

## Review

# Informal land market: Alternative approach to mass residential housing provision in South-Western Nigeria

Samuel Adesiyan Oloyede\*, Iroham Emeka Osmond and Caleb Abiodun Ayedun

Department of Estate Management, School of Environmental Sciences, College of Science and Technology, Covenant University, Ota, Ogun State, Nigeria.

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There has been continuous patronage of the informal land market by prospective real estate investors particularly in towns and cities within South-Western Nigeria over the years. This paper identifies reasons for the failure of earlier land policies from literature on one hand and why informal land markets continue to flourish by the day in Nigeria with the aid of two questionnaires distributed among fifteen estate surveying and valuation firms in Abeokuta, Ogun State and twenty estate surveying firms in Ikeja, Lagos State on the other hand. Data obtained from the questionnaires retrieved were analysed using tables, percentages and rankings. This paper identified instability in government as a result of political intolerance among politicians in power coupled with the limitations placed on the rights and privileges of the native land owners by the enactment of the land use decree of 1978 as the major causes of the continuous growth of informal land markets. This paper concludes that reforming the informal land market system in Nigeria is a question of political will rather than technical approach in the interest of the masses.

**Key words:** Informal land market, mass residential housing provision, government, estate surveying, valuation firms.

## INTRODUCTION

Housing, that is expected to meet the yearnings of the masses needs to meet certain economic, social and cultural standards within a given location. Land, because of its unique nature and the crucial role it plays in human settlements, cannot be treated as goods and commodities which can be controlled by individuals and subject to the pressures and insufficiencies of the market. Land ownership, in the hands of government, contributes to social injustice especially in major urban areas and has over the years constitute a major obstacle to the planning and implementation of development schemes between states and the federal government especially in areas where the political party in power in the state differs from that at the federal level.

According to Berner (2001), in most large cities of the world, formal market serves only a minority of the population while between 30 and 70% of the population live in irregular settlements with about 85% of the new

housing stock produced through extra-legal manner with severe social and environmental consequences. The era of incessant creation of new states in Nigeria has led an unprecedented acceleration of urbanization processes in all state capitals nation-wide as a result of the search for well-paid secure employment in the public and formal sectors of the economy.

Research works in some developing countries have established that the formal market mechanism has failed to meet the housing needs of the population (Durand-Lasserve, 2006; Berner, 2007). According to Berner (2007), self-help housing and squatting have long been recognized as the only means available to fulfill the immense demand for mass housing in the cities, and thus a solution rather than a problem. This assertion has been established based on the indispensable role self-help housing plays in the urban economy of any nation especially in developing countries of the world.

Antwi (2002) opined that informal land transactions were the optimal solution for residential housing crisis in an environment where the formal system is riddled with excessive bureaucracy and cost thereby rendering the resulting formal property rights being of limited value.

\*Corresponding author. E-mail: [samoloye49@yahoo.com](mailto:samoloye49@yahoo.com). Tel: +234 (0) 803 4722 469.

Rakodi (2005) noted that many studies carried out in Tanzania, Vietnam, Ecuador and Ghana, among others showed that informal land delivery systems are often more effective in delivering land for housing than the formal land delivery systems because of their user-friendly characteristics and social legitimacy.

Land accessibility, according to Omirin (2002) entails land tenure security, land affordability, land availability and the ease with which land is acquired. Indeed, it is now a common knowledge that due to a variety of factors, informality is the predominant characteristic of urban growth and that a majority of urban residents, especially the poor, access property rights through transactions occurring outside state regulations and formal land markets.

In gathering data, two sets of questionnaires were distributed among fifteen estate surveying and valuation firms during state branch meetings of the Nigerian Institution of Estate Surveyors and Valuers in Ogun and Lagos States. In-depth interviews were conducted among five land owning families each in the two states in addition to researcher's experience in Oyo, Ogun and Osun States. All questionnaires distributed were retrieved and data so obtained were analysed using tables, percentages and rankings.

