanced to the private sector
- Commercial banks have been forced into lending more to the private sector due to reform efforts by the Central Government i.e. reduced fiscal deficit and government borrowing

This view was also expressed by a respondent in the building industry professional category looking to venture, as a developer, into the middle income housing market. In their experience with trying to source finance for a proposed housing development, they stated that foreign financiers required participation from local financial institutions before they could enter the market. This participation, they say had not been forthcoming from the local institutions because they perceived such ventures to be very risky<sup>14</sup>.

The proprietor of Meanwood Property Development Corporation stated that they were able to get support from a local financial institution early on in their land development projects. Thus they were able to obtain financing for infrastructure (roads only) and surveying costs and fees. They noted that the circumstances in the country had changed considerably over the last couple of years and it was getting easier for developers to have access to finance locally. A situation they described as almost impossible two years before.

*“Right now it is fairly easy for a developer to source money locally..... It has changed in the last two years. Before, it was almost impossible. Most people who were borrowing for that were borrowing from offshore institutions...because of competitive interest rates. But now literally all banks are giving mortgages except for two but most of the big banks [are giving mortgages]. Its so competitive because they are sitting on so much money because government has reduced its appetite for cash through treasury bills and so banks are so solvent....They need to offload it....The banks here are now seeing the housing sector as a growth sector and they are putting in a lot of money. In fact there is even an insufficient supply of units on the market. The mortgage schemes are not being taken up at the rates that the banks would like them to.”*

Developer - Fieldwork interview

The problems the Lilayi Housing Estates developer raised with regards to finance were related to the technicalities of bringing finance into the country. The developer stated that they were compelled to develop a mortgage product for their project, necessitated in part by the fact that at the time they started, the mortgage market was virtually non-existent. Apart from developing the product, the developer had to raise funds to be able to support it so that they would be able to finance US\$300 million worth of housing. The difficulty for them was that they could not raise this finance locally due to the small commercial banking sector that did not have the capacity (see *Table No. 08* overleaf) and thus could not expose themselves to the huge risk that this would expose them to. Financing, therefore, had to be sought externally and this, the developer stated had exposed them to a huge risk because they were borrowing in dollars and would be lending in the local currency. They therefore had to meet the challenge of developing methods of mitigating this risk and getting all parties involved to accept the methods developed.

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<sup>14</sup> Respondents interviewed from FMO, an international development institution, provide support to this by outlining the requirements for businesses to have access to development finance. Their business model required that the local financial institution takes the same funding risk that they do but in the Zambian case this was not possible because of the high risks involved. Fortunately for the project, FMO could take the risk because of the backing the institution had from their national government. This factor, does, however present a significant barrier to entry by prospective commercial developers into the housing market.

**Table No. 08 The Size of Zambia's Banking System**

Source: Martinez (2006)

<b>Total Assets:</b>	US\$ 1.7 billion dollars which represented 35% of the country's GDP
<b>Commercial Banks:</b>	<ul style="list-style-type: none"><li>• 13 commercial banks in total operating in Zambia</li><li>• 5 banks have less than US\$ 5 million in capital each</li><li>• 7 banks have capital within the range of US\$5-30 million dollars</li><li>• Only Barclays has a capital of US\$52 million dollars</li></ul>

Secondly, the developer cited as another major hurdle the legal and regulatory environment for borrowing internationally to put into housing finance in Zambia. They highlighted this resulted in a lengthy process of reconciling the international financing partners' needs and requirements with that of Zambia's legal and regulatory requirements<sup>15</sup>.

*"....The regulatory landscape is littered with the carcasses of old legislations and regulations that in some cases make it impossible to do what the politicians have said yes you can do and what everybody wants to do...In many many cases you've got a regulatory and legal framework that just simply hasn't kept pace and the laws are completely antiquated and outdated and have never contemplated this kind of transaction"*

#### **Developer, Field -Work Interview**

Due to their underestimation of how long the process would take, the developer stated that they were faced with the commercial problem of having created expectations which then created scepticism that they would not be able to deliver. The developer described this as not a *"project specific problem but an environment specific one"* that was created as a result of the hurdles that they faced with putting in place the financing for the project. They highlighted that this had constrained the development due to their inability to draw financing to be able to begin with the development at a point when it was planned. One of the financiers on the project stated that it was for this reason that they came on board. Due to the fact that it took such a long time to get the project to a stage that it was considered bankable by all parties, the developer required finance to be able to start the project. They (i.e. the financier) provided the developer with a credit facility to be able to finance infrastructure development so that the project could commence.

<sup>15</sup> Merging the regulatory environments of different jurisdictions was a complicated, difficult and expensive task and the transaction resulted in over 45 legal agreements that covered 8 or 9 different jurisdictions and legal fees in excess of US\$ 1 million.

#### Box No. 06 International Involvement in Lilayi Housing Estates

The Lilayi Housing Estates project has attracted a lot of attention in the housing sector not only because of the size of the investment being made but also because of the diverse partners the developer has managed to put together to make the development possible. The profile includes local financial and service institutions and a number of international development agencies. One of the consultants interviewed stated that the fact that the project was supported by a number of “heavy-weight” partners added to the credibility of the development and influenced the local partners to get involved in the project. The list below describes the international development agencies that are involved in the project and the role they have played thus far. This project provides a perfect example of how international development agencies have contributed to stimulating activity in the productive sectors of a developing economy.

- |                           |   |
|---------------------------|---|
| <b>USAID<sup>16</sup></b> | <ul style="list-style-type: none"><li>• United States Government development Agency working in partnership with OPIC in supporting the <i>US-Africa mortgage market initiative</i></li><li>• Involvement on the project:<ul style="list-style-type: none"><li>○ Partial loan guarantee through the Development Credit Authority for construction loan being issued by Stanbic Bank Zambia Limited, a local commercial bank also involved on the project</li><li>○ Technical assistance to Ministry of Lands which includes the provision of equipment required for the timely electronic transfer of land title deeds</li></ul></li></ul> |
| <b>OPIC<sup>17</sup></b>  | <ul style="list-style-type: none"><li>• Also a US Government agency whose focus is to support private sector investment in developing countries</li><li>• Involvement on the project<ul style="list-style-type: none"><li>○ \$46.3 million loan to Houses for Africa (HFA) Zambia Limited, one of the partners in the joint venture behind the housing estates project to facilitate mortgage financing for the development</li></ul></li></ul>   |
| <b>FMO<sup>18</sup></b>   | <ul style="list-style-type: none"><li>• A Dutch development bank that supports private sector development in developer countries by way of providing loans, guarantees and other investment products</li><li>• Involvement on the project<ul style="list-style-type: none"><li>○ US\$5million loan facility to finance early infrastructure costs so that the project can commence</li></ul></li></ul>  |

#### 4.2.2 Demand

The nature of the demand in the Zambian market was highlighted as a constraint by one developer. The developer stated that the middle class, who they saw as their target market, had shrunk due to the adverse effects of privatisation and structural adjustment programmes. It was for this reason that their initial projects were focused solely on an exclusively high income group – those who could afford to build without mortgage financing. The situation has since changed and because of improvements in the economy they are now able to venture into the middle income market which their current projects targeted. The developer stated that the plots were affordable for this group and since an increasing proportion of their clients were in permanent employment they are able to use the plot as equity to gain access to mortgage products and use the funds to finance construction. This is being made possible also by the fact that the banks are starting to offer mortgage solutions that are tailored to finance construction. The developer predicted that the situation would become more competitive in the future due to commercial banks becoming more open to offering mortgage financing. They stated further that if the economy continued to grow the

<sup>16</sup> *Testimony before the Sub-Committee on African Affairs Committee on Foreign Relations* by James T. Smith (Deputy Assistant Administrator, USAID), on May 4 2006, Washington D. C. <http://www.senate.gov/~foreign/testimony/2006/SmithTestimony060504.pdf>

<sup>17</sup> *OPIC Supported Housing Project Underway*, Press Release, May 8 2006, Embassy of the United States, Lusaka. <http://zambia.usembassy.gov/zambia/pr050806.html>

<sup>18</sup> Fieldwork Interview and [www.fmo.nl](http://www.fmo.nl)

way it had been then the middle class would most likely grow even further resulting in an increase in their target market. On the low income population, the developer stated that it was difficult for them to cater for this market. The developer highlighted that this segment was not able to access the formal mechanisms that the developer employed to recover their investment e.g. mortgage schemes. He cited the low incomes and the low levels of employment as hindering factors.

*“They [the poor] don’t have a stable income. They are not employed so mortgage schemes cannot be provided for them. Even those mortgage schemes need to be subsidised one way or another.... You are talking of employment levels here of below 40% and there is no social security system. There is nothing....but government can do those projects on a joint venture basis with the private sector – then it can work. But not without Government”.*

**Developer, Fieldwork Interview**

The FMO representative stated that the concept of the Lilayi Project began as a low cost initiative but numerous factors added to the cost of the final product that meant that the target shifted to the middle income market. One major factor that contributed to this was the increase in construction costs. The respondent stated that by the time the legal transactions for financing the project had been completed the cost of construction had increased. This remains a constantly moving target with current shortages of cement crippling all construction activity in the urban centres<sup>19</sup>. In addition, the respondent stated that the interest rates that governed the affordability of the mortgage product were too high. This is an important factor for the developer’s project as the housing finance mechanism available for individuals is the mortgage loan (see *Table No. 09* for loan affordability of the market with respect to the current income levels).

***Incomes, Employment and Access to Financial Services***

As mentioned earlier, the mortgage market has been virtually non-existent but there has been a recent turn-around in events in the last two-three years. Almost all the commercial banks are offering mortgages ranging from between 15 to 20 years repayment period and interest rates ranging from 15-25% (see box No 07). There are still, however, constraints in end-users accessing this finance as the terms exclude a large percentage of the population from accessing mortgages provided thus restricting their capacity to pay for housing through formal market initiatives. The majority of respondents interviewed cited this as a major hindering factor. One professional pointed to the fact that currently, one would need to be earning a monthly income of approximately US\$ 1000 and above to be able to comfortably manage the repayment terms. This option is made additionally difficult by the fact that it is linked to an applicant’s potential to remain in formal employment for a considerable length of time. It was also highlighted by the respondents that formal employment levels and incomes were generally low and inhibited access to formal market financing. The table below shows the loan affordability of the different income groups in Zambia.

