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Research Article

Financing Informal Housing Provisioning in the Kumasi Metropolis of Ghana

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Abstract
Inadequate housing supply is one of the biggest challenges facing both developed and developing countries today with housing finance being a critical factor. The informal sector is the largest housing supply system in Ghana but has not been able to meet the increasing housing demand. This is partly because of inadequate and ineffective financial mechanisms for financing informal housing provision in Ghana. The Study therefore investigated the major financing mechanisms used by the informal sector and factors which hinder their access to formal credit facilities. A cross-sectional research design was adopted for the Study. Simple random sampling was used to select the ten communities whilst the convenience sampling method was used to select the homeowners. A total of 310 interviews were conducted out of the total determined sample size of 392. The major findings emanating from the Study included the dominant use of informal source of housing finance; the existence of an underdeveloped mortgage market; and uneasy access to formal credit facilities from financial institutions. These have led to homeowners building incrementally and hence delay in housing completion. The Study therefore recommends microfinance for housing, site and services scheme and a non-mortgage lending facility for the informal sector.

Keywords
Housing—Housing Finance—Housing Supply—Informal Sector

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1. Introduction

Housing as a social need is vital to the socio-economic development of every country [1]. The housing sector is generally accepted as one of the most important determinants of the economic and social wellbeing of people. The need to provide adequate housing cannot be over emphasized and its importance can hardly be exaggerated [2] . Derban et al. posit that the availability of adequate and decent housing enhances good living conditions and productivity of all individuals [3]. Housing does not only satisfy the physical and biological requirement of man but also upholds his dignity and improves his quality of life [4]. Unfortunately, the provision of housing worldwide has not been able to meet demand [5]. This lag can be attributed to the population surge which has more than doubled in numbers in recent times [1].

Most developing countries are confronted with the problem of accommodating the rapidly growing population especially in their urban areas and Ghana is not an exception [6]. The inadequate housing stock and the lack of basic housing requirements induces stress and affects the living conditions of households as well as productivity [3]. One of the major problems facing housing delivery in Ghana is finance. The unavailability and inaccessibility of housing finance mechanisms has been identified as one of the important hurdles in improving housing delivery in the country [7]. The UN-Habitat defines housing finance as the provision of financial resources for home ownership [8]. King also refers to housing finance as the money used to build and maintain a nation's housing stock [9]. That is the money one need to pay for it, in the form of rents, mortgage loans and repayments. Housing finance mechanisms are machineries that make available the efficient and effective housing finance to the general public, particularly to low-income groups [8].

There are two main sources of finance in the housing finance system [10]; the formal and informal sources. The formal source consists of government budgetary allocation and financial institutions in the form of mortgages. The informal sources include personal/family savings, individual money lenders, and remittances from family members.

Currently government plays a double role when it comes to financing housing delivery [11]. The government plays a direct role through the construction of public/mass houses but it is mostly not realized due to the lack of funds, lack of coordination and policy abandonment due to change in government. The government also plays an indirect role by creating an enabling environment through tax policies which includes tax subsidies for real estate developers and subsidized interest rates for borrowers from financial institutions associated to housing finance (e.g. Ghana Home Finance Company Ltd).

The liberalization of the housing market has facilitated the involvement of the private sector in housing delivery. The private sector currently produces over 83 percent of the total housing stock in the country [12].The private sector is divided into formal and informal sectors. The formal sector includes the real estate developers and cooperative societies. The formal sector actors provide only a few thousand dwellings in a year [13]. The informal sector consists of individuals who engage in housing provision for themselves. Given the apparent trends in most of the developing countries, there are indications that the bulk of urban housing in these countries will continue to be produced by the informal sector [14]. This is because the formal sector construct housing projects for individuals to purchase them but this approach mostly exempt the poor and the middle income earners due to the high cost of the houses. There is therefore the urgent need for efficient and effective housing finance systems for the informal sector since finance plays a key role in housing delivery stemming from the fact that the informal sector is by far the largest housing supply system in most urban areas in Ghana.