This paper, in the subsequent sections, examines several approaches aimed at checking informal land market activities bringing out reasons for the failure of past conventional policies on land and housing markets as a guide to understanding why informal land markets flourish in South-western Nigeria. Lessons from successful land delivery strategies of other countries were highlighted while challenges militating against sustainable land and housing markets in Nigeria were also discussed.

### **REASONS FOR THE FAILURE OF PAST CONVENTIONAL POLICIES ON LAND AND HOUSING MARKETS IN NIGERIA**

There had been various policies on land and housing markets in Nigeria. These policies vary from the provision of mass housing through federal housing authority and state housing corporations, site and service schemes of state and federal governments, mass low, medium and high-income residential housing schemes across the length and breadth of the country by both the state and federal governments. To solve the problem of inadequate funding, the "National Housing Fund Scheme" was introduced by the federal government with the Federal Mortgage Bank of Nigeria as the apex mortgage bank. According to Federal Government of Nigeria (2002), the housing policy goal was to "ensure that all Nigerians own or have access to decent, safe and affordable housing accommodation with secure tenure." Despite the good intentions of the various governments, varying challenges

made the policies not to achieving the desired goals. First, regulatory frameworks and administrative procedures often constitute barrier to the development of more efficient and equitable land markets because costs of conforming to official norms are often higher than what many people can afford. The inevitable response will be a growth of unauthorized settlements. Second, development controls are often based on imported or inherited norms rather than the traditional practices that conform to local economic conditions. Third, according to Acrimah and Adeagbo (2000), traditional approaches to development control, where endorsed, are based on assumptions, interests and inherited or imported methods. Fourth, attempt to control land use through land nationalization, which the enactment of the "Land Use Act of 1978" stands for, actually forced land prices up in areas where developable land is still available in the market

### **WHY INFORMAL LAND MARKETS FLOURISH IN SOUTH-WESTERN NIGERIA**

Faced with formal market failures, most urban dwellers in Nigeria have to rely on their own initiative in order to find shelter. There is therefore the need to find answers to the crucial question of how or more precisely why informal settlements emerge. Although the extent and the characteristics of informal development vary from country to country (as well as between cities and even between settlements), it serves a large share of the low income population and incoming migrants in particular. Informal land markets provide affordable sites for most additions to the housing stock in major cities especially at urban fringes. Governments tend to tolerate informal settlements in order to gain some popularity politically based on the pretext that it contributes to continuous economic growth of city residents.

Transactions in informal land markets are often not controlled and registered by the appropriate authorities. This implies that houses are built without necessary permits and their quality as well as the provision of infrastructure may be below expected standards, which is precisely what makes them affordable for low-income groups. It is the ability to cut corners and costs which has helped the commercial plot sub-dividers to expand their operations and to provide plots which are more appropriate, affordable and easily available than any other housing option. Such housing plots' purchasers find shelter and relative security of tenure at an initially modest rate but with minimal or non-existent infrastructure. Basic infrastructure and services have to be developed or put in place by residents own devices at later dates.

In the creation of informal land market, certain conditions are usually set depending on culture and tradition of the people in each local government council

area. First, local strongmen such as chiefs and heads of land owning families have the traditional right to decide on the use to which land under their care is put. Developers' initial investment in infrastructure is restricted to the most basic needs. As basic access road will attract suppliers of public transport (communal taxis/buses, motor cycles and tricycles, often unregistered themselves); pathways are initially considered sufficient. The second precondition is the source of water supply (a deep well/borehole is drilled or a water delivery service by tankers is organized). Third, illegal electricity connections are common while environmental sanitation and garbage removal are obviously not high on the list of priorities of the dwellers of informal settlements.

