



# Urbanization and informality in Africa's housing markets

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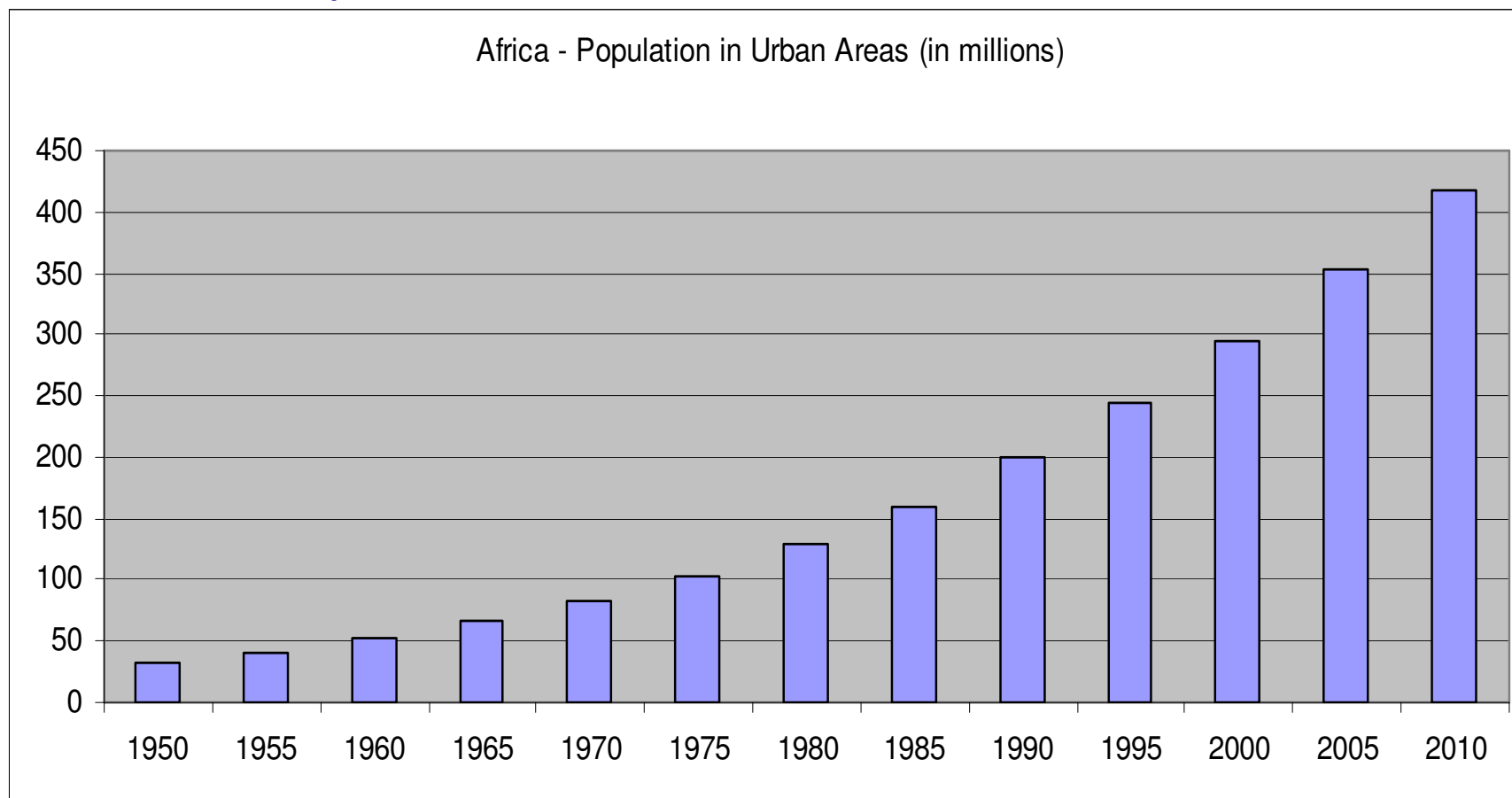
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# Urbanization in Africa