It is in line with this that the Study focuses on housing finance by the informal sector: The financing options available to the informal sector and how the informal sector access funds for their housing projects as well as what can be done to improve efforts in housing delivery by the informal sector using the Kumasi Metropolis in Ghana as a case study.

2. Materials and methods

Across-sectional design was used for the Study to take snapshots of the population about which data is gathered. The Study made use of both secondary and primary data sources. Secondary data was obtained from research materials, journals, government development plans, policies and other documents on housing finance, housing finance systems and the informal sector. Primary data was garnered through survey by administering questionnaires and interviews. The primary sources of data were obtained from various relevant institutions (e.g. the Ministry of Water Resources, Works and Housing, the HFC Bank Ltd etc.) as well as respondents from the study areas. The primary data collection gathered information on issues pertaining to housing finance from these sources. In addition to the interviews, observations were made and photographs taken to check for inconsistencies in responses.

The unit of analysis in the Study were residential home owners who financed their housing projects by themselves, officials of the Ministry of Water Resources, Works and Housing, some selected Financial Institutions which included HFC Bank Ltd, UBA, Ecobank, Merchant Bank and Barclays Bank, officials of the Town and Country Planning Department Social Security and National Insurance Trust (SSNIT) and officials of the Statistical Department of the Kumasi Metropolitan Assembly. Both probability and non-probability sampling methods were used in the Study. The simple random sampling (probability sample method) was used to select ten communities in the Kumasi Metropolis. Asawasi, Breman, Pankrono, Dichemso, Asuoyeboa, Ayeduase, Atasomanso, Amakom, Gyinyase and Bohyen were the communities selected. Houses in each of the communities were grouped into indigenous, estates and peripheral areas and data collected from each of these groups to get more insight into the Study.

The purposive and convenience sampling techniques (non-probability method) were used to gather information from The Ministry of Water Resources, Works and Housing, Financial Institutions, Kumasi Town and Country Planning Department, SSNIT and the Kumasi Metropolitan Assembly. The financial institutions that were purposively selected were the HFC Bank, Barclays Bank, Ecobank, Merchant Bank, United Bank of Africa and Fidelity Bank. The convenience sampling technique was used in selecting the homeowners who financed their housing projects and were readily available and accessible in the communities as most homes were not occupied by their homeowners. The research was operated at a 95 percent confidence level with a 5 percent margin of error. A total of 310 interviews were conducted out of the total determined sample size of 392 as shown in Table 1.

Based on the research questions, themes were identified from the data and derived inductively from the theoretical framework. The identified themes were given meaning through descriptive account and interpretative analyses. The themes were analysed and presented in the words of the respondents and in some cases, direct quotes were used to embody the voices of all identified and interviewed stakeholders. Again, the findings are

Table 1. Sample Size of Communities

Communities	Sub-Metro	Planned Sample	Respondents (Actual Sample)
Gyinyase	Asokwa	25	10
Dichemso	Tafo	25	22
Amakom	Subin	33	33
Breman	Suame	87	90
Pankrono	Manhyia	67	50
Ayeduase	Oforikrom	15	15
Atasomanso	Nhyiaeso	21	10
Asuoyeboa	Kwadaso	36	10
Bohyen	Bantama	17	10
Asawasi*	Asawasi	66	60
Total		392	310

*Now part of Asokore Mampong Municipal Assembly
Source: Author's Calculation, 2014

presented in charts, graphs and tables to make it easier for analysis and understanding. Photographs were used to support observations made. These ensured a more reliable and credible research findings.

2.1 Study Area

Geographically, the study is focused on Kumasi; the second largest city in Ghana after the national capital, Accra in terms of population, social life and economic activities. Kumasi is the capital of the Ashanti region of Ghana. It covers an area of approximately 254 sq. km. [15] with a population of 2,035,064 [16]. The Kumasi Metropolis is made of ten sub metropolitan areas with each having its own unique housing characteristics. Kumasi has an estimated housing stock of 93,989 in 2014. As indicated in Table 1, one community was selected under each of the sub-metros in order to have an insight into what pertains in all the sub metros. The distribution of the communities within the sub-metros is shown in Figure 1. Contextually, the study is on housing finance by the informal sector in Kumasi. It looks at the housing finance mechanisms used by the informal sector and the factors that hindered their access to formal credit facilities. The focus is on residential housing units with emphasis on private individual ownership.