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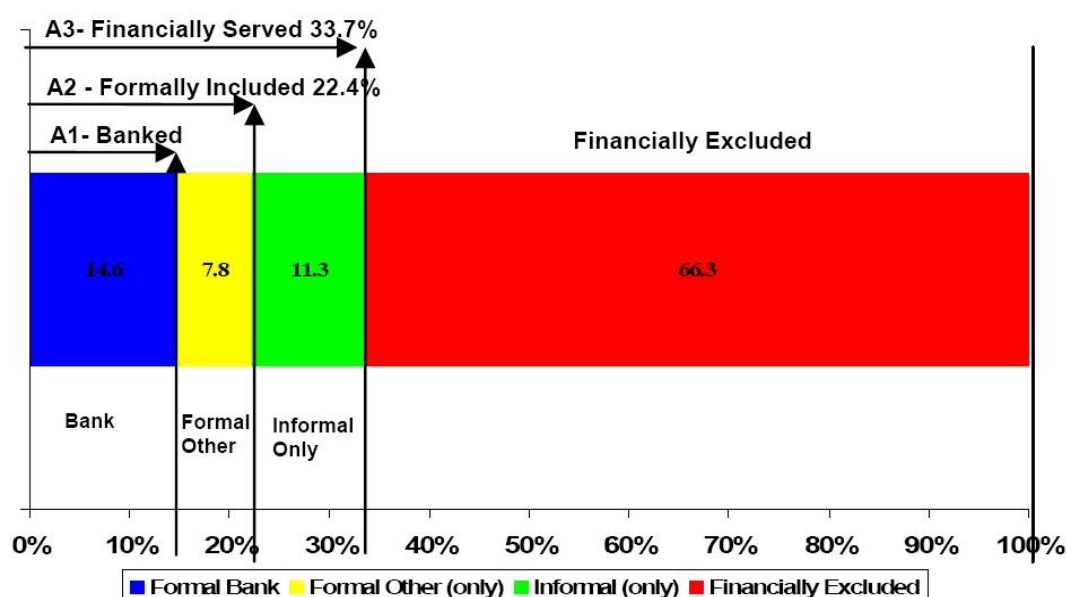
<sup>19</sup> The developer of the project stated that the construction cost was a constantly moving target and attributed this to in part to shortages in buildings material supply.

**Table No. 09 Household Income and Affordability**

Monthly Income	US\$ Equiv <sup>20</sup>	% population	Loan affordability @ 15% over 20 years
No Answer/Don't Know	-	21%	-
No income	-	24%	-
< K50 000	\$13.12	5%	-
K50 000 - K150 000	\$39.37	15%	Up to \$835
K150 000 - K300 000	\$78.74	11%	Up to \$1671
K 300 000 – K450 000	\$118.11	6%	Up to \$2506
K 450 000 +	\$118.11+	18%	Over \$2506

Source: Gardner (2007), *Access to Housing Finance in Africa: Exploring the Issues – Zambia*

The access to formal financial services by the majority of the population is extremely low. Findings in a report, *Measuring Financial Access in Zambia (FinMark Trust, 2006)*, prepared for the Zambian Government, revealed how low this access is. The report found that over two-thirds of the country's adult population is '*financially excluded*' from access to products offered by both the formal and informal financial systems (see *figure No. 09*). The usage of transaction<sup>21</sup> and savings products from formal providers was found to be as low as 14.4% and 14% respectively. Mediums such as cash point cards were found to be used by only 7.5% of the adult population and even further limited use of mediums such as credit and debit cards (used by less than 1% of the population). The report sites that the services provided in the informal market are relatively higher with 14% of the adult population have access to some form of informal services. Data obtained on the financially excluded suggests that the younger population provide a potential market as they represented the future income earners (Figure No. 10).

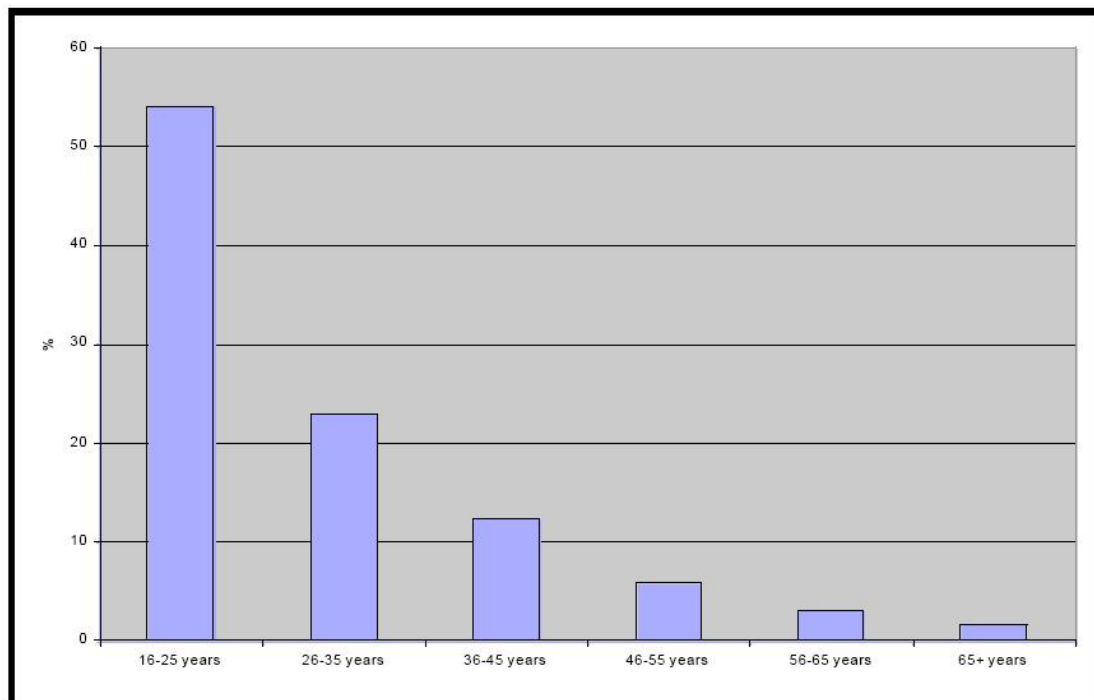
**Figure No. 09 Access to Financial Access Strand**

Source: Finmark Trust (2006), *Measuring Financial Access in Zambia. Summary of Topline Findings*

<sup>20</sup> Converted by Gardner at an exchange rate of US\$1.00 = ZMK 3810 on May 2007

<sup>21</sup> Transaction products comprise current and savings accounts.

**Figure No. 10 What Age Group are More Financially Excluded**



Source: FINMARK TRUST (2006), *Measuring Financial Access in Zambia. Summary of Topline Findings*

The *Labour Force Survey Report 2005* (CSO, 2007) found that 29% of Lusaka's population was unemployed, the highest rate in comparison with other provinces in the country. Of the employed labour force, 35% were employed in the formal sector and the remaining 65% in the informal sector. The report does not go as far as detailing which sector in the city employs the largest proportion of the labour force. Therefore, statistically it is difficult to know which type of Employer makes the largest contribution in this regard. A consultant interviewed was of the opinion that the largest employer in the city was the government, who even compared to the combined workforce of the parastatals, financial institutions, and other private sector organisations, employed a significant share of the city's labour force.

The average month earnings by sector in the country's urban areas are indicated in the table overleaf. The parastatal sector accounted for the highest average monthly earnings with persons employed in this sector earning on average approximately ZMK3.3 million.



**Table No. 10 Average Monthly Earnings by Sector, 2005**

Sector	Average Monthly Earnings (ZMK)
<b>All Zambia</b>	<b>540,961</b>
Central Government	960,101
Local Government	493,545
Parastatal	3,293,791
Private	553,569
NGO/Church	773,334
International Organisation	1,067,330
Household	169,284
Not Stated	564,990

Source: CSO (2007) *Labour Force Survey Report 2005*

Based on experience in working in the housing sector, a property consultant interviewed stated that, civil servants, through a revolving fund set up by the government had a significant share of the loan market for housing. A civil servant earning a gross salary of approximately ZMK1.2 million had access to an average loan entitlement of approximately ZMK60 million. However, commercial bank employees had access to larger loans which started from ZMK100-160 million and were also in a position to be able to participate in the owner-occupied housing market. Employees of some quasi-government institutions such as NAPSAs (pension fund) were also identified as having access to loans that matched the size of that accessed by commercial bank employees.

The interviewee noted additionally that there was considerable capacity in the informal market to be able to pay and participate in this section of the housing market. Unlike other cities in the country, Lusaka had a thriving business sector much of which was being conducted in the informal sector.

In terms of proportions of the population in rental or owner-occupied housing, the consultant stated that the rental market in Lusaka was more active than that of the owner-occupied one and was the housing solution choice for most of the city's residents. He further asserted that the rental market was being fuelled mainly by individuals who had bought houses under the homeownership scheme attributed to the former President, F T J Chiluba in the previous government, and put them on rent for an additional income. The little commercial activity that existed in this area was targeted at medium and high cost categories of housing.

### Box No. 07 Housing Finance

The current options for individuals within the Zambian residential market for housing finance are limited and expensive. The main actors in this regard are the commercial banks and building societies. Both micro-finance and insurance and pension institutions play a limited role in the sector. In Martinez's (2006) research entitled "Access to Financial Services In Zambia" it was documented that the MFIs only serve 50,000 customers which corresponds to only 0.005% of the population and their accumulated size represents not more than 2% of the banking institution's assets. The public pension funds hold significant volumes of capital but their activity in the housing sector is limited to providing mortgage finance to their members (Gardner, 2007). The major funds in this regard are the Public Sector Pension Fund (PSPF) and the Local Authorities Super-Annuation Fund (LASF). The use of Insurance funds in the housing sector is also limited as an avenue for providing funding for housing finance. Only 1.1% of the country's adult population currently have life insurance and less than 1% have property insurance indicating that the levels of access to insurance products is extremely limited (Gardner 2007).

Highlighted below are selected examples of mortgage products offered to consumers in the Zambian residential market based on the scoping study conducted by Gardner (2007) for FinMark<sup>22</sup> Trust Limited and research findings during fieldwork conducted.

#### Standard Chartered Bank

They launched a mortgage product in 2003-2004 which received a poor response as a result of high interest rates and the requirement for clients to make a 20% deposit. This forced the bank to withdraw the product from the market. Another mortgage product was put onto the market this year. Dubbed "The Smart-Move Home Loan" the following are its features:

**Amount:** Minimum ZMK 50 million up to ZMK 1 billion  
**Interest:** 19% (local currency); 8% (USD)  
**Minimum net income:** ZMK 3.5million  
**Repayment:** 20 years for loan in local currency and 5 years for USD loan

In for properties in Lusaka the bank finances up to 80% of the open market value of a property

#### Commercial Bank billboard



Source: Photo taken by Author during fieldwork

The Smart-Move Home Loan finances;

- Outright purchase
- Construction
- Equity release
- Re-financing

#### Barclays Bank

The Barclays home loan product was launched in January 2006 and at the time the FinMark Trust study was conducted it had a 12 year maximum term and an interest rate of 17% per annum. The portfolio then comprised 80 loans with an average approximate value of ZMK 200million. One of the Daily Newspapers reported that since the loan mortgage scheme had been launched the bank had disbursed ZMK7billion of the ZMK25billion it had allocated for the loans<sup>23</sup>. At the time the research fieldwork was being conducted, the Home Loan Adviser spoken to stated that the loans being offered at that moment were for outright purchase only.