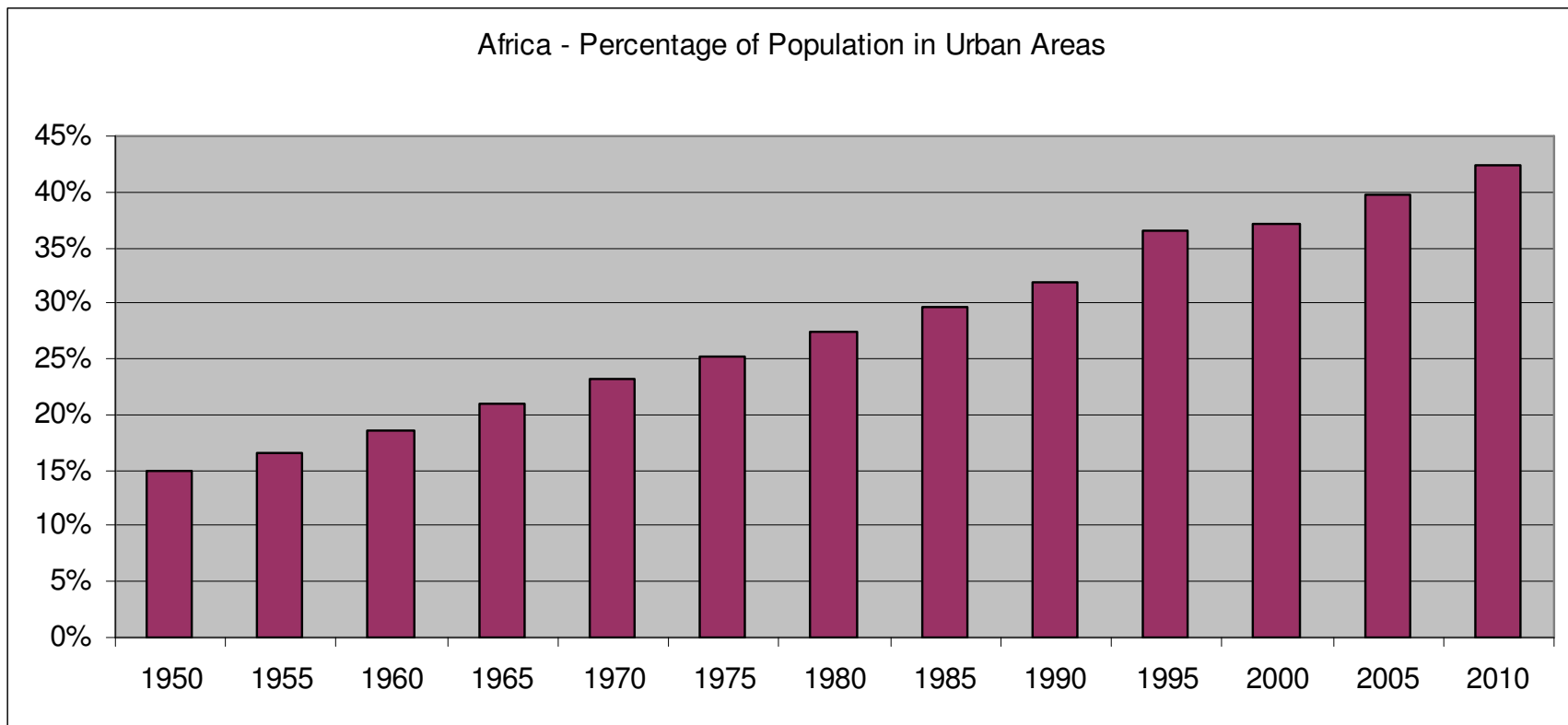
- Growing phenomenon
  - Strong demand for urban/peri-urban land
  - Rising prices
  - Increasing demand should result in formal-sector market response
  - Formal-sector response limited by various government interventions
  - Is this market failure?
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# African urbanization – projected to be 750 million by 2030



