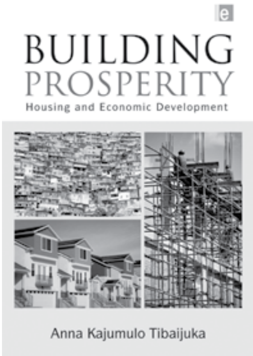

BUILDING PROSPERITY

HOUSING AND ECONOMIC DEVELOPMENT

EMBARGOED - EMBARGOED -
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CASE STUDY

HOUSING IN GHANA

Over the past five decades Ghana policymakers have made major shifts in the way they view the importance of housing and its links with economic policy and development. The historical shifts in approach first covered 1945 to 1966, 1967 to 1982 and then from 1983 to the present.

HOUSING AS A SOCIAL SERVICE: 1945-1966

During the early post-war period, the government saw its role as providing basic services to build the social infrastructure needed for development. Housing and related health projects were the earliest of these to be funded and retained a high profile in the country's development phase of 1946 to 1956. During this period, the yearly budget for housing averaged 7 per cent to 9 per cent. However, government still saw housing as a social service and played down its possible direct contribution to the economy.

EXPANDED VIEWS ABOUT HOUSING: 1967-1982

That view began to change after 1966. Successive governments between 1967 and 1982 accepted that housing programmes had the potential to create jobs and generate economic growth. That link was clearly spelt out in the 1975/1976 National Development Plan – one of the most far-reaching ever formulated in the country: *A good housing programme provides substantial employment opportunities and builds up a reserve of skilled labour and artisans who would be available for other related constructional works. It also stimulates the development of natural resources which are basic to the housing and construction sectors and has a multiplier effect on the economy.*

Such views were consistent with the general shifts of international opinion, including in the World Bank, which at the time had started to acknowledge the economic importance of housing in its annual reports.

INTEGRATION OF HOUSING INTO MACROECONOMIC POLICIES: POST-1983

From 1983, the government introduced numerous housing sector reforms. More broadly, the changes were rooted in liberalization ideologies sweeping the world in the 1980s and 1990s. The most important initiative during this reform phase included: State withdrawal from direct housing production and financing; stimulating the growth of the real estate sector, that is the indigenous private sector; liberalization of the land markets and the building material industry; encouraging rental housing; creating new housing institutional reforms, notably the Home Finance Company.

Jointly established through a USD 10 million World Bank contribution and a Social Security and National Trust assistance fund of USD 16.4 million, the housing company was originally a private limited liability firm licensed to operate as a non-bank secondary mortgage institution. It became a public firm in 1994 and was subsequently listed on the Ghana Stock Exchange in 1995. The company's goal was to mobilize and manage a long-term housing fund for the economy.

Although partly government-owned, the company applied market principles and was integrated into the capital market. This enabled it to rally huge savings for the housing and other economic sectors. Currently, it is the largest housing mortgage institution in Ghana and has made steady progress in delivering homes and mobilizing funds. By the end of the 1990s, the company's mortgage inventory was valued at USD 25.5 million and comprised 3,241 mortgagors.

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As part of the national economic reform, the housing sector is linked to macroeconomic and urban development policies. A key goal is to encourage growth of the formal private sector to mobilize capital for development and increase housing stock. As a result, the following incentives have been offered: reducing the corporate tax from 55 per cent to 45 per cent; declaring a five-year tax holiday for real estate developers; exempting individuals buying homes from real estate developers from paying stamp duty; reducing sales tax on locally-produced building materials from 20 per cent to 10 per cent; allowing companies investing part of their profits in real estate to offset up to 50 per cent of such investments against the following year's liability.

Real estate developers can also apply for specific incentives from the Ghana Investment Promotion Centre. These measures aim at increasing housing supply and expanding financial investment into the housing industry and, ultimately, to promote economic growth.

One positive economic impact of this policy is a sharp increase in the number of real estate developers. Before the reform, formal public sector and small-scale informal operators dominated the building industry. Liberalization caused a housing investment boom. From 1994 to 2005, the Investment Promotion Centre registered more than 80 real estate projects with total investments in excess of USD300 million. The building and construction sector is now the third largest target of foreign investment. It has accounted for between 7 per cent and 9 per cent of national output since 1995, reaching 8.5 per cent in 2000, compared with only 2.3 per cent in 1985.

A remarkable feat of the reforms is that private developers have sustained the growth in homes built. On average each year separate large developers build 200 homes; and medium and small developers about 100 and 25, respectively. By 1997, one large private company had built over 8,000 homes in Accra, the capital. Privately-built unites have increased about tenfold since the beginning of the reform policies.

This experience holds important lessons: First, confining housing as a social sector denies the government a powerful economic tool for robust growth and job creation. Second, government policy must thus integrate housing into the macroeconomic framework on a sustained and long-term basis. Third, Ghana's successful enabling policies of tax exemption and creation of a competitive mortgage industry has given way to an expanding and competitive building industry. And using housing policy as a tool of economic development helps to attract domestic and foreign capital and generate streams of benefits other than the traditional shelter role.