Overview Facility Management Financing in the Construction Industry in Accra, Ghana

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Abstract
Residential property finance in Ghana has followed a conventional pattern in terms of the continuing preponderance of the informal sector and the intervention of government to attempt to build formal mortgage markets. What is perhaps special is that the government of Ghana attempted the development of a secondary market in mortgage lending without a strong primary market on which to build. However in doing so they did not address many of the fundamentals on which any type of mortgage market must be based - those of secure and transparent title and a clearly defined regulatory system; a reasonably responsive supply of formal housing; and the development of mortgage instruments which address the issues of affordability. The macro-economic circumstances - notably the very high rate of inflation - thus made it impossible to build a market without special instruments to address the front loading problems associated with high first year payments. This paper assesses the reasons why the government's secondary market initiative failed and the way that the formal primary mortgage market has developed in the face of this failure. In particular it examines the facility Management market of Ghana with the European Community One.
Keywords: Facility; Management; Market; Construction Industry; Ghana

1. Introduction
With a population of over 24 million, Ghana's growth rate hit 7.9 percent in 2012 according to revised estimates released by the Ghana Statistical Service. Provisional estimate had pegged the Gross Domestic Product of the country at 7.1 percent.
According to the figures, the services sector recorded the highest growth rate of 10.2 percent followed by industry with 7 percent. (Ghana Statistical Service 2012)
Annual inflation rate rose for the fourth consecutive month in June up to 9.4 percent compared to 9.3 percent in May, 2012. The non-food inflation rate exerted much influence on the overall rate with transport and clothing and footwear major contributors.
The year-on-year non-food inflation rate of 11.9 per cent was more than twice that of the food inflation rate of 5.4 per cent. Three regions Central, Ashanti and Greater Accra recorded inflation rates above the national average of 9.4 percent. (Ghana Statistical Service 2012)
Urbanization is seen to have a major impact on the housing situation in Ghana. The explosion of the urban population has created a sizable demand for housing finance that cannot be ignored if the basic housing needs of burgeoning cities are to be satisfied. The need for more and better housing is not restricted to urban areas. Poor people living in rural areas have similar concerns, which also need to be addressed. Ghana like many other developing countries is faced with a high population growth rate, high urban migration and low incomes for the majority of the population.
The Ghana Real Estate Developers Association (GREDA) (1998) notes that only 5% of those who want to own a house can do so from their own resources. Another 60% would need some form of financial assistance while the remaining 35% are not capable of owning and building a house in their lifetime
Home ownership is considered to be very important in the Ghanaian society because of its dual purpose of providing shelter, and also because it is an indicator of one's social status and prestige. Between 1990 and 1998, the Social security and National Insurance Trust (SSNIT) has provided over 30,000 blocks of flats in the country, principally in regional capitals like Accra, Cape Coast and Takoradi. However, as recent studies by GREDA indicate, about 500,000 houses are needed annually to meet the growing demand for housing. The cost of houses on the market - ranging from $35,000 to $350,000 - is out of range for most households in Ghana.
The aim of the study is to investigate the facility management market in the Construction Industry in Accra, Ghana.
The Objectives were to identify the housing stock in Ghana, and identify the challenges of facility management market in the construction industry

1.1 Problem Statement
The limited availability of finance and the stringent repayment procedures of lenders make it impossible for many people to redeem a loan within a short period of time. In a tight money market, housing is the first area to

suffer, since neither the builder nor the consumer can readily obtain finance for housing. Indeed, many housing developers have difficulty in obtaining funding for their projects even in normal times.

2. Housing finances - Ghana

The construction industry plays an important role in any economy and its activities are also vital to the achievement of the socio-economic development goals of providing shelter, infrastructure and employment (Anaman and Osei Amponsah, 2007).

In recent years, Ghana has experienced stable patterns of real GDP economic growth rate, (2012) Construction recorded relatively high growth rates of 11.2 %. The growth rate for GDP-E declined to 7.9% in 2012 from 15% in 2011. Imports grew by 15.8%. The largest contribution came from imports of equipment. (Ghana Statistical Service, 2012).

The construction industry in Ghana is an important element of the national economy and it is the second highest growth. (Ghana Statistical Service, 2012).

The construction industry is one of the largest employers of the informal sector workforce in the country, particularly in the urban scenario.