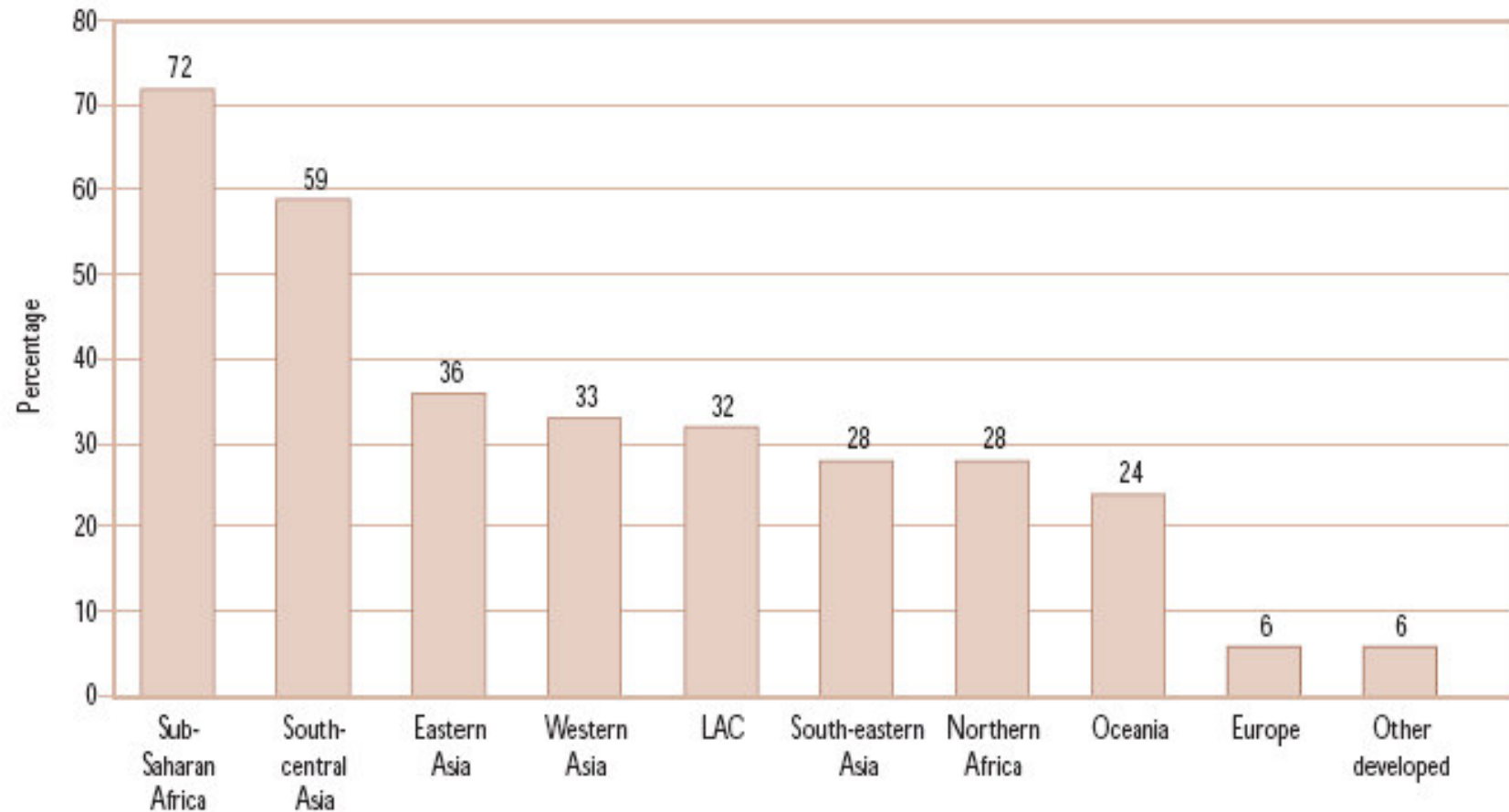
Source: World Urbanization Prospects: 2003 Revision/UN

# % of population living in cities



Source: World Urbanization Prospects: 2003 Revision/UN

# Most housing is in the informal sector



UN-Habitat, *The Challenge of the Slums*, 2003, 15.

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# Informal/slum housing

- Is the growth of slums evidence of market failure?
    - Formal sector has “systematically failed” to provide low-income housing (Berner, 2007)
    - Greed helps explain results
    - Not enough profits in this segment of the market
    - Therefore, need social housing and state intervention to solve the problems
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# A history of state intervention

- Colonial & post-colonial governments have been involved:
    - Land nationalization
    - Land-use planning
    - Regulation of construction & development
    - Government provision of land & housing
      - Through public housing
      - Through site & service schemes
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## Past interventions

- Nigeria, Egypt, Cote d'Ivoire, South Africa, built housing (crowding out private sector?)
  - Malpezzi & Sa-Aadu (1996) find little evidence of increased supply or lowered prices
  - Bureaucrats determined who would get housing, housing went to better-off, not the poor
  - Projects routinely abandoned
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## Land nationalization

- Between late 1960s & early 1980s, 20 SSA countries nationalized land
  - Creates conflicting/confusing administrative oversight
  - Odubajo: “Rationale . . . . Was that the government should act as the primary agent for the country’s development.”
  - Occupancy rights distributed based on political expediency/personal gain
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# Nationalization

