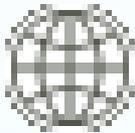


# Increasing Affordable Housing in Rwanda

Presentation to National Forum on Sustainable Urbanization  
in Support of EDPRS2



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# Rwanda National Objectives

- To control the urbanization process
- **To meet the needs of the urban population as a whole in term of land and services, and to prevent the formation of new unplanned settlements**
- **To facilitate planned access to shelter especially for the low and medium income groups**
- **To improve the living conditions of the populations living in existing informal settlements**
- To encourage private sector participation
- To strengthen the institutional and financial capacities at both the central and local levels



# Key Questions

- Demand and Supply: How can the housing gap be addressed?
- Affordability: How can housing be made more affordable?
- Quality: How can Rwanda improve its housing stock and provide safer housing?
- Government Programs: Are the Government's programs in line with its policy objectives?
- Information: Is there enough information to analyze the market so that programs and policies can be tailored to specific needs?

# Rwanda's Strengths and Challenges

- Strengths
  - Density is lower than many metropolitan areas so there is more opportunity to build; Kigali similar to Atlanta
    - Rwanda cities density per km<sup>2</sup>: Rwanda (Country) 461, Muhanga 492, Ruhango 514, Kigali City 1556, Gasabo 1237
    - International density: Atlanta 1230, Harare, 2179, Tokyo 6069, Mumbai, 30,926, Dhaka 43,000
  - Kigali more manageable size than many; population approx 1.135 million; 100 largest city in world Medellin, Colombia: 3.6 million
  - Urban population (2012) is much lower than most countries: 19.43%; Kigali 16%
    - Argentina 93%, Japan 92% Austria 68%, Botswana 62%, South Africa 62%, Egypt 44%, Kenya 24%
  - Rwanda actively working towards vision for country and strengthening housing policy
  - Government has demonstrated ability to make significant changes in the business environment (eg. Registration)
- Challenges
  - Formal employment (Rwanda): Less than 20%
  - Population earning less than US\$2 per day: 82.37% (2012)
  - Percent below poverty line 44.9%; lower in cities
  - Informal housing in Kigali: 80-90% of population;
  - Low access to finance: mortgage market only 2.3% of GDP
  - Construction costs high: materials imported and import tax
  - Housing shortage: 34,000 units needed per year in Kigali; 88,000 nationally

# Registration System Demonstrates Rwanda's Commitment to Improvement

- Replaced 6% registration fee with a flat RWF 20,000 rate
- Created centralized service in the tax authority to improve service and reduce the time in process
- Eliminated requirement to obtain a tax clearance certificate
- Implemented internet based Land Administration Information System

# Changes were Reflected in Doing Business Rankings (of 189)

	2014	2013
Registering Property	8	62
Construction Permit	86	122
Getting Electricity	53	52
Obtaining Credit	13	24

# Why Does Housing Remain Informal?

- Rwanda has already addressed or is addressing several key issues
  - Increased efficiency and effectiveness of registration system
  - Improved permitting processes, although more can be done
  - National building codes moving to performance based standards
- What other factors have contributed to informality in other countries?
  - Minimum lot sizes that are too large and, therefore, unaffordable
  - Minimum house sizes or FAR that are not affordable
  - Standards for occupancy permits that are more difficult than building permits; incremental build will likely not qualify
  - Lack of electricity, water, sanitary facilities
  - High materials costs
  - High transfer taxes, property taxes or taxes on materials
- Additional research needed for a full answer

# Housing Policy Emphasizes Homeownership

- Housing policy focuses on owners, not renters
- International experience, including the U.S., shows the implications of pushing ownership too far can hurt homeowners and the economy
- Developer built, formal houses not affordable to most Rwandans
- Rental housing needs to be a major part of housing policy
  - 57% of Kigali's residents are renters
  - 83% in some center city neighborhoods, such as Nyamirambo

# New Home Construction Unaffordable to Most Rwandans, even with Subsidies

- Data on housing prices difficult to find
- Estimates are low end of market affordable house in Kigali RWF 40mm (\$59,084); some argue RWF 70+mm is lower end
  - Income needed for RWF 40mm mortgage: RWF 18,961,770 (\$28,063)\*
  - Even if costs are halved, income needed is RWF 9,480,885 (\$14,032)\*
- Average Rwandan household earns RWF 4,081,999 (\$2760 per year)\*\*
  - Maximum mortgage: RWF 1,860,240 (\$6056)\*

\* 15% interest, 20 year term, 33% debt to income ratio  
\$600 GNI PP (World Bank) x 4.6 average family size

