The cost effectiveness of alternative options to address housing need: a natural experiment in Karibib, Namibia

Guillermo Delgado, Namibia University of Science and Technology
Katrina Phiri, Namibia University of Science and Technology
Diana Mitlin, University of Manchester

Introduction and Background

- In sub-Saharan Africa 56 per cent of the urban population live in informal settlements. This reflects the reality that formal housing is not affordable at the scale required, and what is available is not affordable.
- The housing crisis in the global South is considerable and this is particularly true for low-income households
- The effort has been to make the housing market work better through measures to incentivise the private sector to provide lower-cost dwellings and seeking to scale up access to housing finance
- Formal housing remains unaffordable and inaccessible.
- As interest rates remain high in many countries, formal loans require formal jobs, and that state support has been very limited

Introduction and Background continued….

- The lack of effective state housing strategies leads to the growth of informal settlements for low-income households on the outskirts of towns and cities.
- In 2020, 42% of Africa's urban population lived in towns with less than 300,000 inhabitants.
- In Namibia an estimated 80 % of the urban population live in informal dwellings
- Karibib, like many cities in Africa, is experiencing rapid urban growth and increasing informal urbanisation

Research Questions

- What are the costs of providing housing that is affordable to the lowest income households?
- What are the subsidies that are required to addressing housing need?
- How might housing subsidies exacerbate inequitable housing provision?
- We answer these questions through considering four housing projects in one small town in Namibia.
- The key objective of the research is to analyse the effectiveness of the different modalities in providing housing to those in need ie. we consider the ability of the different modalities to provide affordable housing taking into account the scale and nature of the different interventions.

The natural experiment

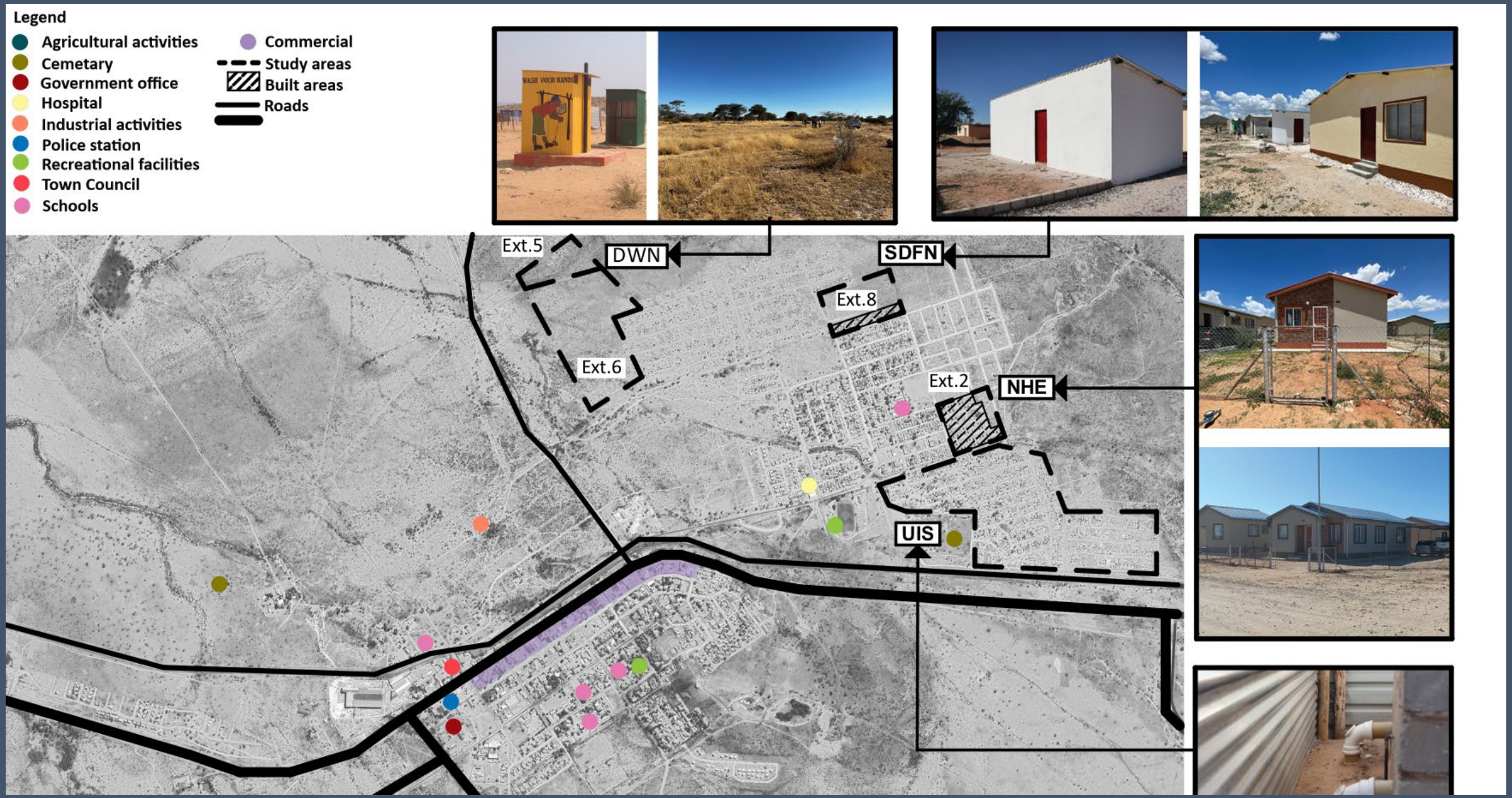
- Town of Karibib in central West Namibia – just over 5,000 people. Expansion of mining has encouraged in-migration.
- The local council is committed to addressing housing need. But, in terms of housing provision, the town is still divided by the apartheid planning regime.
- Four examples In summary :