Figure 1. Study Areas in Their Respective Sub-metropolis

Source: Kumasi Metropolitan Assembly (2010)

3. Results and Discussion

3.1 Housing Occupation and Mode of Finance

An effective housing finance system enable households to accelerate the purchase of and construction of houses and facilitates an efficient allocation of resources between housing, other goods and savings over the life cycle [17]. With readily available and accessible funds from the financial institutions; the informal sector can easily access housing credit facilities for their housing projects thereby increasing housing delivery in the Metropolis. The Study revealed that respondents who went in for formal loans from financial institutions are those in the formal employment sector. This is because the nature of their jobs guaranteed them to be able to access formal credit facilities. It was again realized that people in informal employment prefer using the sale of their assets, remittances from family members and informal loans for their housing finance in addition to their personal savings. That is, due to the inadequate and inaccessible finance mechanisms, the informal sector prefers to use informal sources to finance their housing projects.

The informal sector is constraint by the fact that their activities are associated with risks such as insecure and undocumented incomes and the lack of collateral to the financial institutions thereby making their access to credit facilities very difficult. Customers of the financial institutions are granted credit facilities based on qualification which varies from one financial institution to another. Whilst for someone has to be a salaried worker and not necessarily an account holder, for others one must specifically be a customer with a salaried account with the main concern being the ability to pay and the source of income. People who are into small and medium scale enterprises are not given credit facilities even when they are account holders unless their businesses are registered. The informal sector finds it very difficult to have access to credit facilities from financial institutions due to the immense conditions involved which they are unable to meet due to the nature of their jobs.

3.2 Financing Housing

The way houses are built reflects the way they are financed because the methods of financing determine the modes of construction [18]. Housing is either formally or informally financed. Informal sources of finance include savings, loans from relatives and friends, remittances from family members and the sale of assets with government funds from budget allocation and housing finance institutions constituting the formal source of finance. Different sources of finance were used for different stages of the building processes in the Study communities. Even though homeowners use a combination of different sources

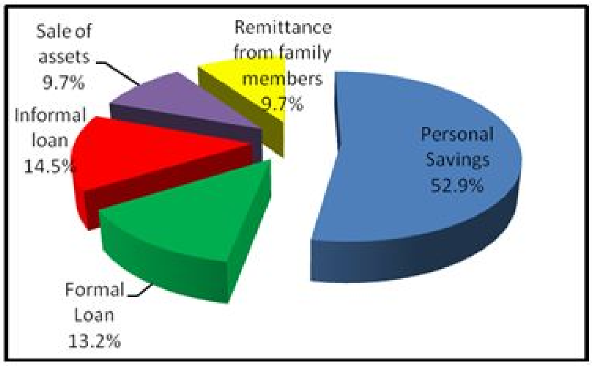

Figure 2. Source of Finance

of finance to construct their houses, at a particular stage in time, they used one major source.

The survey results show that that 52.9 percent of the respondents used their own personal savings to construct their houses whilst14.5 percent used informal loan to finance their houses. About 13.2 percent used formal loan whilst sale of their assets and remittances from family members constituted 9.7 percent each. This implies that as high as 86.8 percent finance their housing informally and accessed informal sources more than formal sources for their housing projects as shown in Table 2.

Access to credit facilities from financial institutions to the informal sector is difficult in the study communities partly because of the risky nature of their jobs. The informal sector therefore depends on the sale of assets which includes plantations, vehicles and shops amongst others to finance housing projects. The Sector again depends on informal loans in the form of soft loans from family members, relatives, friends, employers, money lenders with a flexible payment schedule compared to that of the financial institutions. Figure 5 depicts the sources of housing finance.

Source: Field Survey, 2014.

