

Paper presented at the Regional Conference on “The Principle of Sustainability: An Interdisciplinary View”, Nairobi, 29 November 2006 to 2 December 2006

Housing the Poor through the Private Sector

Employer-provided housing applied to the Kibera-Soweto slum upgrading project in Nairobi.

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Background

1. The widespread existence of slums in developing countries is not a new phenomenon in economic and social history. At the end of the 19th century in England where the industrial revolution started and at the beginning of the 20th century in continental Europe, housing and general living conditions of workers were unbearable. The living conditions of workers and their families gave rise to powerful political movements, including revolutions. The trade unions and the social-democratic political movement were the main driving force for the gradual improvement of the living conditions of workers and their families.

Employer-provided housing in Western Europe

2. A key policy-instrument for the betterment of living conditions was the provision of housing by the employers. It is important to understand that companies which provided housing did not do that out of charity, something which is nowadays known as “corporate social responsibility”. The employers provided housing because they fully understood that healthy and well-rested workers were much more productive, motivated and loyal to the company. There was another aspect which made it profitable to provide housing to workers. The first phase of housing provision in the now developed countries of Europe was almost entirely rental housing. The companies constructed housing units usually on land nearby the factories and deducted relatively low rents from the salaries of their workers.

3. From an economic point of view, the buildings were investments of the companies since they constituted an asset in their balance sheet and were subject to depreciation, i.e. costs, which reduced taxable income and actual taxes paid. Some governments provided increased fiscal incentives by allowing high rates of depreciation which made investment in housing even more attractive and profitable to companies.

4. In actual fact, it is not only the private sector and their employees who greatly benefit from employer-provided housing but also governments are gaining a lot from such an approach because they can address housing problems through very effective, indirect fiscal policies. Insofar, one can really speak of a triple win situation. This is the very successful experience in housing provision by employers as it has happened in the previous century.

5. At a later stage, companies provided low-interest, long-term housing loans so that their workers could buy or built their own houses. More often than not, they purchased those housing units of the company where they were already living as renters. This approach can be characterized as employer-assisted housing since the employer is not the owner of the housing unit.

6. In the 1960s governments in Western Europe invented a whole range of housing policies focusing on income tax relief for prospective home owners and subsidies for developers of social housing. These policies were very successful because no significant housing problem could be diagnosed in Western Europe since the mid 1970s. These policies were however only effective because they were accompanied by substantial increases in incomes.

Employer-assisted housing in the United States

7. The notion employer-assisted housing became really well-known in the United States (US) at the beginning of the 1990s. During that period of relatively high economic growth, some growth regions of the US experienced a shortage of labor because of either a general shortage of housing or exorbitant high housing costs. Employers decided to provide assistance to their employees in order to make housing more affordable. This employer-assistance came in a variety of forms. First, prospective homeowners were helped with the down payments, closing costs or housing finance companies were brought in as partners of the employer in order to reduce risks and bring down mortgage costs. Secondly, there was also considerable employer's support to rental housing in the form of covering deposits or granting a monthly fixed contribution to reduce the high rents.

8. The big success of employer-assisted housing programmes in the US culminated in the submission of a senate bill entitled "Housing America's Workforce Act 2005" sponsored by Senator Hillary Clinton. This bill provides incentives to increase private sector investment in housing solutions in the following way. The legislation offers a tax credit of 50 cents for every dollar that an employer provides to eligible employees, up to US\$ 10,000.- or six percent of the employee's home purchase price (whichever is less) or up to US\$ 2,000.- for rental assistance (per taxable year). In addition, to ensure that employees receive the full value of employers' contributions, the act defines housing assistance as a nontaxable benefit, similar to health, dental and life insurance. The Housing America's Workforce Act 2005 is endorsed by organizations such as The National Housing Conference, National League of Cities, National Association of

Counties, National Association of Home Builders, National Association of Realtors and Mortgage Bankers Association.

Employer-provided/assisted housing in the context of slums

9. In view of the above, it has been documented that employer-provided/assisted housing (EPAH) has been applied successfully in the past and is a particularly relevant phenomenon in the housing market of the US since the early 1990s. The key questions here are: Can these effective methods and policy instruments of EPAH also be made to work in developing countries where slums are the predominant form of “housing”? Can EPAH make a significant contribution to housing the poor?

10. In the following, the possibilities and strong points of EPAH for its application in slum environments will be discussed, making particular reference to the Kibera-Soweto slum in Nairobi. The most immediate and serious problem of slum areas is the high density. There is simply no space to allow for the installation of infrastructure such as roads, sewerage, water, schools, hospitals etc. The slum area needs therefore be decongested which means buildings and housing units need to be demolished and tenants relocated outside but nearby the slum. The structures to be demolished are in those areas where infrastructure needs to be brought in and it is important that the new open space is not occupied by new in streaming slum dwellers. There is also the issue of whether or not to compensate the structure owners who will loose their rental income after the demolitions.

11. In the case of the Kibera-Soweto a high rise (5 storey) decanting apartment building is being constructed which can be rented by those who have been moved out of the slum. It is important that the decanting building is nearby the original slum area so that tenants who earn their living in the slum are not deprived of their economic base. The principles and methods of EPAH apply to only those slum tenants who are privileged to have a regular employment with a fairly reputable company. Statistics from the Kibera-Soweto slum show that there about 20-30% of slum dwellers who have a regular job. If that amount of tenants can be moved out of the slum then it should be possible to create enough space for infrastructure even though some tenants might have to be shifted around within the core slum. Those slum dwellers who do not have the privilege of formal sector, regular employment need to organize themselves in cooperatives so that they can afford to purchase flats in the decanting building or upgrade their existing dwelling in case they are the structure owner.

12. There will be other slums dwellers whose incomes are sufficient to enter the low-cost housing schemes outside the original slum area. The government can provide incentives to housing finance institutions, developers and private investors in order to generate sufficient supply of low income housing, both for homeownership and for rental housing.

Outlook

13. In light of the foregoing, it has become clear that any housing policy in developing countries with large slum populations must strategically involve the private sector. This is only possible through wise government legislation which provides an optimal mix of fiscal incentives so that the private sector can play its role well. The government is therefore not directly intervening in the market but plays the role of a facilitator. The driving force in the housing market is the private sector with its internal resources and its capacity to unlock financial resources through the housing finance institutions.

14. The Ministry of Housing of Kenya has prepared a draft Housing Bill 2006 which contains a paragraph on the above subject and has established a Housing Incentives and Financial Re-Engineering Committee which has the task of identifying a wide range of fiscal incentives and procedural simplifications in order to engage the private sector to its full potential. In the past, the provision of low-income housing has not taken place at the scale required to deal with the fast-growing slums. The impact of individual projects, by its very nature, is almost negligible, being unable to cater for the huge demand of low-income housing. Similarly, governments ceased to be able to provide housing and are now being considered as facilitator. The necessary capital to cope with the scale of the low-income housing problem can only be raised by the private sector through financial institutions including the capital market. Targeted incentives by the government can bring about the movement of sufficient capital into the low-income housing market.