**Amount:** Minimum ZMK 80 million up to ZMK 1 billion  
**Interest:** 17% p.a. (local currency); 8% p.a. (USD)  
**Loan-to-Value ratio:** 80%

With a monthly net income of ZMK5 million<sup>24</sup>

**Eligible Amount:** ZMK 170million  
**Interest rate:** 17%  
**Loan Period:** 20 years/up to 55 years of age (earliest applies)  
**Monthly Repayment:** ZMK 2,493,560.93

<sup>22</sup> FinMark Trust was established in 2002 by the Department of International Development (DFID) office in South Africa. Their goal is to support changes in the way the African financial markets work so that they can work for the poor ([www.finmarktrust.org.za](http://www.finmarktrust.org.za)).

<sup>23</sup> Nkole, C., 'Barclays gives out K7bn in Mortgage', The Zambia Daily Mail 28 August 2007, Accessed Online: [www.daily-mail.co.zm](http://www.daily-mail.co.zm)

<sup>24</sup> Data collected during fieldwork. A Home Loan Advisor stated that the approximate minimum net salary one had to be earning to access a mortgage loan was approximately between ZMK4-5million

## ***Effective Demand***

Contrary to what the statistics indicate about the nature of the housing demand and its ability to pay for housing, some respondents expressed the opinion that there was significant *effective* demand in the low to moderate cost housing bracket and that there were strong indicators to support this. A Real Estate Manager of ZSIC stated that their 3-bedroom properties were being offered on the Lusaka rental market for a monthly rent of K2.5million and in comparison the same property in a city on the Copperbelt Province would go for K800,000.00. The waiting list for their properties in Lusaka was in the thousands which was a reflection of the pressures the city's residents were under for accommodation.

The interviewee added that there was nobody catering for the low-moderate income market and so this group was forced into the informal market. Similar observations were made by staff at the National Housing Authority. They stated that the institution did not have the capacity and struggled to cope with the demand for their units which sold very fast. They indicated that the demand in the rental market was very high but that the authority was not able to maintain them and thus preferred to produce units that they could sell.

The private sector representatives highlighted that in spite of the reluctance by banks to make their products more affordable individuals were still building their houses. Unfortunately this was being financed as and when they could access cash and in most cases took a very long period of time. They stated that the banks lacked the foresight to tap into these resources that individuals were mobilising by offering loans to individuals so that they could finance in an easier way, the building of their homes.

*"There is intrinsic demand for housing. But what is lacking is the modality to tap into that demand. There is capacity to pay for the demand what's lacking is the vehicle to tap it".*

**Private Sector Representative - Fieldwork Interview**

## ***Perceiving the Demand***

A lack of understanding of the market (by the actors involved in production) was highlighted by the professionals and private sector representatives as a challenge for the private developer. The only point of reference in Lusaka, in this regard for private commercially produced low-moderate cost units is the Lilayi Housing Estates. One of the marketing strategies the developer has used is to construct show houses in front of their sales office for potential consumers to view. The issues raised below are based on the respondent's perceptions of these sample houses and their perception on the concept of the development. The issues raised are also based on the developer's experiences thus far on the project.

As a result of lack of detailed information on effective demand and also demand preferences, the Zambian market is a difficult one to enter. This then entails that the developer has to conduct through his own efforts a thorough market study to get this information. One of the observations made by the private sector representatives of the Lilayi project was that the developers needed to have carried out a more detailed

**Box No. 08 Indicators of Informal Activity in Residential Areas**



**Location: Emmasdale, Lusaka**

**Type: Apartments – some rental some owner-occupied**

'DIY' extension to flats that were formally owned by INDECO Estates (one of the government parastatals forced into liquidation). The properties were sold to the sitting tenants. The extension was added by the Landlord to create additional space for his family. The main apartment (painted white) has been put up for rent and he has created another extension at the back (not seen in photo) where he resides.



**Location: Emmasdale, Lusaka**

**Type: Apartments – some rental some owner-occupied**

Within the same complex as the property above, the owner of this property died before completing the extensions to his apartment. Prior to his death he used to reside in the apartment with his family. The extensions were to increase the apartment size to better accommodate size of his family. Currently the apartment is being rented out.



**Location: Chalala, Lusaka**

**Type: Houses – mostly owner-occupied but difficult to tell**

This area was opened up recently up the local authority. This picture shows blocks made for construction of the house – a sight not uncommon elsewhere. Building is carried out as and when financial resources are made available.

*Source: Research Fieldwork  
Photos taken by author*

study so that the project could be more demand driven. They stated that the model that the developers came up with was not well perceived by the market and thus had created a bottleneck for them. Professionals interviewed provided the alternate opinion that the concept of projects like Lilayi (i.e. large scale private led developments) was new and thus people were not yet confident about them. They stated that the developer faced difficulties in this regard because until people saw houses on the site itself they would not easily commit to the project.

When interviewed, the developer recognized, by their own admission, that they had *misjudged* the Zambian market and had been forced to make alterations to their original plan. As already observed by other respondents, this had presented a challenge to them. They stated that they had made some assumptions about what they thought the consumer would want and in some cases these assumptions were wrong. As a result of this they had had to embark on a more detailed market research to develop a product that was more suited to the market's preferences and continued to pursue a more consultative process. The changes included increasing the minimum size of the units and also alterations to the common amenities that would be provided in the community.

The respondents involved in financing the project provided their perspective on the matter. They stated, as the developer had also indicated, that the changes were necessitated by requirements put forward by the demand through the research they conducted. The design of the smallest house was initially 40m<sup>2</sup> but this had to be increased to 60m<sup>2</sup> a change the interviewee also attributed to the nature of the household in the Zambian setting and the constrained supply that limited individuals' alternate options.

*We started as a low income scheme but due to design changes and you know it comes from the market people don't like a 40m<sup>2</sup> house because it's too small. They are all thinking about family and the problem is if you have a 40 m<sup>2</sup> house it's a starter but who gives you a 60 m<sup>2</sup> house in 5 years time. Nobody knows because housing schemes are so unreliable in Zambia and a lot of developers have failed and basically taken away quite a bit of down payments .....The information comes from the market. People don't want to stay in a 40m<sup>2</sup> house because they don't believe that in 5 years they can buy a 60m<sup>2</sup> house even if they would have the money for it.....I'm sure the informal sector plays a much bigger role and you know informal information you don't have. You just know if there's a proper house and proper infrastructure they will be able to afford it and they will by it. The problem in Zambia only is that because of this bad experience in the past nobody believes.... They need to see houses and not one. That's the problem we are facing in Lilayi. Even though there are show houses in the city..... the site needs to put up 50 or 100 houses to see ok, now its going and then the run will come on the houses because then people will believe. But the market testing only comes basically in the end so we have to take quite a bit of market risk in order to get it. If you don't take that then the project will not happen. Why have we taken that? Because our government has some special funding which they share with us and give us the authority to look after the project and they take the ultimate potential risk.*

**Manager Business Development Africa, FMO Field Work Interview**

The developer stated that they also faced the challenge of educating the consumer on feasible options in pursuing homeownership. They observed that there were elements of the project that consumers, through the market research conducted, had felt were not necessary, such as the formation of a home-owner's association. They, however, felt that this was important for the organisation of the community being developed. They indicated that through these experiences on the project they had gone through a

steep learning curve to appreciate the need for consulting the market to formulate a product that reflected their preferences and also to educate the consumer on realistic options.

### ***Access to Information***

Despite the existence of what could be an effective demand for new housing, respondents pointed to the problems in being able to assess this demand in a way that could be useful for making an investment. The private sector representatives highlighted that developers were not able to tell in a tangible way *who* was able to access the houses they would provide. They stated that the figures that the government used to indicate that there was a housing shortage were arbitrarily stated and that the government did not really know where the demand was, who was demanding what and who could access the supply that was being provided. They added that this presented difficulties for developers who needed to be able to furnish financiers with concrete information in order to convince them that a project was bankable.

The FMO representatives interviewed stated that in Zambia it had been particularly difficult for them to obtain reliable market data needed to make more informed investment decisions to enter the market. Either the data was not available or when it was, people were not ready to avail it to them because of “*getting their fingers burnt*” in the past as a result of giving out information. For the Lilayi project they had to rely on their own fact finding efforts by way of a survey of employees of the major formal sector employers to have an idea on whether the project could have significant demand for it to work. They highlighted the lack of market data as a very big problem in the Zambian case.

The Housing Policy of 1996 (MLGH) outlined broadly some statistics that gave an indication of the housing situation at that particular point in time. The policy stated – “*taking into account all the homeless families and the need to replace sub-standard dwelling units, the current housing backlog stands at approximately 846,000 units. To clear the backlog over the next ten years requires a building rate of about 110,000 dwelling units*”. The policy and subsequent documents produced after that did not clearly describe the type of units that were in short supply; the preferred tenure (i.e. rental or owner-occupied) or a clear strategy on how meeting this shortage would be achieved. Gardner (2007) in a report of a scoping study, *Access to Housing Finance in Africa: Exploring the Issues*, notes –

*“.....the documentation all talks about a ‘housing demand of 800 000 to one million units’, but it is difficult to obtain a reasonable calculation or quantification of this anywhere. Ambitious delivery targets have been set out, but the private sector is expected to deliver housing because there are no capital budgets. Other questions include: How much can households afford to invest in their housing? What is current practice in this regard? What is a ‘household’? How many households can afford what for housing? And what are their housing aspirations? There is limited knowledge of how people really operate with respect to housing transfers, rental and sales values, how many actually have de facto or de jure tenure over their land, how the kinship living arrangements work, etc. Zambia has one of the highest AIDS mortality rates in the world, yet no research appears to have considered how this affects housing (and will affect future housing lending and developments). Finally, how do Zambians house themselves? And how do they finance this process? Given the low levels of housing affordability and absence of formal housing finance mechanisms that are relevant to such low income people, the limited extent of informal (shanty) housing in Lusaka is surprising. Households seem to manage to build at least basic brick and mortar structures. No one really knows why they feel secure enough to do so, and*

*where they get the means to do so, and how they actually make this happen. It is difficult to build a housing financing framework on this knowledge vacuum.”*

This lack of tangible information that can be used to make investment decisions and also to define a strategy for progress presents to the developer a major constraint.