3.3 The Housing Finance Mechanisms that Provide Access to Credit Facilities to the Informal Sector

Information gathered from the financial institutions revealed that with the exception of HFC Bank Ltd., all the others do not have any housing loan facility but rather have general loan facilities that they offer their qualified clients in the Kumasi Metropolis. This is because housing mortgage market in the country as a whole has still not been fully developed.

Out of the 24.2 percent of respondents who had ever approached a financial institution for credit facilities, only 13.2 percent had their loans approved for them from which 7.1 percent were engaged in formal employment activities. The study further looked categorized the financial institutions that the respondents accessed into three: commercial, rural and microfinance institutions which and represented 6.8, 3.9 and 2.5 respectively. For the 6.8 percent who accessed from commercial, 3.9 percent were into formal activities whilst the remaining 2.9 were engaged in informal activities. Out of the 2.5 percent who accessed microfinance, 2.2 percent were into informal activities. This showed that microfinance is a very viable option for the informal sector in housing delivery if is it fully developed.

The conditions set by the financial institutions prevented most homeowners from accessing credit facilities for their housing projects. Out of the 13.2 percent of the respondents who accessed formal loans, 10.0 percent used their assets such as farm plantations, plots of lands, shops and vehicles as collateral before they were able to access the loan facilities from these financial institutions. About 0.3 percent was account holders and therefore only had to provide guarantors to endorse the application forms. Even with that the individual must have saved with the financial institution for a long period of time with monthly installment made over a particular time frame. The remaining 3.0 percent were salaried workers who had salaried accounts with the financial institutions. They therefore did not need collateral but rather a percentage of their salaries were deducted every month for a period of 1-5 years.

Table 2. Length of time for Loan Finalization

Length of Loan Finalization	Frequency	Percentage (%)
Less than a month	7	2.3
1-3 months	20	6.5
4-8 months	8	2.6
9 – 12 months	4	1.3
More than a year	2	0.6
Not applicable	269	86.8
Total	310	100

Source: Field Survey, 2014.

The survey results revealed that the repayment scheme of the loans taken were spread averagely across a period of 2-5 years depending on the amount involved, the income of the individual and the interest rate. Deductions or payments are done on monthly basis

3.4 Factors that Hinder Access to Formal Housing Credit Facilities

The survey results revealed that people in the informal sector have limited access to credit facilities from the financial institutions to enable them put up or continue with their housing projects. They are faced with problems which include reliability requirements and loan terms from the financial institutions. From the survey, 24.2 percent of the respondents had ever approached a financial institution for a credit facility with 13.2 percent being granted. Figure 6 displays reasons why the 11.0 had their loans not granted. Source: Field Survey, 2014.

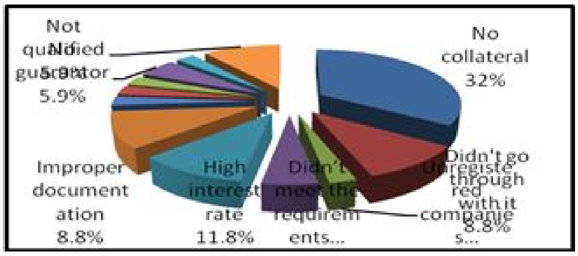

Figure 3. Reasons for Non-Approval

3.5 Effects of the Finance Mechanism on Housing Delivery

A much larger proportion of households have to finance housing from savings or build incrementally and at a low standard because upfront finance that would allow them to purchase a higher quality home and pay for it over a longer period is not accessible [19]. The problem of access to formal finance for housing projects in the study communities has made homeowners resort to incremental building. About 91 percent of the respondents built their houses incrementally. It took 40 percent of homeowners between 6-10 years to complete their housing projects whilst 19.7 percent used 11-20 years.

Here, two kinds of incremental building process were observed: building in horizontal slices and building rooms at a time (Figure 8 and 9) constituting 75 and 25 percent respectively. The survey revealed that it is extremely difficult if not impossible for the informal sector to make outright purchase of houses in the Kumasi Metropolis. Prospective homeowners therefore prefer to acquire pieces of land and undertake land development incrementally or in a piecemeal fashion. This is in corroboration to the assertion that incremental building fits the livelihood strategies and conditions of the poor and it accounts for 50 to 90 percent of residential development in most cities in developing countries [20].