\*\*

# Wealth is Concentrated and Most Low Income Earnings are Informal

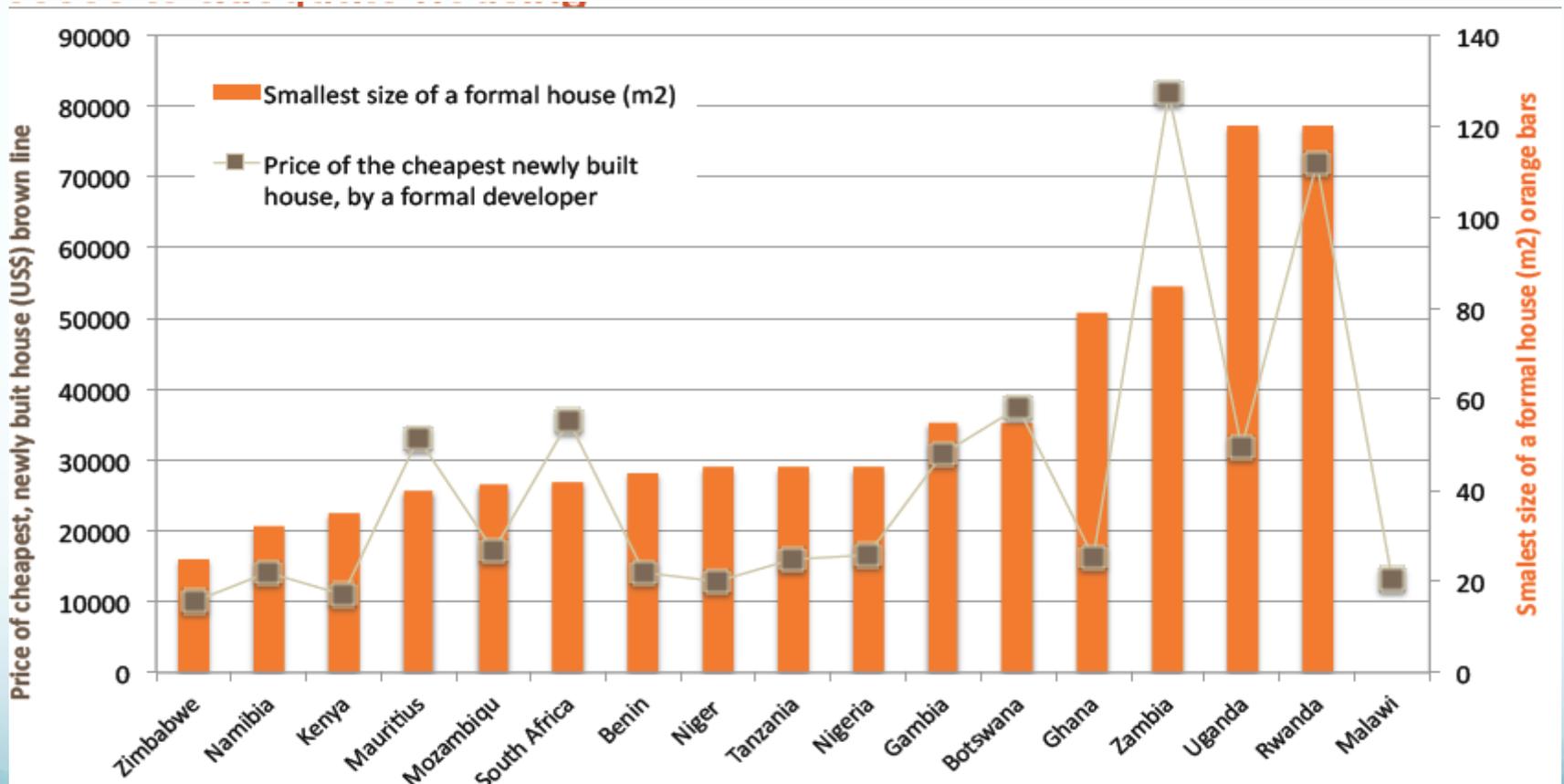
## Income Distribution

Income Quintiles	Percent of Income
Highest 20% (80-100%)	56.8%
60% to 80%	8.3%
40% - 60%	11.9%
20%-40%	17.8%
Lowest 20% (0-20%)	5.2%

## Income Sources

- Rwanda: more than 80% population from farming
- More than 80% of Rwandans earn income informally or irregularly and could not qualify for a mortgage

# Why is the Size and Cost of Developer Built, Formal Houses High?



# Cautions

- Homeownership should not be the only option
- Policy to lower housing costs by utilizing low cost land and providing infrastructure seems to make sense, but...
  - Reducing costs of supply of new construction will not make housing affordable to low and very low income people unless used with demand side subsidies
  - Large scale developments in a city's periphery have shown to increase segregation, reduce sense of community, create distance from jobs and services, can have quality problems over time and can be abandoned. Reduces potential for connectivity of housing, infrastructure and firms
  - Mortgage financing is only accessible and affordable for a small percentage of the population
  - The value of the subsidies should not unreasonably accrue to middle and upper income families
- Another option--Rent to own--may be useful but limited, due to lack of property management experience; maintenance and capital costs; and borrower qualifications

# You do not have to Supply to Increase Supply

## Non-financial improvements create an enabling market environment

- Great strides in registration
- Improvement in permitting, more needs to be done
- Building codes are now performance based, not input based
- Ambitious zoning regulations that encourage multi-story dwellings