1. one formal housing construction effort;
2. one orientated to the provision serviced sites;
3. the final two are community led

All four cases received some support from the state directly or indirectly

More on the natural experiment

- Ext. 2 (NHE) provides market-related housing to ensure bankability with commercial financial institutions; monthly repayments are affordable to only the upper two deciles of Namibia's socioeconomic structure (those whose 30% of monthly income is N$3,581 or more [about US$200 or more).
- Ext. 6 (DWN) target those in the 4th to 2nd decile (30% of income is N$1,250 [about US$70] to N$ N$3,581 [about US$200]).
- Ext. 8 (SDFN) has a repayment affordable to the lowest (10th) decile (those whose 30% of income is N$463 [about US$26]).
- UIS is also affordable to the lowest income groups.


Legend
Agricultural activities
Cemetary
Government office
Hospital
Industrial activities
Police station
Recreational facilities
Town Council
Schools
Commercial
Study areas
Built areas
Roads
WASH YOUR HANDS
Ext.5
DWN
SDFN
Ext.8
Ext.6
Ext.2
NHE
UIS

Project 1 – NHE (Ext. 2)

- NHE is a state-owned company serving both as both a lending institution and a developer in the field of affordable housing.
- The target category comprises households earning more than N$ 5,000 (about US$283) per month but less than N$ 20,000 (about US$1,132) per month, or a maximum joint income of N$30,000 (about US$1,698) per month.
- Core 5. This is NHE's cheapest two-bedroom house, costing N$227,480 to build. The cost of the serviced plot is an additional N$28,159, making a total cost of N$265,307.
- It was not possible to estimate the value of the subsidy which is twofold. First, NHE has had free capital to enable them to build. Second, the land was purchase from the local authority with the costs estimated using actual infrastructure costs incurred some years previously.

Project 2 – DWN (Ext. 6)

- DWN is an NGO that focuses on sustainable urban development, informal settlements, and the underprivileged groups that live in them.
- DWN works in collaboration with local governments, development cooperation partners and the private sector. The Provision of Low-Cost Land for Housing programme aims to provide affordable serviced urban residential land, with households then completing the housing themselves
- DWN signed an MoU with the Karibib TC in 2018 and was allocated virgin land in Ext. 6. The extension includes a total of 302 erven with plots of varying sizes, not smaller than 300m2.
- The total estimated cost for servicing one plot (in Phase one) is N$91,031 and the estimated subsidy is N$61,013 as households are charged N$30,000 for this serviced site. Buyers receive a plot with water and a sewer. The land has not been titled but it will be titled. These costs will be covered by the local authority with no extra charge for residents.

Project 3 – SDFN and NHAG (Ext. 8)

- The SDFN relies in organised communities participating in saving groups. Each group is in charge of its own savings account. When sufficient finances are available, the organisation engages the local authority to access land. Groups can borrow from the Twahangana Fund (financed by the GoN and donors) for housing construction and infrastructure installation
- The SDFN in Karibib was allocated a block erf with 65 erven of 300m2 each, in Ext. 8 in 2017. Members received N$36,000 from Twahangana for housing construction, with a 5% interest charge. The monthly repayments are N$360 and the loan has to be fully repaid in 20 years.
- The total costs of each partially serviced plot with a certificate of land occupancy are N$30,832. The total costs of each "starter" house are N$32,227, so the total costs for each house on a partially serviced site is N$63060. Households are charged N$36,000 for this property. Hence the subsidy is N$27,060.
- Households that take the Twahangana Loan receive up to N$12,000 additional subsidy depending on the number of years required for repayment.