### **LESSONS FROM SUCCESSFUL LAND DELIVERY STRATEGIES OF OTHER COUNTRIES**

Keivani et al. (2008) documented the successes of countries such as Iran, Singapore, Netherlands and Finland. They observed that the Iranian government was able to achieve land and housing market success through the expansion of the stock of low-income urban housing by directly providing land for housing construction to individuals and organizations. Iran government bypassed conventional urban land and housing markets and their associated short comings through getting involved in public-private joint venture schemes. This approach has proved to be a more effective mechanism for promoting private sector housing provision that reaches lower income households than a process left entirely in the hands of market forces in Iran.

In Singapore, the government agency responsible for the provision of public housing is the "Housing Development Board" in conjunction with the "Provident Fund". They provided financial support during the 1960s and 1970s. Currently, over 88% of the total population lives in housing development board apartments which are not outrightly purchased but in a 99 year leasehold. Although Singapore has a small size population, yet recently public housing in Singapore has long departed from the concept of low-income housing provision because prices of properties for the smallest public housing in Singapore have often been higher than private housing in many developed countries.

Netherlands has a unique five hundred low-income housing associations managing 35% of the housing stock in the country. The "Central Housing Fund" and the "Social housing Fund" grant funds to the housing associations at housing development board preferential rates of interest for rental, new housing construction, renovation, refurbishment and acquisition of existing housing units only. Annual contribution to the fund is 1% of the rent collected by each association. The "Central Housing Fund" provides financial assistance to associations that run into problems of liquidity constraints thereby securing

the sustainability of the programme.

Finland operates a subsidized housing operated by not-for-profit oriented organizations with financial support from the Housing Fund of Finland established in 1990 as an off-budget state fund under the supervision of the "Ministry of Environment" to finance state-subsidized housing provision. Currently, in Finland, there is a gradual shift to the construction of home ownership single-family houses to meet the growing preference of the population. Housing needs of special groups including the elderly, homeless, students attract investment grants of up to 35% of the total financial cost. Housing Fund of Finland relies on different financial resources including securitization, loan agreements with the European Investment Bank and state budget contributions.

### **CHALLENGES MILITATING AGAINST SUSTAINABLE LAND AND HOUSING MARKETS IN NIGERIA**

Nigeria is endowed with people of vision because most of the land and residential housing provision policies that had worked in other countries had been tried in Nigeria too. Examples include the establishment of "Federal Housing Authority" and "State Housing Corporations"; low, medium and high-income housing schemes by both the federal and state governments; provision of site and services schemes across the states; National Housing Fund Scheme; the Federal Mortgage Bank of Nigeria as an apex mortgage institution and the Primary Mortgage Institutions. All these are in line with what operate among developed countries and such other countries as Singapore, Finland, Netherland and Iran.

All questionnaires distributed through the use of purposive sampling method at the state branch meetings of the Nigerian Institution of Estate Surveyors and Valuers in Ogun and Lagos States were retrieved. Data obtained from the questionnaires and analysed showed that five factors influenced informal land and housing markets in South-western Nigeria (Table 1). Lack of continuity of earlier land and residential housing policies by subsequent in-coming political governments over time was ranked as the most important factor that influenced a boom in the informal land market. This was closely followed by administrative procedures usually maneuvered by a few officials in power.

Informal land and housing markets have been sustained to date because the "Federal Housing Authority" and "State Housing Corporations" had been unable to bring about the much needed changes. Table 2 showed that favourism during developable land and housing units' allocation as the major headache and this was closely followed by corruption in the allocation of plots of land within site and services' scheme. Good as the scheme is, its lack of continuity was also identified as the third challenge.

