Rwanda: National Forum on Sustainable Urbanization

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Affordable Housing Finance

Opportunities, Options, and Challenges
Structure of the Talk

• Start with Challenges – to Provide Context;

• But intertwine Opportunities;

• Finally, Consider some of the Options.
But, first some comments on the Discussion so far.

• Paul Collier told the story of the components of investments in urbanization – housing, infrastructure, commercial.

• The first is done by households, the second by government, and the third by firms. The third occurs last.
Collier’s Perspective

- In most African cities, households have gone first without the infrastructure;
- Rwanda has the opportunity to change this order with potentially enormous gains;
- I agree, but for government to go first requires some “bets” to be made;
- Such as: Where to put the infrastructure and how much?
These “bets” are Important because:

If too little is done ....
These “Bets” are Important because:

If the wrong things are done....
There are an Almost Infinite Number of Ways to Proceed

• What I would like to do is to use the international experience to subject some of the options discussed yesterday to debate;

• The idea is not to identify the “correct” options, but rather to highlight some of the issues implied.
Now to My Outline

1. The Challenges....
1. Some Challenges with Respect to Housing

• Topography in Kigali is such that half the land cannot be built upon;
• Seventy percent of structures are informal housing and are single-story; and
• Population growth is very rapid and will continue.
First Challenge: Housing in Kigali is and will remain an Expensive

Limited land supply and lack of vertical construction means it is very difficult to accommodate increases in demand.
First Challenge: Housing in Kigali is and will remain an Expensive

But this challenge contains an opportunity: Land value is probably very high -- a significant price distortion that has been used, to fund development, as indicated by Mihaily yesterday in Singapore and China.
Second Challenge: Despite Rapid Growth Income Levels are Low

• Rwanda’s per capita income level places it 203 out of 228 countries. $15,000 units?

• Its rural population works on small farms which are declining in size, and among the most congested in the world; and

• The greatest share of the poor is accounted for by farm wage workers, the lowest share by non-farm wage earners.
Second Challenge: Despite Rapid Growth Income Levels are Low

This situation is one in which urbanization will take place, large increases in urban population are likely.

As Somik suggested, many aspects of this process won’t be pretty.
2. The Opportunities...
First Opportunity: **Jobs** and Kigali

- Kigali is one of the most livable cities on the continent;
- It has land that can be developed in the central city; and
- It is close to potential commuting cities.

In short, it has the potential to become one of the leading Cities in the region.
Urbanization and Jobs

Which jobs?

Quite simply, no one Knows... but we do know that without urbanization middle income status is impossible.
African Urbanization: Lions on the Move?
African Urbanization: Lions on the Move?

Not if their cities are not affordable, and government doesn’t move on infrastructure.
Realizing the Jobs-Housing Opportunity

To make the expensive city more responsive the supply of housing must be transformed— the city must go up and go out:

• Taller than single story buildings are needed; and
• The periphery should be expanded efficiently.
Becoming a City with Taller Buildings

If this transformation can be managed “Going up in height” will allow valuable land value to be realized which can pay for funding those adversely affected.
Comparative density profile in the built-up areas of Moscow (1992) and Paris (1990)
Becoming a City with Taller Buildings

• It will also allow the city to be more productive. Taller buildings will allow one of the most important assets in the economy to be priced much more effectively; and

• It will allow the city to cope more effectively with the coming population shift.
Becoming a City with Taller Buildings

• Care is needed:
  • Multi-story building is not the custom in Rwanda;
  • Fairness is extraordinarily important. Communities must be involved, and start with situations in which current residents gain;
  • Finally, and most importantly, if not well-managed, transformation can result in the failures noted earlier.
Becoming a More Expansive City

• Making the periphery accessible. It is not physical distance but commuting distance that matters – better transport systems;

• It is the design of a periphery that is coherent rather than ad hoc and inefficient – e.g., “the Most Audacious Forecast in Social Science.”
3. The Options

Housing Policy in a Bottle
3. Some Options: “Dos” and “DON’Ts”

First,

• **Do** upgrade some portion of the informal stock – increasing height as done in Nairobi -- with an eye towards expanding supply and improving conditions;

• **Don’t** subsidize the development of expensive housing. Save subsidies for the poor and those adversely affected by the transformation.
“Dos” and “DON’Ts”

Second,

- **Do** expand the city with clear road layouts, sites and service pilots, and improved transport nodes to near-by cities.

- **Don’t** construct expensive housing designed by the public sector. The public sector is disadvantaged in providing and designing housing.
“Dos” and “DON’Ts”

Third,

• **Do** provide infrastructure to places where housing can be developed, and make public land available for development;

• **Don’t** have the public sector buy land for development. Role of RSS’ fiduciary role, and RHA’s expenditures for the poor.
“Dos” and “DON’Ts”

Fourth,

• **Do** focus on ways to reduce the high interest rate. Lots of options, once again, care is needed, but enormous margins will prevent transformation – Thai example;

• **Don’t** have the public sector take undue risks – such as investing in developing cities in slow growing areas.
How to Proceed?

• I don’t have a great deal of confidence that my so-called “DOs” and “DON’Ts” are accurate for Rwanda;

• Many are nuanced and require more clarity, but debate and argument among friends can be productive.
Thank You.