Project 4 – UIS

- There are two main activities that have taken place in UIS: re-blocking and the servicing itself.
- NHAG have provided support. The land servicing is mainly community-powered. In many instances, female members undertake the construction work; some external help was required for the excavation. Servicing is underway for all 723 plots (surveying, water pipes and sewered sanitation).
- Subsidy finance is provided by the Ministry of Urban and Rural Development and by the town council and Osino Mine.
- The total cost for each plot is estimated to be N$14,498.75; plot owners are charged N$3,100. In terms of the subsidy contribution, the community labour or sweat equity was estimated to be N$4,640.83. this is included in the N$14,498.75 and represents a significant additional contribution from plot owners.

Analysis: Financial Subsidies

		Per dwelling			Source of subsidy			
		Total cost	Charged to Purchaser	Financial subsidy	Local Govt	Nat. Govt	Other	Sweat equity
Ext.2 NHE	Complete house	N$265,307	N$290,334	(N$25,027)		0		0
Ext.2 NHE	Serviced site sold by KTC to NHE	N$93,138	N$28,159	N$64,979	N$64,979			
Ext. 6 DWN	Serviced site	N$91,014	N$30,000	N$61,014	N$3,053	0	N$57,961	0
Ext. 8 SDFN	Complete house	N$63,060	N$36,000	N$27,060	N$3,498	0	N$23,562	0
USAB	Serviced site	N$14,499	N$3,100	N$8,818		N$8,818		N$2,581

The “drivers” of subsidy outcomes

- Some of the subsidy is explicit and known about in DWN, SDFN and UIS. DWN and SDFN raise funding from donors and the government. UIS has a significant subsidy from the MURD.
- Other parts of the subsidy are less clearly understood and were poorly reported to the research team. Significant here are subsidies in professional fees. (NHE received the serviced land at a low price because the infrastructure had been installed some years before and the cost was not updated to the present value.)
- The sweat equity component in UIS was because the community provided labour to keep costs down. This was not possible in the SDFN (Ext. 8) project because of the hard rock. This significantly reduced costs.
- Land has been provided free by the local authority in three of the four cases (not NHE). However, the transfer has only taken place for the households buying from NHE.

Analysis: Sweat equity

- Community involvement was intended for both UIS and SDFN however the terrain in Karibib prohibited this
- UIS heavily relies on community involvement.
- The subsidies in this case were in form of sweat equity, training and management

Analysis: Land allocation

- In the cases examined, only Ext. 2 (NHE) has undertaken titling and land transfers. Others still allocate land without statutory transfer, potentially hindering titling due to the absence of sewerage.
- Statutory tenure was costly but became affordable for low-income households with the Flexible Tenure System.
- This allows development to commence before land transfer and titling, a practice not yet reached by developments under this system (extensions 8 and UIS).
- This approach delays titling costs, with the potential for cost waivers if executed via FLT.
- Trust between local authorities and development partners is crucial.
- In Ext. 2 (NHE), land underwent two transfers, a cost-saving not present in other schemes.

Analysis: Measures towards affordability

		Ext. 6 (DWN)	Ext. 8 (SDFN)	Ext. 2 (NHE)	UIS
A	Total estimated repayment	**N$ 30,000**	Up to N$86400	**Up to N$977,551**	-
A.1	***User monthly repayments***	***N$ 1500-2500***	***N$ 360***	***N$ 2715.42***	**-**
	Percentage of income if at threshold of N$5,000 a month or N$1,650 as the maximum repayment	***30 to 50 per cent of the "threshold income"***	***3 per cent of "threshold income"***	***54 per cent of "threshold income"***	***Paid through savings.***
A.2	Number of years	14 months	11-20 years	20-30 years	-
A.3	Interest rate	-	5%	10.50%	-
A.4	Sale cost or costs charged for improved shelter	*N$ 30,000*	*N$ 36,000*	*N$ 310,334.00*	*N$ 3,100*

Analysis: Sources of Subsidies for infrastructure

1. Central government support for infrastructure

- In Namibia, local authorities seek central government support for capital projects, including land servicing.
- These requests are reviewed based on merit, alignment with national goals, and budget availability.
- Funding is typically partial and provided as grants, aiming to enhance local authorities' financial sustainability, a challenge few have achieved.
- This government contribution acts as a unique and substantial subsidy for land servicing projects.

2. Sporadic contributions. Private sector donations, particularly those where the entity is not based within the vicinity of the project in question

Conclusion

- The role of government in providing subsidies is essential
- Affordability should ensure housing costs remain below one-third of household income, achieved by Ext. 8 (SDFN) and UIS but not DWN.
- Ext. 6 (DWN) achieves overall affordability but faces challenges with the number of monthly repayments.
- Ext. 2 (NHE) is less affordable for the lowest income groups, though it enhances bankability for private financing institutions.
- Central government subsidies are crucial due to the significant infrastructure funding required.
- International cooperation, while marginal, brings professional support to projects.
- Namibia's living conditions in urban areas necessitate scalable options to address the crisis.
- Engaging the lowest income group in co-funding and implementation appears to be a scalable solution given the majority of Namibia's population falls into this category.

THANK YOU!