Though Small-Scale construction firms constitute some 90% of all the firms registered with the Ministry of Works and Housing in Ghana, they execute only between 10% and 20% of all works in financial terms. The performance delivery of Small-scale construction firms is generally low. This is mainly due to low capital base, poor management skills, lack of qualified workmen and other related factors. (Ministry of Work and Housing, 2009)

The financial sector also plays a pivotal role in the success of a vibrant and buoyant housing finance industry. The sector's role in the mobilization and distribution of financial resources to various market participants and sectors in the industry cannot be underestimated. The financial sector in Ghana has helped in the transformation of illiquid assets into liquid assets for increased capital formation, and also in the pooling and allocation of risks inherent in the industry.

The Financial sector Adjustment Program (FINSAP), initiated in the early eighties formed the building block for the restructuring of the Ghanaian financial system. FINSAP set out major stabilization and structural adjustment policies that were aimed at restructuring distressed banks, improving savings mobilization as well as increasing efficiency in credit allocation. The banking sector in Ghana has grown substantially in the last few years with six banks entering the Ghana market since 2002. The first five are of Nigerian origin, and noted for their very aggressive and predatory approaches to business:

- Zenith Bank Limited
- United Bank of Africa (UBA)
- Standard Trust Bank Limited
- Guaranty Bank Limited
- Intercontinental Bank Limited
- Fidelity Bank Limited.

The influx of new banks increased the number of banks in Ghana from 16 to 22. This increase occurred after the Bank of Ghana (BOG) increased the minimum stated capital requirements from GHC 200 million to GHC 70 billion (Ghanaian currency). 2This compares to the Central Bank of Nigeria's requirement of an equivalent of over GHC 195 billion.

The development of housing finance in Ghana can be attributed to a multiplicity of factors. Key among these Is the macroeconomic environment. Macroeconomic instability, reflected by high and intractable inflation, high interest rates with huge spreads and a weak and volatile local currency, has characterized the economy over the past two decades. Since these facets of instability are interrelated, they created disincentives for investments in long term instruments, required to finance long term projects like mortgages for houses.

Ghana has long battled with high inflation rates, with single- digit inflation remaining elusive. The early part of the 1990s was characterized by rising inflation; the yearend inflation rate peaked at 59.5% in 1995. The government's aim of halting the rising trend in inflation, both to restore macroeconomic stability and stay within the limits agreed with the International Monetary Fund (IMF), compelled the Central Bank to tighten monetary policy. This helped inflation to fall to an annual average of 12.4% in 1999. However, between 2000 and 2003 the average inflation rate soared to 25%, following the collapse of the cedi in 2000 and rising international oil prices. Although tighter fiscal and monetary policies did help to prevent inflation from moving higher over this period, the impact of higher fuel and other import prices proved difficult to control.

In 2004, Government subsidies helped to keep domestic fuel prices low, which ensured considerably lower inflation, but rising food prices and increased government spending ahead of the elections meant that single-digit inflation remained elusive, and the inflation rate averaged 12.6% for the year. In 2012 the annual inflation rate stood at 9.4 percent. The high level of inflation coupled with cumbersome foreclosure, land titling problems and

non availability of long term funding, deterred most banks from entering into the mortgage lending business.
The Monetary Policy Committee (MPC) of the Bank of Ghana (BoG) maintained the prime rate at 15 per cent during its 52nd meeting held in Accra September 2012. Citing potential inflation risks from a weakening cedi currency and high government spending.
The construction industry plays an important role in any economy and its activities are also vital to the achievement of the socio-economic development goals of providing shelter, infrastructure and employment (Anaman and Osei Amponsah, 2007).