### **4.2.3 The Government**

The government action or in some case inaction was cited as one of the factors that presented hurdles in private sector activity in the housing sector. Government action here is looked at in terms of how it defines the legal and regulatory environment that supports the development process and the way the government participates or influences the production of housing through its direct participation.

#### ***The Legal and Regulatory Environment***

From the perspective of the consultants interviewed, the approval process for commercial housing developments was cited as particularly frustrating. The biggest hurdle, one of the private consultants cited was the change of land use application. They stated that to change the use of a piece of agricultural land, where most of these projects are cited to residential was easy. However, commercial projects, which brought in the aspect of mixed use (i.e. residential and commercial uses), brought in a whole new dimension to the process. The laws are not explicitly clear on the procedure for mixed use projects thus the process becomes difficult and complex for the local authorities to interpret and approve. Another reason attributed to this is that the local authorities are not empowered with the capacity and confidence to handle commercial projects, therefore approval requires the patronage of the ministry and lobbying at this level to progress. In addition, the process for developers building say over 500 houses is not differentiated from that for individuals constructing one house and takes a certain level of “*ingenuity*” on the part of developers to get their projects approved. The consultant highlighted that external investors failed to understand why the process took so long and offered the view that it presented a major disincentive for private investment. Reference was made to the fact that the process for commercial projects that were currently being undertaken in the city were conceptualised many years before but one of the reasons that they had failed to start on site was the impediments caused by bureaucratic hurdles.

A consulting engineer interviewed offered experiences on a different aspect of the planning and approval process. As a part of the process a developer was required to submit either an Environmental Impact Assessment or Environmental Project brief, depending on the size of their project<sup>25</sup>, to the Environmental Council of Zambia (ECZ). He stated that this was the standardised format for this to be done but pointed to numerous hurdles in the process. Firstly, the ECZ had capacity problems with

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<sup>25</sup> According to the Second Schedule (Regulation 7 (2) of Statutory Instrument No. 28 of 1997 (The Environmental Protection and Pollution Control Regulations), under the urban development category “designing of new townships, which are more than 5Ha or more, or sites covering 700 dwellings and above” requires an Environmental Impact Assessment. This is a process through which qualified Engineers undertake detailed studies on how a project would impact on the environment. It also involves a consultative period where members of the public are given an opportunity to air their views on a proposed project. A consultant engineer interviewed stated that to prepare an Environment Impact Assessment took between 4 to 5 months if the developer furnishes the necessary data required.

dealing with the number of projects that were submitted to them. On the one hand the institution called for an increase in the number of projects that required an EIA or EPB but on the other they had not put in necessary steps to ensure that the approvals were being done in a timely manner. Secondly, the high turnover of staff presented another hurdle as it meant that there was no continuity in decisions that the institution made which frustrated and slowed down the process. Finally, the interviewee observed that it seemed as if the process was becoming increasingly bureaucratic and the committee made certain decisions in a somewhat “*pedantic*” manner.

When asked about the process to get their projects going, the developer of the Meanwood projects stated that to obtain the necessary approvals (i.e. change of use approval, EIA and planning permission) for their first project took over 1 year. They stated that at the time various departments and organizations involved did not know how to handle the projects because of their scale. At the time they started the EIA was a new requirement which the developer felt was applied on their project in a selective way because on previous government projects this was not an obligation. They stated that the various planning authorities seemed uncertain about the process and it was also not made clear for the developer what was required of them. They described the experience as laborious and frustrating. However, they stated that for the current projects that they had embarked on the process had been easier and smoother as all parties seem to have had a clearer understanding of what to do.

The planning and approval process for the Lilayi project on the other hand was not, in the developer’s view, a significant challenge. This was in part due to the fact that they had experienced professionals handling the matter and that they had the support at both national and local authority level. They did, however, observe that in some cases the requirements seemed to have been applied selectively. They observed also that the municipality was severely understaffed which presented challenges in how the authority would be able to monitor projects of this size. The developer emphasised that the greatest hurdle for them in terms of the legal and regulatory environment was, as described earlier, with matters relating to financing the project.

### ***Government Production of Housing***

The role government played as a competitor in the housing market through direct production of housing was highlighted, by one of the developers as a major disincentive for private investment. In their opinion, in a free market economy the government needed to act in a way so as to stimulate private business which this action did not do. The consultants interviewed provided the opinion that even though the government participated in this way, they had not managed to contribute much to the housing sector by way of production through organisations like the National Housing Authority or through the Presidential Housing Initiative<sup>26</sup> (One of the housing sector professionals interviewed stated that the Presidential Housing Initiative was intended as a fund to stimulate construction in the housing sector.

One architect in private practice interviewed stated that a huge portion of the cost of the National Housing Authority houses covered the organization’s inefficiency and

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<sup>26</sup> A Private consultant interviewed pointed out that the Presidential Housing Initiative was supposed to be a fund to stimulate construction and not for the Government to actually construct houses and that it ended up being used for fraudulent purposes by the politicians.



that resources could be allocated to a much better use. A private project cost consultant interviewed put the current construction cost at approximately US\$300/m<sup>2</sup> (inclusive of taxes, builder's overheads and profit). The basic materials at this price being concrete foundation and floor slab; plastered and painted concrete block walls; PVC tiles; galvanized iron roofing sheets and steel window and door frames. At US\$350/m<sup>2</sup> the consultant stated that a ceiling could be included. Compared with NHA prices (see Box No. 09) this cost is almost half the price being offered by the housing authority.

#### Box No. 09 The National Housing Authority



**Medium Cost House, Nyumba Yanga, Lusaka**

*Source: Photo taken by author during Fieldwork*



**Medium Cost House, Nyumba Yanga, Lusaka**

*Source: Photo taken by author during Fieldwork*



#### Conditions

- All houses sold on pre-sale basis and the following payments are required:
  - 60% Minimum percentage of selling price as deposit
  - 30% Amount required when house reaches roof level
  - 10% Final payment when house completed
- Construction period - 10 months

#### **Nyumba Yanga Residential Area**

Type: Medium Cost House  
 Area: 100m<sup>2</sup>  
 Price: Approx. US\$63,000<sup>27</sup>  
 Cost/m<sup>2</sup>: US\$630/m<sup>2</sup>

#### **PHI – Chainanma Residential Area**

Type: Medium Cost House  
 Area: 100m<sup>2</sup>  
 Price: Approx. US\$69,500  
 Cost/m<sup>2</sup>: US\$695/m<sup>2</sup>

Type: Low Cost House  
 Area: 80m<sup>2</sup>  
 Price: Approx. US\$40,000  
 Cost/m<sup>2</sup>: US\$500/m<sup>2</sup>

*Source: Fieldwork Interviews  
 NHA promotional material*



High Cost (picture on left) and Low cost (picture on right) Nyumba Yanga Area, Lusaka

*Source: Photo taken by author during Fieldwork*

<sup>27</sup> Local prices converted to United States Dollars at Bank of Zambia Exchange Rate on 13 September 2007 of US\$1.00 = ZMK4,032.41 ([www.boz.zm](http://www.boz.zm))

### ***Political Interference***

Political interference was also cited as one of the major constraints in the development of the housing sector in Zambia. The respondents from parastatal organisations highlighted this as one of the challenges that they faced. A senior official interviewed from one parastatal organisation stated that they were constantly exposed to political risk in their operations. Due to the fact that their organisation was established by an Act of Parliament and the Board of Directors were appointed by the Government, the organization of the institution was always at risk of being subject to change which could affect the confidence that investors would have in the institution. The Treasury Manager of yet another parastatal institution pointed to the perceived risk of a change in political government. The growth of the housing market was dependent on the consistency of economic policy in the face of mortgage finance and relatively stable interest rates. The absence of this stability would only lead to distorted markets and an inability for organisations to plan beyond a 12 month period. Respondents in the building industry professionals category, pointed to the fact that political interference in the housing sector had led to the incapacitation of the Local authorities in being able to carry out their functions e. g. providing infrastructure. The resulting situation was that the support infrastructure necessary to stimulate private development was lacking. Finally, in looking at political interference as it related to, one of the respondents stated that for private commercial developments to be successful it was vital that investors had the support of the politicians. This presented the risk of commercial activity being frustrated by the political regime, a risk the respondent stated that could be generalised for the entire African region.

#### **4.2.4 Land & Infrastructure Constraint**

##### ***Shortage of Land for Residential Development***

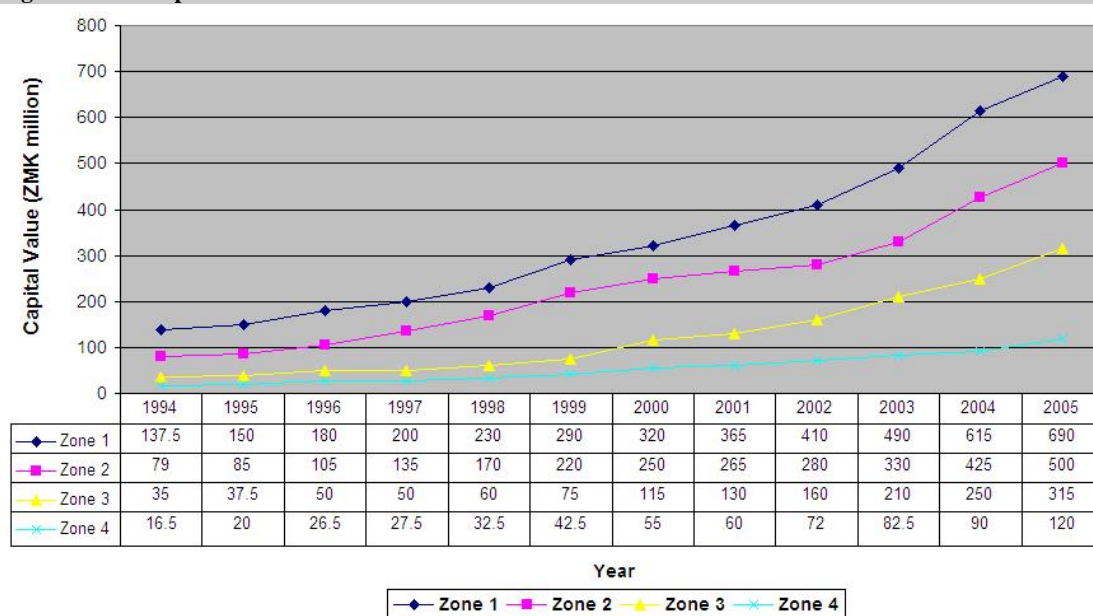
The shortage of land in Lusaka for residential development was cited as one of the constraints by all respondents involved in the industry in a professional capacity. This group of respondents emphasised the need for a realignment of land supply and tenure policies so that the favoured development in the sector. One private consultant, based on their extensive experience in the Lusaka housing market, stated that currently, there is no viable land available within a 15 kilometre radius of the Central Business District (CBD) for new housing development projects. The land that is available for development is approximately 20-25 km from the CBD, mainly in the outskirts of the city. They highlighted that a factor that further exacerbated the situation was that huge tracts of land were owned by individuals and had remained undeveloped for many years. Consequently, any new development was constrained and subject to the action of land owners who may or may not decide to use their land for residential development.