**Table 1.** Identified factors that influenced informal land and housing markets in South-western Nigeria.

| Challenge  | Strongly agree | Agree | Un-decided | Disagree | Strongly disagree | Score | Ranking         |
|--|----------------|-------|------------|----------|-------------------|-------|-----------------|
| Amalgamation of people with varying cultures and beliefs as a country called Nigeria   | 6              | 5     | 3          | 7        | 4                 | 77    | 4 <sup>th</sup> |
| Rigid and centralized Land Use Control by federal government   | 14             | 3     | 1          | 5        | 2                 | 97    | 3 <sup>rd</sup> |
| Land development controls based on assumptions and selfish interests of a few in power or imported ideas as against controls based on existing local economic conditions | 3              | 1     | 4          | 2        | 15                | 50    | 5 <sup>th</sup> |
| Administrative procedures maneuvered by a few to act as barrier to development of efficient and equitable land and residential housing markets                           | 11             | 8     | 2          | 4        | 0                 | 101   | 2 <sup>nd</sup> |
| Lack of continuity by incoming political governments over time in Nigeria  | 21             | 4     | 0          | 0        | 0                 | 125   | 1 <sup>st</sup> |

**Table 2.** Identified challenges that inhibited the performance of Federal Housing Authority and State Housing Corporations in South-western Nigeria.

| Reason                  | Strongly agree | Agree | Undecided | Disagree | Strongly disagree | Score | Ranking         |
|-------------------------|----------------|-------|-----------|----------|-------------------|-------|-----------------|
| Poor funding            | 0              | 0     | 0         | 4        | 21                | 29    | 6 <sup>th</sup> |
| Corruption              | 4              | 5     | 0         | 6        | 10                | 62    | 2 <sup>nd</sup> |
| Favourism in allocation | 20             | 5     | 0         | 0        | 0                 | 120   | 1 <sup>st</sup> |
| Lack of continuity      | 3              | 2     | 0         | 8        | 12                | 51    | 3 <sup>rd</sup> |
| Limited land allocation | 0              | 0     | 2         | 18       | 5                 | 47    | 4 <sup>th</sup> |
| Political pressure      | 1              | 2     | 2         | 7        | 13                | 46    | 5 <sup>th</sup> |

The provision of the low, medium and high-income residential housing schemes by the federal and state governments were also examined and analysed in Table 3. Much as the schemes from the two tiers of government (federal and state) were considered good and favoured, however, lack of its continuity by in-coming administrations, after the exit of an earlier one, marred its achievements. Political pressure from party opponents who believed that there were other important needs that require attention and funding (road resurfacing, free education, gainful employment for the youth and health), as a strategy for winning votes, diverted attention from the continuity of mass residential housing. The issue of compulsory land acquisition for mass housing provision were politicized hence various governments shy away from what may make their actions unfriendly low, medium and High- income housing schemes by the federal government and a point for rivals to hammer upon.

The prosperity of mass housing provision is a function of availability of finance for land acquisition and housing

construction. Table 4 shows nine suggested mode of operation for the "National Housing Fund Scheme" under the Federal Mortgage Bank of Nigeria (FMBN) that is in its second decade of operation. Highlights of the suggestions hinge on mutual trust. Since employers of labour are responsible for the deduction of the fund and remittance of same to FMBN, they should also serve as the vehicle through which mortgage loans are accessed by their respective members of staff who are the contributors. Succinctly put, since PMIs (Project Management Institute) are not involved in mandatory savings contributions, they should not be involved in the granting of loans to savings contributors. Mortgage loans can easily be recovered using same *modus operandi* as for mandatory savings through employers of labour. Finally, since mandatory savings contributions are expected throughout the life of one's employment, the outstanding balance of any mortgage loan should be automatically deductible from total savings with interest upon defaulting employees on retirement. If this approach

**Table 3.** Identified challenges that faced low, medium and high- income housing schemes by the Federal and State Governments in South-western Nigeria.