Table 2: Regional Distribution of Stocks of Houses and Households (HH) – 2010 Census

Regions	2010 Population	No. of Houses	No. of Households	% Distribution of Housing Stock	Pop. Per House	Avg. HH size	HH per House
All Regions	**24,658,823**	**3,392,745**	**5,467,136**	**100**	**7.3**	**4.4**	**1.6**
Greater Accra	4,010,054	474,621	1,036,426	14.0	8.4	3.8	2.2
Ashanti	4,780,380	574,066	1,126,216	16.9	8.3	4.1	2.0
Western	2,376,021	380,104	553,635	11.2	6.3	4.2	1.5
Eastern	2,633,154	431,697	632,048	12.7	6.1	4.1	1.5
Volta	2,118,252	399,953	495,603	11.8	5.3	4.2	1.2
Northern	2,479,461	257,311	318,119	7.6	9.6	7.7	1.2
Brong Ahafo	2,310,983	331,967	490,519	9.8	7.0	4.6	1.5
Central	2,201,863	346,699	526,764	10.2	6.4	4.0	1.5
Upper East	1,046,545	114,034	177,631	3.4	9.2	5.8	1.6
Upper West	702,110	82,293	110,175	2.4	8.5	6.2	1.3

Source: 2010 Population and Housing Census Report (GSS, 2012)

In view of the economic circumstances, the International Finance Corporation (IFC) proposed a three year program to tackle some of the outstanding housing finance issues in Ghana. The program was unique in design as it coupled systemic legal and regulatory reform with key investments in mortgage origination and construction finance.
As in many other countries, government is the major construction client in Ghana (Eyiah and Cook, 2003). Hence it is hard to disconnect the impact of government and politics on construction in Ghana.
Longenecker, et al., (2006) acknowledged poor management has been one of the main causes of failure of small enterprises
Thwala, and Mofokeng, (2012) identified in their findings that financial factors were found to be amongst the leading causes of company failures.
Thwala, and Mofokeng, (2012) noted that the long periods it took the clients to pay the contractors were detrimental because it also affected the whole companies' cash flow to be in a negative state.
Lack of access to finance both during pre-construction which disqualifies emerging contractors from meeting guarantee and performance bond requirements and during construction which leads to cash-flow problems, incomplete work and even liquidation are financial constraints facing emerging contractors able (Mvubu and Thwala, 2008).
The inflation rate in South Africa was recorded at 5.90 percent in March of 2012. (SARB, 2012) In March 2012, the Private Sector awarded residential contracts worth R105m, with low-income housing amounting to R35m, while the value of residential contracts amounted to R70m. (www.tendersinfo.com)

3. Conclusion

The development of housing finance is inextricably linked to overall country-wide economic development, including the strengthening of financial institutions, reducing poverty, promoting social stability, and improving people's lives. The housing finance market is amongst the most important sectors in an economy because it accounts for a sizeable portion of a country's productive activity, through backward linkages to land markets, building materials/tools, durable goods, non-durable goods in terms of home furnishings, and labor markets. Housing markets have significant forward linkages with financial markets. Mortgage debt accounts for a large proportion of household debt and, through secondary markets and alternative sources of finance; mortgage debt supports the efficient functioning of domestic and international financial markets.

Housing is often viewed as a leading indicator of overall macroeconomic activity. Therefore, the development of the housing finance sector would have a tremendous developmental impact, both in terms of providing social stability and promoting economic growth in Ghana and, by extension, to other countries in the region.

A stable macroeconomic condition is key to a sustainable and vibrant housing finance market in any economic. Until 2006, Ghana had only one significant mortgage lender. However, due to the fairly stable macro economic conditions, Ghana now has three banks actively participating in mortgage lending and another two intending to start mortgage lending in the near future.

1. The Government's commitment to the delivery of housing cannot be underestimated in a sustainable housing finance market.
2. The legal and regulatory framework must be favorable for the housing market. The awareness about the introduction of the new foreclosure law has brought some confidence and comfort to lenders to offer mortgages.

This Program as implemented has so far proven successful and has started promoting broad-based and market - oriented investments. The direct beneficiaries are a wide variety of firms (banking, investment companies and construction companies), and ultimately individual homeowners.

A major consequence of the bidding policy, however, is that globalization has negatively affected the nation's indigenous construction contractors in competing with large, international, private corporations for public contracts in Ghana. The situation has rendered indigenous entrepreneurs not only virtually helpless but also continually lacking vital resources. The Ghana government and the Ghana's indigenous construction businesses must institute a mechanism in terms of their current predicament or their inability to effectively compete with foreign construction firms. The proposed meaningful ways in which the government / indigenous construction contractors formulates would be a much-needed framework for developing, nurturing, and sustaining their operational infrastructure with the view to preparing them to compete effectively with foreign businesses, particularly for lucrative public-construction contracts in Ghana.

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