The study indicates that some homeowners preferred to acquire building materials first before starting with construction, whilst others preferred to build one or two rooms at a time, occupy it and continue with the construction as and when funds are available. Respondents lamented that incremental building is both expensive and ineffective as it greatly increases the construction cost of dwellings with the structure becoming aesthetically and functionally obsolete on completion.

4. Conclusion

The study sought to find out the existing housing finance system that pertains in the Kumasi Metropolis for the informal sector. It was realised that majority of homeowners use informal means such as personal savings to construct their houses. This is because the risky nature of informal sector jobs limits their access to formal credit facilities. Conditions such as collateral and high interest rate set by the financial institutions also prevent the informal sector from accessing loan facilities. This has contributed to the high housing deficit in the Metropolis and Ghana in general as the informal sector accounts for majority of housing delivery in Ghana generally. It is therefore important to improve the existing housing finance mechanism so that the informal sector can fully participate in housing provision. With appropriate, effective and efficient measures, the housing deficit situation can be greatly improved.

5. Recommendation

The following recommendations are hereby made to for the improvement of the current housing finance mechanisms for the informal sector.

1. **Microfinance for Housing:** It has been realized that the model of complete developer-built houses purchased through long term mortgages, is not attractive to low-income households. Microfinance for housing can provide a steady flow of credits in steps for housing finance. The informal sector can adapt easily to this step lending feature of housing finance. In this case, when the former loan is repaid, a borrower becomes eligible for another and often larger loan. Each step loan can be used to finance a particular stage of the house. This will be more affordable and favourable to the people in the informal sector. The financial institutions should have a credit risk management guidelines with policies, procedures and methods for measuring, monitoring and controlling borrowers. To ensure its affordability, financial institutions should come into terms with their clients as to the loan amount they can manage and arrange feasible terms of payment which will suit them.

2. **Informal Sector Non-mortgage Lending:** Since the informal sector plays a major role in housing delivery, emphasis should be made on increasing their efficiency through suitable finance systems unlike the current mortgage arrangements. The characteristics of the finance system must include sustainability at any level of demand, ability to accept collateral which is not real estate and lending periods of no more than a decade. With the job insecurity of the informal sector, payments will be difficult if the lending period is over a decade coupled with instability of the economy which may cause interest rates to rise. Since most homeowners build incrementally, the loans should be released in stages for the purchase of the land lease and financing the various stages of building. This will reduce the debt burden to a minimum during the building process.

3. **Site and Services Schemes from the Financial Institutions:** Sites and Services schemes are the provision of plots of land, either on ownership or land lease tenure, along with a bare minimum of essential infrastructure needed for habitation. It has been realised that providing a complete serviced house cannot be afforded by most low and middle income households. Therefore focus from supplying a fully serviced house to that of providing only serviced land will be a lot better to improve the housing situation in Kumasi Metropolis. An example of this kind of arrangement is the habitat scheme and cooperative schemes where individuals are provided with a serviced land and pay a small percentage in the beginning and subsequently the remaining amount in installments. The financial institutions can also partner with real estate developers to provide serviced plots and affordable housing opportunities for their clients.

4. **Implementation of a National Housing Policy:** Currently, the nation does not have a housing policy that covers the informal sector. Over the years, government focus has been on the mass construction for the low and middle income earners which have failed abysmally. It is therefore important now more than ever for the government to focus on formulating and implementing a comprehensive housing policy that will suit the informal sector since they constitute the majority in housing delivery in the country. The housing policy should streamline cumbersome and insecure land acquisition procedures. This is because these bureaucratic processes take a chunk of the funds for housing project even before it begun.

5. **Formation and Empowering Community-based Groups:** Community-based groups should be formed and strengthened to help improve housing delivery. Individuals in communities can organise themselves into groups such as social club contributions and community schemes to develop, rehabilitate and manage housing stock in an efficient and professional way. Individuals in these groups make contributions and lend their expertise to support each other in carrying out housing projects.

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