Additionally, the procedures to obtain land for residential development were cited as lengthy and expensive for the majority to be able to access. Shortages of both housing and land coupled with an increasing city population have resulted in significant increases in property and residential values. The graph below illustrates how the average capital values in the major residential areas in the city have changed from 1994 to 2005. The situation is such that areas that were designated for low income housing are now being taken up by higher income groups and the lower income groups are being forced out of the formal residential market. Pressures of an

expanding business population have also contributed to this increase in capital values with residential properties in areas around the CBD being taken up at a fast pace by commercial entities.

Both commercial developers interviewed, however, did not mention land as a problem. Meanwood Development Corporation Limited had entered into a successful joint venture agreement with a private owner for their projects that were currently active. The Lilayi Housing Estates developer is the owner of the land being used for the project<sup>28</sup>, thereby mitigating the challenge of having access to land. The developer highlighted that obtaining title deeds could have been a major challenge but through the project they were able to mitigate this with assistance from USAID. The development agency provided the funding for Ministry of Lands to set up an office in the developer's sales office, where they would be issuing title deeds for the project. This was seen as a necessary move for the developer to ensure that they transferred the units to the customer in the shortest time possible.

**Figure No. 11 Capital Values in Residential Areas in Lusaka from 1994-2005**



#### Residential Zones

Zone 1 High Cost	Zone 2 High-Medium Cost	Zone 3 Medium-High Cost	Zone 4 Low Cost
Kabulonga Sunningdale Cathedral Hill Rhodespark	Kalundu Jesmondine Olympia Roma Woodlands Prospect Hill	Northmead Long Acres Chudleigh Avondale Ibex Hill Emmasdale Chelstone Green Chainama Farview	Chilenge Libala Kabwata Kamwala Helen Kaunda

Source: Graph and table based on data collected and compiled by Davis Kabuswe, Valuation Surveyor, Bi-Trust Real Estate (research respondent)

<sup>28</sup> One respondent noted that this was one of the advantages that the Lilayi Housing Estates had over other prospective developers and one of the reasons they were able to leverage as much support on the project as they did.

### ***Provision of Infrastructure***

Even where land is available, though, it is more than likely that infrastructure is not. Consultants involved on the Lilayi project, estimated that the developer was going to have to put up approximately 25-30% of the project cost to cover infrastructure development. This would not only cover just the developer's land but also connections to the main infrastructure networks – i.e. roads and water supply.

The price that prospective consumers of the Meanwood projects pay does not include services such as electricity, water and sewerage but is for a demarcated plot with formal title and access to a basic road network<sup>29</sup>. The developer indicated that it was difficult for them to provide infrastructure that the local authorities were supposed to provide. They did, however mention that due to the successes of the projects they were involved in they had been able to provide water for their clients by way of sinking boreholes in various locations around the project sites.

The Engineering consultants interviewed stated that the utility companies generally had capacity problems which entailed that on housing developments, the developers had to take up infrastructure costs that should be taken up by the utility companies. The irony noted by professionals interviewed was that land owners continued to pay service charges to the municipalities even without ever receiving what they paid for. Where services had been provided it only occurred after plots had been taken up. The consultants cited as one of the problems, lack of co-ordination between the local authorities and utilities companies. They stated that when the local authority opened up an area for residential development plans what should happen is that the utilities are provided before people move in. Unfortunately, what happens is the reverse and residents are forced in many cases to provide their own solutions for services.

**Figure No. 12 Photos Showing Water tanks in a Residential Area in Lusaka**



*Source: Photos taken by author during fieldwork*

Water tanks in residential areas – signs of shortages or inadequate water supply. The photo on the left was taken in Avondale Residential Area (mostly medium and high cost properties) known for its water shortages. Residents drill boreholes to tap underground water and mount tanks such as that shown in the picture above to meet their household water requirements. The photo on the right was taken in an area recently opened up by the local authority. No water was extended to this area.

<sup>29</sup> Meanwood Property Development Corporation Limited project brochure.

#### 4.2.5 The Building Industry

The industry in Zambia has not had to support substantial developments in the country for a long period of time and hence lacks the skills and exposure required to be able to adequately support large scale development. This impediment was identified through all the interviews conducted. The consultants and professionals put forward that the industry was growing and this was evident in the growing number of medium sized builders. Exposure which resulted from continued workflow is generally lacking for most builders and this is reflected in the poor quality of work produced. They highlighted also that the supervisory role that architects and other professionals had to play in the process was also limited because of this lack of exposure. It was also cited that there was a desperate lack of professionals to drive the processes so that new initiatives in housing could move forward.

The Lilayi developer raised this factor as a big challenge for their project and highlighted that housing developments such as theirs needed to rely on local people and resources which, was difficult in Zambia. The developer highlighted that developing a product that is of satisfactory quality is difficult in an environment with limited building skills, persistent material supply shortages (see Box No. 10) and a limited professional pool to draw from. They stated that even though the builder on the project was one of the biggest in Zambia, they needed to be assisted in ensuring quality control, project supervision and management.

**Box No. 10 The Building Industry**

From independence in 1964 until the mid-1970s, Mashamba highlights that the Zambian construction industry grew rapidly due to public sector demand such as in the housing sector. Due to a decline in the economy and subsequent reduced public sector demand, the industry began to decline. The table below indicates the numbers the industry has employed from the period between 1996 and 2005 and also gives an indication of the industry's performance over this period. Mashamba further highlights that reduced formal sector housing production, formal employment levels and rapid population growth contributed to the emergence of an informal sector housing market and construction sector.

Table – Number of Persons Employed in the Construction Industry between the period 1964-2005

Year	No. of Persons Employed
1964	40,000
1974	71,750
1991	33,100
2000	36,562
2005	44,787

According to the National Council for Construction (NCC) current *List of Registered Contractors* ([www.ncc.org.zm](http://www.ncc.org.zm)) there are 41 contractors in Lusaka Province registered with the National Council for Construction under the Category Building Contractor/Housing. These range from Grade 1 (with an annual turnover > US\$7m) to Grade 4 (annual turnover between US\$482,000 – US\$2.4m). 28 of the contractors on the list fall in Grade 4 and there are only 3 contractors that fall in the highest Category No.1. Most of the contractors listed cannot handle large scale urban projects as they do not have the capacity to adequately be able to do so. The industry has however been recently recorded as the largest growth industry in the Zambian economy. The May 2006 issue of the *Construction News* (NCC), reported that as a percentage of GDP the industry increased its share from 9.4% in 1999 to 13.5% in 2005.

The development of the local construction industry is, however hindered by various constraining factors. The ILO (2004) indicates that these areas include the following:

- Limited access to finance
- Increased competition from foreign contractors
- Lack of technical skills
- Limited use of advanced construction techniques

***'Cement Blues Hit Construction'***

*The construction industry in Zambia has performed below average in the first half of this year. National Council for Construction (NCC) executive director, Sylvester Mashamba, attributed the sluggish performance to continued shortage of cement in the country.*

*Speaking in an interview in Lusaka recently, Dr Mashamba said he did not expect the situation to change in the second half of the year.*

*Dr Mashamba said despite an increase in the number of commercial banks offering mortgages and house loans, cement shortages have retarded growth of the construction sector.*

*"The sector performed below average and I don't expect this situation to change in the remaining part of the year. A lot of interest has been shown in real estate development but shortage of cement is hampering this growth," he added.*

*Dr Mashamba said there was need to explore the Chinese and Brazilian markets to mitigate the shortage of cement in the country.*

*He said as the country looks for alternative sources of cement in view of increased shortages for the commodity, the two countries presented the best options.*

*Dr Mashamba said it was unlikely that the country could source cement within the region because of increased construction activities in most countries.*

*However, he said importation of cement from the said countries would not bring immediate impact on the availability of the commodity due to the time lag of between 3 to 4 months needed for the commodity to land into the country.*

**Source:** Sinyangwe, C, 'Cement Blues Hit Construction', The Zambia Daily Mail, Tuesday 11<sup>th</sup> September 2007



### 4.3 Enhancing the Private Developer's Role

Through the in-depth interviews the respondent's views and perspectives were collected on how the developer's role could be enhanced and improved within the context of the Zambian housing sector. A number of varied views were expressed on how this could be achieved. (A summary of responses received is outlined in the table under Annex 1).

#### *Developers*

Views from the developers emphasised the need to create an environment of certainty and predictability. Legal and regulatory processes needed to be clear and less bureaucratic. Where the system was found lacking, they recommended that the government needed to be more open to understanding how it affected their operation and be committed in resolving the issues in the shortest time possible for the benefit of all parties involved.

Off-site infrastructure provision was highlighted by the Meanwood developer as a way that local authorities could play a positive role – especially the utilities. Where they were not able to do this, the authorities could provide an incentive by allowing developers to recoup their investment by way of collecting the service charges.

The developer of the Lilayi project highlighted government's positive involvement on their development. They stated that the government had been open to proposals to decentralise the titling process so that this could be done in the shortest time possible. They stated that it was through actions such as this that the government could play a more facilitating role.

In addition, and more importantly for this developer, was the need for government to work out how they could help private entities mobilise finance from external sources and bring it into the country. In so doing, the government would be assisting private actors in playing a role in increasing access to housing finance.

#### *Building Industry Professionals and Parastatal Organisations*

Respondents that represented both the professionals and parastatals shared similar views with each other on how policy could improve the role that private actors played in housing development. It was strongly emphasised that government needed to lead by way of giving direction in terms of planning; land distribution and allocation; finance and investment. There was also common agreement on the opinion that the government could do a lot more to help developers play their role. Current government action which stopped at planning approval was felt to be not enough of a role for any form of significant development. They viewed private initiatives as a positive advancement in the housing sector but were of the opinion that the government should lead in steering the way. In addition to this respondents felt that the government needed to be more supportive of all stakeholders in the housing process in order for them to play their identified roles efficiently and effectively. The local authority was highlighted as one such institution that had been incapacitated due to political interference. Measures to build their technical and decision making capacity needed to be instituted so that they could be empowered to participate in the

housing process. The parastatals placed particular emphasis on this point due to the fact that their operations, just like the local authority, were more vulnerable and constantly subject to uncertainty in the political environment.