BUT

- Coordination between central and local governments remains an issue
- Additional laws and regulations that could affect formality and affordability should be evaluated
  - Such as: landlord-tenant laws, foreclosure laws and policies, reserve requirements for banks
- Zoning regulations should not discourage housing in the formal sector
- Action should be taken to reduce the cost of materials: reducing import taxes and encouraging local firms are possible steps
- Encourage mixed use neighborhoods where residents can operate small businesses as additional income for their families



# Supplying Houses Can be One Options If...

- Residents can access to transportation, services, schools and jobs
- They are near new factories, enterprise zones
- The communities are small to medium scale
- There is an understanding of the full value of any explicit and implicit subsidies, such as land and infrastructure so policy tradeoffs can be made
- There is funding and management to ensure maintenance of common spaces
- The style of the units and the neighborhoods fits the culture

# Increasing Supply can Take Many Forms

- Provide funding to small property owners to improve or expand their properties for rental units
  - Rooms or houses on property common in Rwanda and fits with international experience; strengthening this sector helps both tenant and landlord
- Support small unit, incrementally built housing where people build incrementally
  - Small structures that can be expanded will be affordable to many more than newly constructed units and fits how people live now
- Encourage cooperative housing; this is known in Rwanda and has positive models worldwide:
  - Slum Dwellers International in Kenya; Community Organizations Development Institute in Thailand
- Pilot infrastructure improvements projects in low income that encourage in-situ development
  - Community participation can be helpful in avoiding expropriation
  - RHA examining such pilot projects now



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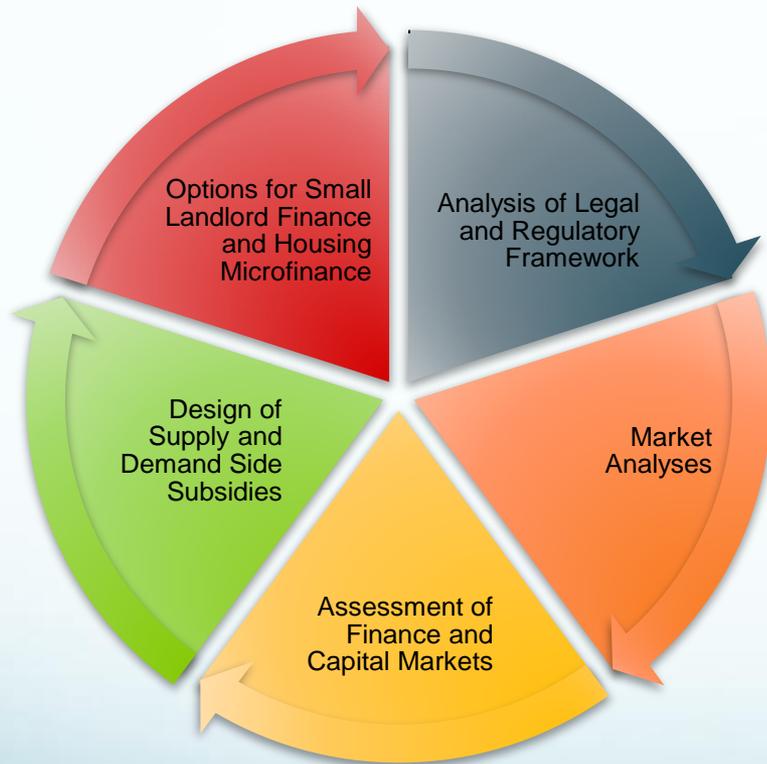
# Chile: From Government Housing to Market Based Incentives

- Change (1970's) from governmental supply to demand side, market based incentives
- Initial reforms only addressed quantitative housing deficit
- Streamlined land regulations and regularized land tenure
- Gave vouchers used with private sector housing and also built low income housing
- 1980-2000 2 million homes: 43% of housing
- Reduced informal settlements by 70+%
- Reduced housing deficit from 771,935 in 1992 to 148,503 in 2011
- Unintended impacts: most housing was built on the cities' periphery without access to jobs and services and increased segregation
- Housing was also plagued with quality problems

# Chile Adjustments: From Housing to Building Cities

- Chile learned from mistakes and adjusted its programs
- Multi-sectorial approach
  - Chile Barrio: coordinated approach for slums including infrastructure improvements, community services and community participation
  - Quiero mi Barrio: Improvement of social housing based on social and construction plans
- Housing rehabilitation for small scale development
- Rental housing incentives
- Increased community involvement
- Shift from quantitative goals to qualitative goals, higher quality and better locations

# Commit to Solutions at the Highest Levels



- Coordinate policies at all levels of government, across sectors and including the private sector and community representatives
- All agencies that have an impact on housing, with the financial and construction centers and community representative
- Perform market studies to understand the housing picture in greater detail and include projections of population growth
- Secondary cities may need to these studies with commercial development and other potential investments

**Thank You**