- Blocks legal evolution:
    - Rising population pressure led to evolution of customary land law towards individualized rights (Boudreaux, 2005)
  - Signals investors:
    - Property rights potentially insecure
    - Government must make clear & credible commitment to respect long-term leases/certificates of occupancy
    - Little commitment, little incentive to invest
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# Results

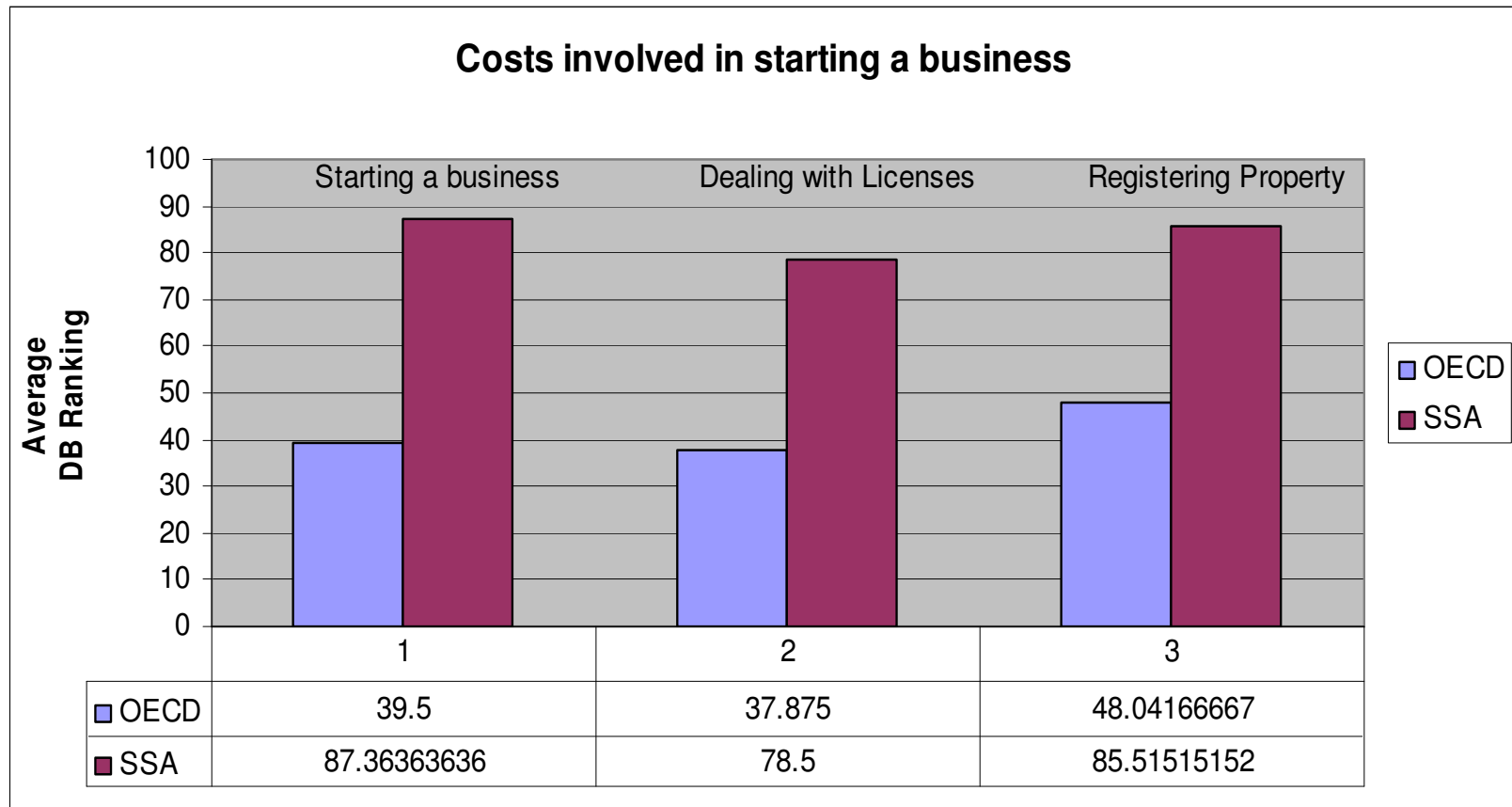
- Regulation, nationalization, administrative burdens lead to high transaction costs
  - Land available for development limited:
    - On nationalized land
    - On communal land
  - Formal-sector development limited as a result
  - Developers move to higher end of market/move to informal sector/exit market
  - Results in expanding informal housing market
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# Challenges