Interestingly, all respondents in both these categories emphasised land mobilisation and allocation as a way of achieving this. The common method prescribed being through compulsory acquisition and then compensating landowners. Some responses highlighted the complexity in the Zambian case in dealing with land mobilisation and allocation. It was generally expressed in this regard that it was not balanced and not beneficial for huge tracts of the city's land to be in the hands of individuals and greater efforts needed to be put in place to break down the monopolies this created in land supply. It was however noted that this was a politically sensitive issue and required political will, which was currently lacking, to be able to be implemented.

Respondents in this category also expressed the common view that the housing development solutions and process needed to become more dynamic if there was to be progress. The pension and insurance funds were cited as a potential source of financing for housing development projects and institutions that held these funds had a greater role to play in stimulating this development.

The approval process and the legal and regulatory environment that supported it, was highlighted by the building industry professionals as an avenue through which a developer's role could be enhanced. They stated that currently the process was too bureaucratic and complex and that in order to make the process more predictable and support a developer's finance mobilisation efforts, it needed to be streamlined.

### ***Private Sector Representatives and Financial Institutions***

The main emphasis for this category of respondents was on the role that financial institutions could play in supporting enterprises and individuals have access to financing locally. The private sector representatives stated that the challenge lay partly in the hands of financial institutions to be more accommodating to enterprises and potential homeowners and also in government playing an increased regulatory role in ensuring the macro-environment was conducive for business. In addition to the above, they also stated the importance of having access to market data that would assist a developer to make more feasible and bankable plans to obtain financing. Finally they stated that there could be an avenue for progress in the housing sector through the regional trade and investment agreements that Zambia has with its neighbouring countries. Particular mention was made of financial institutions in South Africa that were looking to venture into an agreement with a local partner to invest in housing. The stability in the economic environment was attributed to this growing interest in the country.

### ***Government***

The Government institutions in their responses acknowledged their role as a leader in spear-heading and directing development and also in land mobilisation. To this end it was highlighted that the policy documents relating to the housing sector were being revised e. g. the land and housing policy and the integrated spatial planning policy document had been formulated. A land audit was scheduled to be carried out in an attempt to begin to identify land that could be used to open up development. In



addition, they stated that regulation and development control was necessary in the process which they stated they provided.

Secondly the government respondents stated that the economic environment was very important for private development. Through their policies to stimulate private enterprise, they stated that this was being pursued actively. They highlighted the reduction in borrowing from commercial banks as a way that Government was setting the stage for economic reform.

The respondents highlighted their constraints in terms of financial capacity and stated that this limited the measures they could implement especially in providing infrastructure and low cost housing. Through a presidential directive, it was stated that housing needed to be placed as a priority and it was hoped that this pronouncement would mean increased budgetary allocation so that the authorities could enable them carry out their functions.

#### **4.4 Stimulating Housing Production for Low-Moderate Income Market**

There are various limitations for private actors in the Zambian context in being able to meet the requirements of the low-middle income market. The cost of production is high and constantly increasing. The limitations are further exaggerated by the fact that the percentage of the population in formal employment is low and incomes, even if they are in employment are generally quite modest. On a project such as the Lilayi Housing Estates that relies on formal mechanisms for individuals to have access to finance, there is the further challenge that these mechanisms are generally inaccessible or not used as a preferred means through which housing can be accessed.

This next section highlights the measures that were put forward by the respondents as suggested ways of making privately produced formal housing more accessible.

*“Government would have to become a major player. You can not have a truly low cost in the private because of the element that the private developer needs to make a profit on. So that immediately starts putting up his prices. And the fact that he’s got a loan to pay back – loan repayments and profit.....that can not be truly low cost. For true low cost Government has to become involved in sustainable housing settlements. Government has got easy access to grants, to low interest loans. They would have to become major players in the drive for low cost housing. Right now I don’t believe there is a single low cost housing project going on in this country purely because government is standing on the sidelines. It’s got to be driven by the Government. They’ve tried with NHA, I don’t think NHA has produced a single low cost house. When we talk of low cost in this part of the world, you’re literally talking about people who are not earning any income at all or don’t have means to buy even a brick. That’s where the true low cost is and the challenge is that only government can provide that but not the private sector. Private sector can be brought in where government has out in land and services and private sector brings in expertise and builds these units and hands them over to government and gets his money. Not that the private developer starts selling off. He’ll never manage to sell to truly low income.”*

##### **Private consultant – Fieldwork Interview**

Private consultants shared the general opinion that before interventions could be instituted there was a need for the basics of the housing sector to function in order for

them to work. The only way this would happen was if the policy directed clearly the development of the sector.

### ***Land and Infrastructure Provision***

The most preferred option as a means of stimulating private activity was the provision of serviced land then the private actor's input would be limited to bringing in their building expertise and then hand over the units to the Government. One of the developers interviewed stated that for them to be involved in building housing for the low income groups this could be one of the ways in which they could partner with the Government.

### ***Tax Incentives***

The removal of Value Added Tax on the provision of building materials for home building was seen as a viable option to stimulate activity in the sector. The tax was seen as a burden on the home-owner and its removal would serve as an effective way of promoting home-ownership. The general opinion expressed by the industry consultants about tax incentives was that as an immediate measure this would be hard to regulate as the revenue authority tax inspectorate did not have the capacity to check that the benefits were going to a particular project. It was, thus viewed as a potential option if the system that supported it was efficient.

### ***Reducing the Burden on the Homeowner***

Instruments targeted at reducing the burden potential home-owners bear were suggested as another avenue that would stimulate not only production but also homeownership. Options suggested in this regard included the deductibility of home mortgage interest for those purchasing their first home. This would provide an incentive for people to borrow money to put into the economy and the authorities gain revenue from the Value Added Tax as a result of new home construction.

Secondly, it was pointed out that currently developers have to charge their customers VAT for providing the service of homebuilding. This measure was seen as penalizing individuals for owning a home. The removal of this requirement for homebuilders to charge this tax was seen as another viable measure that would make housing more affordable.

### ***Guarantees***

The use of guarantees as a way of reducing the risk of lending to potential borrowers was seen to be an effective option if they were locally driven initiatives. A number of respondents highlighted that the pension funds and insurance houses funds could come into play here. The private sector representatives pointed out that due to liquidity problems in the past pension funds were limited by regulation in the way they could invest. Both the industry professionals and financial institution representative interviewed stated that the amalgamated volume of these funds was quite significant and as a future direction in the housing sector they provided a potential opportunity. The government was seen as the best actor in this regard to steer the process to create a facility for the same. The financial institution respondent expressed optimism that there would be increased options available as the capital markets developed. They stated that the financial sector was actively looking into ways to developing a secondary market as a way of generating alternative solutions to

finance long term developments. On the use of guarantees, in their opinion, the use of this instrument was best used in a situation where financial institutions could be certain that individuals would not default on their loans. They stated that for financial institutions this was a critical issue and a challenge for Zambia in using these mechanisms.



## Chapter 5 Conclusions and recommendations

The Government has given various indicators showing that it seeks to stimulate and provide an environment to facilitate private enterprise to lead in the productive sectors of the economy. The adoption of pro-market economic policies gives an indication of this. This desire, however, has not been reflected in reality in the housing sector. Numerous environmental barriers exist that prevent ease of entry into the market. The Meanwood and Lilayi housing projects in Lusaka are a testament of this as they currently enjoy monopoly-like status in the market where large scale private commercial developments are concerned. In addition there are numerous factors that act to discourage potential developers that have the capacity from entering the market.

### 5.1 Constraints & Challenges

#### *Finance*

Limited access to and affordability of finance for investment presents a major constraint in the development of private-led commercial initiatives. These limitations in the Zambian context mean that only large enterprises with adequate capacity to meet the requirements of the financial institutions are able to participate actively in the Zambian context. Secondly, where significantly large amounts of funding are required for a housing development project the capacity of the local financial markets is not able to support these initiatives by way of providing financing. External funding then has to be sought which as the research identified is a complex and costly process.

#### *Land and Infrastructure*

Where a developer is able to influence landowners into deciding what to do with their land or in the Lilayi/Meanwood case the developer is owner of the land then availability of land not an issue. Land becomes a matter of concern in consideration of the titling process. The title deeds are a necessary pre-requisite for property transfer and mortgage financing. The Zambian environment presents a major constraint in this regard as its land administration processes are complex, lengthy and expensive. It is noted that on the Lilayi project the Ministry of Lands has agreed to decentralise its operations and set up office in the developer's sales shop. This initiative will do a lot to improve the process for the homeowners and institutions involved on the project. The initiative however would be more beneficial if it was done in such a way that it would benefit any other developers or individuals that are to come on to the market. Should it remain as an initiative that benefits one project then it serves to promote monopolistic tendencies in land supply.

The lack of off-site infrastructure to support commercial development projects is highlighted as a major constraint. Areas that are available for large scale developments are located at a considerable distance from the main infrastructure network. It must be noted here that no major investments have gone into the city's infrastructure network since installation. The municipality and the utility companies fail to meet the infrastructure requirements of the growing urban population. Projects such as Meanwood that stop at providing the basic road infrastructure highlight this challenge. A shortcoming of the project is that individuals have to use their own

initiative to gain access to public services such as electricity, water and sewerage. This puts into question how sustainable the resulting housing settlements will be in terms of the quality of environment considering for example that the projects are to comprise over 5000 plots (the Kwamwena project for example comprises 7 500 plots). Achieving a solution that results in a fully serviced plot requires the input of the municipality and utility companies in providing off-site infrastructure that the developer can connect to. Projects such as this at a considerable distance from the existing grid commonly present this challenge for developers. The situation is further constrained by the fact that the Local authorities are slow to take up cost recovery initiatives presented by the developer e.g. the local authority forfeits its service charges until a developer is able to recoup an investment in public infrastructure. The up-front financing a developer has to put up, therefore has to cover this cost of providing public infrastructure. Where a developer has no incentive to do so results in unsustainable housing settlements where individual households create their own initiatives for service provision.