| Reason                             | Strongly agree | Agree | Undecided | Disagree | Strongly disagree | Score | Ranking         |
|------------------------------------|----------------|-------|-----------|----------|-------------------|-------|-----------------|
| Poor funding                       | 2              | 4     | 0         | 10       | 9                 | 55    | 4 <sup>th</sup> |
| Corruption through contract awards | 0              | 3     | 1         | 6        | 15                | 42    | 6 <sup>th</sup> |
| Favoritism in allocation           | 0              | 2     | 2         | 8        | 13                | 43    | 5 <sup>th</sup> |
| Lack of continuity                 | 23             | 2     | 0         | 0        | 0                 | 123   | 1 <sup>st</sup> |
| Limited land Allocation            | 1              | 3     | 5         | 11       | 5                 | 59    | 3 <sup>rd</sup> |
| Political pressure from opponent   | 8              | 2     | 3         | 11       | 1                 | 80    | 2 <sup>nd</sup> |

**Table 4.** Suggested mode of operation of National Housing Fund Scheme under the Federal Mortgage Bank of Nigeria.

| S/N | Suggested mode of operation of NHF Scheme   |
|-----|---|
| 1   | All mortgage loan activities on NHF scheme basis should be solely between FMBN and employers of labour since savings retirement is through same process                               |
| 2   | Primary mortgage institutions should operate purely as commercial business outfits sourcing for funds from FMBN   |
| 3   | Mandatory savings contribution to NHF scheme should be by all employed staff through their employers of labour  |
| 4   | All documentation should be carried out by employers of labour  |
| 5   | Granting of mortgage loan should be initiated by employer of labour for each staff upon satisfactory documentation and sum disbursed deducted from total savings of such organization |
| 6   | Interest on savings contribution should be at 4%  |
| 7   | Interest on mortgage loans at 6%  |
| 8   | Savings contribution should be throughout life of employment  |
| 9   | Balance of mortgage loan should be automatically deductible from total savings with interest upon retirement  |

is endorsed and practiced, more houses could be built and more people could be housed.

Naturally, most human beings are afraid of taking financial risks. As can be ascertained from Table 5, the fear of numerous administrative fees accounted for 40% while the acquisition and production of various documents before qualifying for applying for a mortgage loan are two major reasons why savings' contributors shy away from PMIs offices. A closer look of Table 5 also shows that the fear of the sale of the mortgaged house upon delayed loan repayment coupled with public disgrace arising from publication of the names of defaulters in daily newspapers attracted 16 and 12%,

respectively.

## RECOMMENDATIONS AND CONCLUSION

Informal sector's strategy of incremental development and improvement of housing and infrastructure can be incorporated into public policies as had been successfully carried out in Pakistan and the Phillipines. Land and housing policy formulation and implementation in Nigeria must, in line with the thoughts of Aribigbola (2008) take cognizance of the socio-economic circumstances of the people. For this reason, total reliance of market forces

**Table 5.** Reasons for Low patronage of primary mortgage institutions by NHF scheme contributors.

| Reason for low patronage  | Opinion (%) |
|---|-------------|
| Production of various documents (land, building plan, income tax, etc)  | 5 (20)      |
| Numerous administrative fees (loan application form, site inspections, interest on released loan installments during construction, etc) | 10 (40)     |
| Administrative bottlenecks in obtaining certificate on title from the State government  | 1 (4)       |
| Very Slow release of loan installments  | 4 (16)      |
| Possibility of varying interest rates on loan during repayment period in future   | 2 (8)       |
| Public disgrace through publication of names of defaulters in daily newspapers  | 2 (8)       |
| Fear of sale of house upon delayed loan repayment   | 1 (4)       |

and private initiatives must be extensively considered.

Those responsible for the informal land and housing market interventions need to learn from successful experiments elsewhere and incorporate same cautiously into our own national or cultural settings. This is a sensible approach and with increasing globalization, it is a learning process that should gain impetus in the years to come in Nigeria. Finally, mortgage loans ought to flow to mandatory savings contributors based on mutual trust between and among Federal Mortgage Bank of Nigeria, Primary Mortgage Institutions and the employers of labour.

In conclusion, to achieve the goal of housing for all in the foreseeable future, government should consider generous land accessibility and affordability for the masses in addition to embarking on sustainable residential housing construction and allocation as a matter of priority. It is by so doing that informal land and housing markets are likely to become less attractive.

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