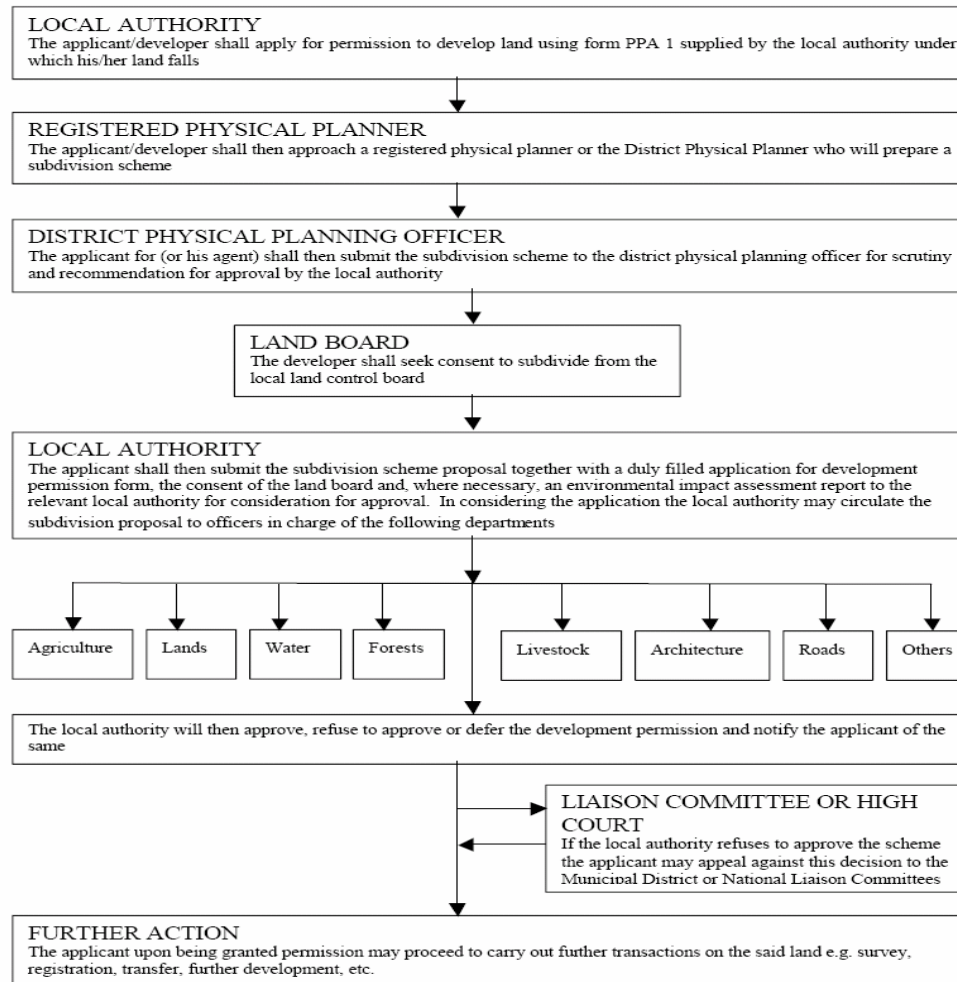
- Informal settlements seen as “chaotic” & unplanned
  - Therefore, UN & NGOs call for more government planning to provide services & meet needs of the urban poor
  - Is more urban planning the answer?
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# Doing business costs in SSA v. OECD



# Burdensome planning requirements

Figure 3.5 A flow diagram for subdivision of freehold land within a municipality



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## World Bank notes:

- “unrealistically high standards for subdivision, project infrastructure, and construction *make it impossible to build low-income housing legally. . .*”
  - Informal settlements are spontaneously evolved solutions:
    - ❑ To limited supply of formal-sector housing
    - ❑ Reflect need to be close to jobs
    - ❑ Social networks develop
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# Alternatives to planning

- Improve tenure security
    - ❑ Compensate private owners
    - ❑ Recognize residents
    - ❑ Provide some form of guarantee
    - ❑ Credibly commit
    - ❑ Work with/empower local residents to upgrade infrastructure
    - ❑ Enable housing microfinance
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# Conclusion

- Government interventions create high transaction costs for formal-sector housing development
  - Remove barriers, don't create new ones
  - Lower transactions costs for both developers and residents
  - Empower local citizens with tenure security
  - Empower locals to provide more infrastructure and other services
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Thank you

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