### ***The Building Industry***

The limited capacity of the building industry (builders and professionals) in its activities in the housing sector was also indicated in the research as providing constraints for commercial developments. This affects the production time and output of initiatives such as this and implies that the developer has to be prepared for the implications of this on their financing arrangements and obligations. It is stated that increased exposure to a continuous stream of projects will increase the capacity and capabilities of the industry. Projects such as these therefore present that opportunity to stimulate development in this regard especially where a developer makes use of local builders and professionals. In addition to this the research highlighted the materials supply industry as severely constrained. The limited use of substitutes or alternative technologies for production makes the cost of housing a constantly moving target. This therefore precludes predictability in the investment environment and adds to the risk involved in entering the market.

### ***Demand***

Firstly, and as the research has identified, effective demand for housing produced in the formal market does not exist at very high levels. Formal employment and income levels are generally low with only a small percentage of the population with incomes that allow them to be able to access formal housing solutions.

Secondly, there is limited information available on the demand – what is its capacity to be able to afford? what are the demand preferences for housing? The only point of reference is the formal employment market which can be seen in a tangible way and documented but in view of the statistics is considerably small. A more likely source of evidence of the effective demand is the informal sector that has contributed more to allowing the city's residents to solve their housing problems than the formal sector has. The problem with this sector is that there is no information available on its activities or on how people are mobilising finance to build their homes.

Commercial developers therefore enter the market based on the assumption that the effective demand for their solutions exists but without really having an idea of what this demand actually looks like. The observation that the model the Lilayi Developers

created was not “*demand-driven*” could be an indication of this fact. The developer formulated a model and then presented it to the market which, as it was found later, had different preferences. Luckily for the developer in this case the project is at a phase where they can make adjustments.

The research highlighted that employees in government/quasi-government institutions and employees in financial institutions would be the likely market in the formal sector for conventional home-ownership schemes. Alternatively high income earners that could afford the housing produced even without assistance or individuals that purchase for investment purposes e.g. with the intent of putting the property on the rental market could also be potential consumers. For the Lilayi project that emphasises the affordability aspect to promote its product, this would minimise the objective of the development – i.e. providing affordable housing for middle income earners. The statistics highlight that the highest monthly average income is approximately ZMK3.3 million (*Table No. 10*). Looking at the prices of the conventional units on the project, the rental and also informal market would most likely be a more workable option in meeting housing needs of the majority in formal employment (see Annex xx for prices). The promotion of home-ownership schemes minimises the role that the rental market plays in helping households solve their housing solutions. None of the current schemes provides this option to households as a way of bridging that stage from when households enter the housing market through the rental market to when they are able to afford to pay for owning their own home. The Lilayi project probably will do this indirectly if for example an individual buys the property to earn an income from rent or when a household decides to move from the community but still maintain their property for an extra income.

The presence of a large informal housing market presents a challenge for projects such as Lilayi Housing Estates that use formal financial mechanisms to allow a potential consumer to finance their home over a long period. The developer must be applauded for the fact that they allow a homeowner to open a savings account with them and save over a period of time until the homeowner has raised a sufficient amount towards a deposit. This reduces the burden on the homeowner to raise the large amount of finance for their house immediately. It also allows the developer to assess whether the borrower has the capacity to pay for a mortgage in a situation where the borrowers’ credit history is not available. It is not possible at this stage to tell whether this would have the effect of increasing the willingness of the demand to pay for the product on offer. However, looking at indications of the number of Zambians that have access and uses these types of financial services, the challenge remains for the developer to be able to convince the market that this is a viable option to meet their housing needs.

### ***Government***

Despite Government’s proclamations that their role is to create an “enabling environment” for private actors to participate effectively, the constraints identified in the research dispute this.

The research identifies that the Government has to play an increased role in directing development. This direction has to be in terms of serviced land creation, allocation and delivery; macro-economic reform and investment policy. Currently Government action in the sector does not direct or actively participate in directing how

development should proceed to benefit the majority of the population. The implementation plan that accompanies the current housing policy (which is over 10 years old) has remained in draft form since it was formulated and has never been implemented. Actions such as this reduced government pronouncements to political rhetoric that frustrates all actors involved in the sector. The capacity of the agencies involved is limited due to government interference in their activity. The agencies that should be leading the housing processes in cities are not granted decision making powers or given the financial capacity to be able to play their identified roles. For example, even though private initiatives are positive developments in the sector, the Government has to ensure that the solutions identified promote healthy and sustainable settlements. The current capacity of the local authorities does not allow these government agencies to do this effectively.

Even where the private sector prevents an opportunity to play a role that government clearly can not do there seems to be a lack of understanding on how the housing policy environment can facilitate such actors to be effective in their roles. The research highlights that the current legal and regulatory structure does not support private initiatives. In the cases highlighted the initiatives have moved faster than the outdated legislation that currently governs all matters in the sector. - from mobilisation of finance for large scale developments to the planning and approval process to get the projects started. It is therefore difficult to interpret solutions being formulated and created in the current environment into reality. Reconciling private initiatives and government requirements is a difficult process to go through. Instead of supporting and helping the developer to move ahead the bureaucratic process presents major hurdles that frustrate the development objectives. In addition to this as the process is usually lengthy it adds unexpected costs which could have been better utilised within the project itself.

Finally, the Government competing in the market by producing housing through the National Housing Authority is seen as a major disincentive and a missed opportunity for government to stimulate private activity. By playing contradictory roles in the sector the Government does not clearly indicate.

These constraints in one way or another reduce the ease of entry into the market by smaller developers, thereby limiting competition that is necessary for promoting more affordable housing. They also provide major disincentives for attracting additional private investment and for enhancing the role of this actor.

## **5.2 Instruments to Intervene**

The theory that supported this research highlighted that the effects of the housing policy environment and action can be seen through the housing market. With regards to developing an effective supply-side strategy theory promotes improving market efficiency using the following instruments:

- Provision and maintenance of residential infrastructure
- Regulatory environment that supports efficiency and competitiveness in land and housing development
- Improving the development and efficiency of the building industry



The research identifies that in the Zambian context these would provide the greatest scope in improving the efficiency of the housing market. Specific interventions identified from the research that would enhance the private developer's role in this regard are those that achieve the following:

- Providing direction through policy on key aspects of housing sector – land and infrastructure development; finance and investment policy
- Making entry into the market easier
  - Reduce the bureaucratic hurdles
  - Review key legislation to ensure it is up-to-date with current practices in housing development
  - Streamline planning and approval process
- Increasing Government's role as facilitator in the housing process and not as producer

In addition to the above the theory also highlighted the use of subsidies as a way to intervene in the sector to influence “pro-poor” housing outcomes. The research identified that reform efforts to ensure efficiency in the housing market were a priority for the Zambian housing sector. The use of subsidies to influence housing outcomes could only be instituted when

1. Reform in the sector was initiated
2. Government realised it had to play a leading role in this regard

There was an identified need, however, for interventions such as this that promoted and increased access by the low-income majority to housing produced in the formal sector. To this end the research concluded that there was need for innovation in the housing sector to increase options available.

- Encouraging and influencing in a pro-market way increased innovation in the financial sector to create products tailor-made to support local private enterprise and also potential home-owners.
- Also promoting housing products and solutions that reduce the gap between the formal and informal sectors.

## **5.4 Recommendations**

### **5.4.1 Housing Analysis and Assessment**

Before any efforts at reform can be instituted there needs to be a clear data set to be able to get a clear idea of what is happening in the housing sector. The IDB (2004) highlights a useful assessment tool that policy makers can use to analyze and assess both the informal and formal housing market. The Housing Market Assessment tool provides an extensive framework within which actors at the policy making level can gather significant amounts of key data on the country's housing market. The idea is to create a data set that can be used by:

1. The government to create a comprehensive policy
2. Lenders to create tailor made products for the market;

3. Developers to create housing solutions that meet the needs of the market within the required framework
4. Market lenders to develop financial products suited to the local context

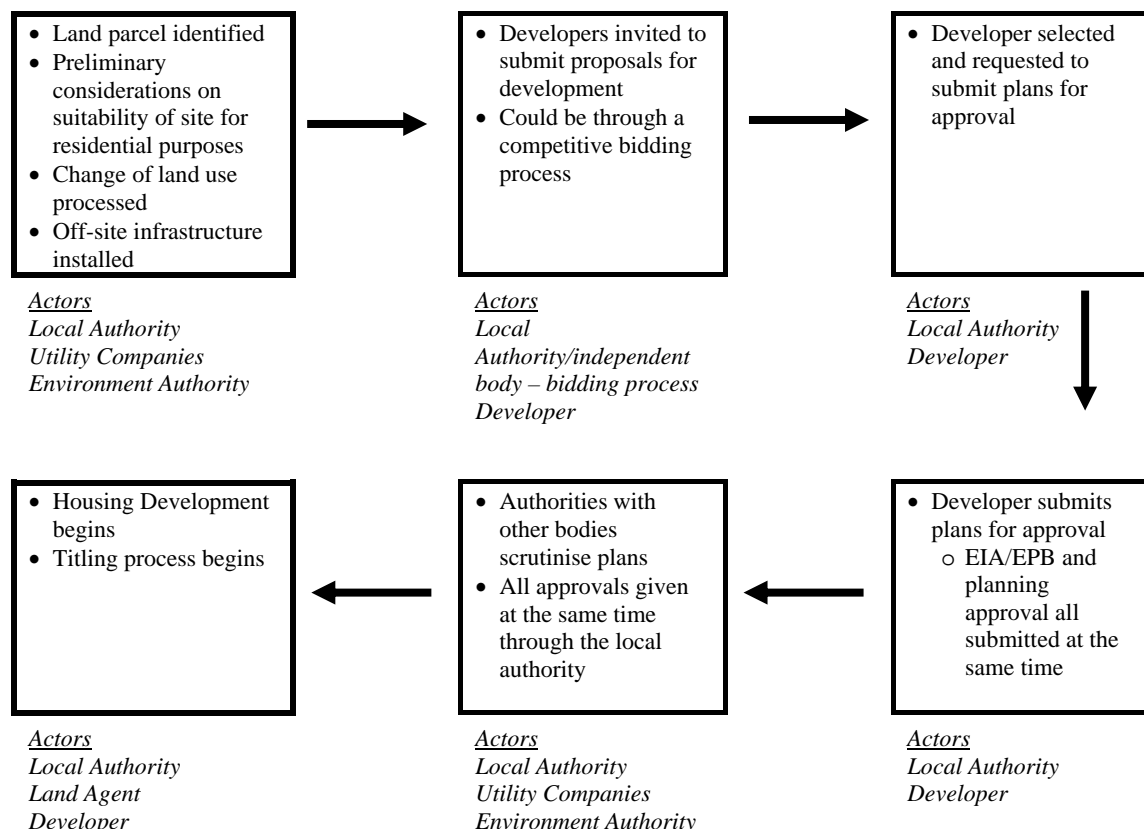
At a most basic level and as Gardner (2007) highlights this information should include quantitative and qualitative data on the following:

- The current housing conditions and arrangements
- Supply-side assessment – suppliers and financiers of housing; capacity of supply
- Demand-side assessment – effective demand

#### 5.4.2 Housing Policy Environment

Revisions are required in the legislation and regulations that govern the sector. These projects have provided key lessons and experiences from which the actors can draw from to begin to formulate a framework that is supportive of private investment. The process of streamlining the approval process is key in creating market efficiency. The figure below gives an example of how this can be done for a housing development. To improve efficiency a standardised model can be formulated so that developments above a particular size are handled in a similar way.

**Figure No. 13 Suggested Housing Development Planning & Approval Process**



### **5.4.3 Capacity Building**

Capacity building is crucial for all actors in the housing development process to be able improve skills and understanding of the functioning of the housing sector and their identified roles. This is especially required for the following actors:

**Local Authority** – can be empowered through decentralisation (decision making authority and increased financial capacity). Key actor in streamlining the approval process; providing planning direction and monitoring developer activity

**Building Industry Professionals** – training; increased access to opportunities in the building sector; research

**Financial Institutions** – increasing capacity to offer products and services that stimulate rather than inhibit growth in the formal sector; capacity building required for them to have a greater outreach to the lower income levels of society

**Developers** – increased capacity required to understand requirements and needs of the local context and for them to be able to produce solutions that take this into consideration; increase the capacity also of smaller local private developers to make a contribution and increase competition in the sector

### **5.4.4 Advocacy Solutions that Bridge the Gap between Formal and Informal Markets**

Greater advocacy of solutions that bridge the gap between the formal and informal sector is required e.g. providing incentives for developments that promote rental accommodation as an option for households just entering the housing market. This also includes promoting home-ownership schemes that are more accessible to a greater majority of the population.

## **Final Remarks**

The developers currently active in the housing market have succeeded in developing solutions that have not been attempted by other private firms, a feat which the developers have to be commended for. The scale of these projects adds a beacon of hope to a housing market that has been starved of new supply in the formal market for a very long period of time. The decision for these investors to persevere in pursuit of making these projects a reality sets a stage for and will probably influence positively, increased activity by other actors that had dismissed this option as possible. The presence of international development organisations on one of the projects will also contribute positively in giving an indication to other potential investors that can contribute to the housing sector. The confidence that these organisations have in making long term investments in Zambia will add strides to the country's pursuit of increased private investment. The opening up of the economy to private investment coupled with the glaring gap that has existed in supply for the low-middle income market has opened the door for these investors to participate in the sector.

In order for these positive developments to have an impact on the greater majority of the population the actors involved have numerous challenges ahead of them. The Government needs to be able to identify its true role as facilitator in the market in order for it to adequately set the pace and direction for development. Private actors on the other hand need to be prepared to meet the challenge of developing solutions that are sensitive to the needs and context of the environment that they participate in.

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## Annexes

## Annex 1 – Affordability Guide Lilayi Housing Estates

Credit Advance Term Years	15		
Credit Advance Interest Rate %	14%		
	1 Bedroom	2 Bedroom	3 Bedroom
Cost of Houses	170 000 000	195 000 000	285 000 000
20% Deposit	34 000 000	39 000 000	57 000 000
Closing + Ins	7 708 250	8 648 250	12 032 250
Total Upfront amount	41 708 250	47 648 250	69 032 250
Monthly Payments*	2 140 808	2 441 957	3 526 090
Minimum Verifiable Gross income	7 645 744	8 721 273	12 593 180
30% Deposit	51 000 000	58 500 000	85 500 000
Closing + Ins	7 121 750	7 975 500	11 049 000
Total Upfront amount	58 121 750	66 475 500	96 549 000
Monthly Payments*	1 889 932	2 154 187	3 105 504
Minimum Verifiable Gross income	6 749 758	7 693 525	11 091 086
40% Deposit	68 000 000	78 000 000	114 000 000
Closing + Ins	6 535 250	7 302 750	10 065 750
Total Upfront amount	74 535 250	85 302 750	124 065 750
Monthly Payments*	1 639 056	1 866 417	2 684 918
Minimum Verifiable Gross income	5 853 772	6 665 777	9 588 992
50% Deposit	85 000 000	97 500 000	142 500 000
Closing + Ins	5 948 750	6 630 000	9 082 500
Total Upfront amount	90 948 750	104 130 000	151 582 500
Monthly Payments*	1 388 180	1 575 648	2 264 331
Minimum Gross income**	4 957 786	5 638 028	8 086 898
Cash Purchase Price	170 000 000	195 000 000	285 000 000
Closing Costs	2 676 250	2 876 250	3 596 250
Total Cash Purchase Price	172 676 250	197 876 250	288 596 250
Other monthly payments***	50 000	50 000	50 000

\* Includes monthly life insurance charges, home owners association and admin fee.

\*\* When depositing 50% and above, we will not verify your minimum gross income, a signed statement of income and expenses will be sufficient.

\*\*\* Home Owners Association fees

Source: Developer's Website – [www.lilayiestate.com](http://www.lilayiestate.com)



## Annex 2 – Respondent's Views: Fieldwork

**Table No. 09 Respondent's Views – Enhancing and Improving Private Actor's Role**

<b>Category 1</b> Developers	<i>Infrastructure Provision</i> <ul style="list-style-type: none"> <li>• Provision of utilities</li> <li>• Where government cant provide put measures in place where developer can recover their money e.g. local authority forfeits service charges until developer recoups investment</li> </ul>	<i>Approval Process</i> <ul style="list-style-type: none"> <li>• Make less bureaucratic</li> <li>• Streamline so process is faster and easier</li> <li>• Make clearer what is required</li> </ul>	<i>Regulatory Framework</i> <ul style="list-style-type: none"> <li>• Revision of legal &amp; regulatory framework as it relates to investment</li> <li>• More assistance required to enable foreign investment to be made</li> </ul>	<i>Government Participation in Sector</i> <ul style="list-style-type: none"> <li>• Government to redefine its role in participation from competitor to enabler</li> <li>• E.g. through NHA with inputs from developers can refocus to fining out &amp; understanding and create environment that could make it easier to invest in housing development</li> </ul>
<b>Category 2</b> Building Industry Professionals	<i>Policy</i> <ul style="list-style-type: none"> <li>• Policy needs to shape and clearly state direction of land use; planning; investment and finance</li> <li>• Political will needs to exist to implement policy</li> <li>• Economic Policy – interest rates need to come down to make housing more affordable</li> </ul> <i>Innovation in Housing Solutions</i> <ul style="list-style-type: none"> <li>• More institutions to play a role so sector can be more dynamic – raising finance locally through pensions and insurance funds for financing housing projects</li> <li>• Create tailor-made application process for large developments</li> </ul>	<i>Land Mobilisation &amp; Allocation</i> <ul style="list-style-type: none"> <li>• Government to lead in land allocation &amp; mobilisation - should not be left to individuals</li> <li>• Government to identify land; process legal land acquisition requirements (e.g. change of use) and request for development proposals from developers</li> <li>• Mobilise land by way of compulsory acquisition and compensation</li> </ul> <i>Financial Institutions</i> <ul style="list-style-type: none"> <li>• Local financial institutions need to be more receptive to financing development projects and be more willing to take a risk</li> </ul>	<i>Infrastructure Provision</i> <ul style="list-style-type: none"> <li>• Need to be more committed to providing infrastructure</li> <li>• LCC needs to be more innovative in ways to collect revenue so that they can raise funds for infrastructure</li> <li>• More commitment from national government in allocating budget funds to LCC so can provide infrastructure</li> </ul>	<i>Building Industry</i> <ul style="list-style-type: none"> <li>• Capacity building of professionals in the industry – education and research so that they can take a lead in housing development process</li> </ul>

**Table No. 09 Respondent's Views – Enhancing and Improving Private Actor's Role continued .....**

<b>Category 3</b> Private Sector Representatives	<i>Market Data</i> <ul style="list-style-type: none"><li>• Market information needs to be made available &amp; government can play a role in doing this e.g. information on civil servants eligible to housing loans; data on citizens entering the employment market</li></ul>	<i>Finance</i> <ul style="list-style-type: none"><li>• Financial institutions need to be more accessible to the majority to stimulate production i.e. to developers and individuals</li></ul>	<i>Government Infrastructure</i> <ul style="list-style-type: none"><li>• Provide infrastructure</li><li>• Provide direction by way of land allocation</li><li>• Improve and streamline land acquisition process (e.g. land titling)</li></ul>
<b>Category 4</b> Government	<i>Regulatory</i> <ul style="list-style-type: none"><li>• Guidance in the approval and permitting process – offers assistance to developers so that they know what is required</li><li>• Supervisory role</li></ul>	<i>Policy</i> <ul style="list-style-type: none"><li>• Policy guidance – key policy documents currently being revised (e.g. land &amp; housing policies)</li><li>• Actively working on city development plans</li><li>• Economic reforms – e.g. reduced government lending to increase liquidity in commercial banks</li></ul>	<i>Land Mobilisation</i> <ul style="list-style-type: none"><li>• Land audit to be undertaken soon so that land banks can be created</li><li>• Opening up land for development – pilot programme started in 5 districts to identify 100 plots which will be serviced by NHA</li></ul> <i>Infrastructure</i> <ul style="list-style-type: none"><li>• On-going discussions on implementation of programmes to put up infrastructure</li></ul>
<b>Category 5</b> Parastatal	<i>Predictability</i> <ul style="list-style-type: none"><li>• Create certainty in housing sector by removing political interference</li></ul>	<i>Government Action</i> <ul style="list-style-type: none"><li>• Land mobilisation through acquisition and compensation and then request for proposals from developers</li><li>• Make housing a priority sector</li><li>• Implementation of existing policy to be taken seriously</li></ul>	<i>Finance</i> <ul style="list-style-type: none"><li>• More active regulatory role from government to improve macro-economic environment</li><li>• Financial institutions to be more supportive by lending to promote productivity</li><li>• Improve and streamline land acquisition process (e.g. land titling)</li></ul>
<b>Category 6</b> Financial Institutions	<i>Economic Reform</i> <ul style="list-style-type: none"><li>• Government to aggressively pursue and ensure that economic fundamentals are in place so that business can be stimulated i.e. energy costs; inflation; interest rates</li><li>• Increased consumer awareness to be pushed forward by financial institutions to educate consumers on formal financial mechanisms</li></ul>		