Alternatives to African Commodity-backed Urbanisation:
the Case of China in Angola

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Alternatives to African Commodity-backed Urbanisation: the China-Angola Case

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Introduction:
Since the end of the civil war in 2002, the government of Angola has used Chinese credit facilities backed by petroleum-based guarantees to build prestige urban projects. The most famous is the public-privately developed Kilamba “Centralidade” with 20,000 apartments, China’s largest housing venture in Africa. The apartments, at first promoted as social-housing, were initially too expensive for most of the population and the state had to draw funds from its housing budget to subsidize the scheme to make units affordable for upper and middle-level civil servants.

With the collapse of oil prices through 2014 and 2015 the Angolan state budget has been drastically reduced, and the government may not be able to provide investment and subsidies to continue building new housing in the form of “Centralidades” like Kilamba. The private sector, both international and local has been a major beneficiary of construction subsidies from the state. The private sector, however, has been reluctant to provide their own financing and invest in real-estate due to weak land tenure and the lack of legislative reforms to make a functional land market. Solving the problems around land may be a way to stimulate the engagement of private sector participation in providing direct financing for the housing sector.

Post-socialist countries like Angola, Mozambique, Ethiopia and China have unique opportunities through the conversion of State-monopoly-owned land for urban uses. The spectacular growth of Chinese cities during the last three decades has been fuelled largely by land-value-capture. Land-value-capture is a principal employed by cities globally to finance municipal budgets, sometimes by developing partnerships with real-estate investors and local communities or by taxing occupation or charging fees for changes in land-use. Like in China, the origins of the wealth that grows and sustains these cities are home owner’s savings and private sector investors. These are resources that remain un-tapped in many African countries.

China’s influence on African Urbanization
Africa and China have urban growth rates that far exceed the global average. The greater part of China’s and Africa’s urbanisation has occurred in an extremely short period, historically speaking. Both are undergoing rapid urban growth and dealing with its challenges: inadequate infrastructure and basic services; rising housing prices; environmental degradation, and increasing poverty and inequality. But these cities are also generating new ideas and innovations in governance, finance, service delivery, transport solutions and increasingly productive uses of technologies to manage urban development. While urban growth presents challenges, it also presents opportunities for citizens in African and Chinese cities to enjoy a better quality of life.

Cities in both China and Africa similarly show dynamic expansion, considering their demographic size, density and socio-economic diversity. Their economies of scale produce large markets for labour and goods, and the ease of information flows in urban environments enhance productivity and innovation. Population growth in both Sub-Saharan African and Chinese cities

show a remarkable similarity as tracked by UN-Habitat from the 1960s (see Figure 1). Economic growth as measured by GDP follows a parallel trajectory. In China, every year there is an increase of more than 10 million urban residents. In Africa the increase in the urban population today may be over 14 million annually.

Figure 1, Economic Growth an Urbanisation in China and Sub-Saharan Africa

Traditionally, cities grow hand in hand with economic development and industrialisation. Urban industry created jobs and acted to pull people to the city. Historically this was the case for Europe but also for China and other Asian countries where urbanisation, industrialisation and the creation of new jobs has been fuelled by investment in cities. However, there are cases where rural to urban migration is not associated with an economic growth. For example, internal displacement of populations associated with conflict, disasters, rural impoverishment or a search for better services such as education opportunities. Urban growth does not always correlate automatically with equitable development. For cities to fulfil their developmental potential, they must mitigate increasing environmental strains and social conflict. Equitable development is not the inevitable consequence of rapid urban growth. Political and institutional failure that inhibits effective urban planning, policymaking, investment and regulation can also impede the growth of some cities.

Africa is urbanizing quickly. Its rate of urbanization soared from 15 percent in 1960 to 40 percent in 2010, and is projected to reach 60 percent in 2050. Africa’s urbanization is different from China’s. Although Africa and Asia have similar urban rates (around 40 percent), per capita GDP in Africa was one third that of Asian countries in 2012. In addition, Africa’s literacy rates

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and institutional development indices are much lower than Asian counterparts, and Africa’s infrastructure lags behind. In some Africa countries, urbanisation has taken place without industrialisation.

In China and other Asian countries, urban population growth over the last three decades (as shown in Figure 2) has resulted in a significant reduction of the poverty levels of their citizens. The same cannot be said for Africa, where the growth of cities is similar but poverty reduction has been almost stagnant. China has therefore transformed its growth of both cities and its economy into social benefits for its population. Africa, on the other hand, while achieving a similar urbanization and economic growth rates, has been less successful in achieving equitable benefits for its poorer citizens.

**Figure 2, Urban Growth and Poverty Reduction in Asia and Sub-Saharan Africa**

![Graph showing urban growth and poverty reduction in Asia and Sub-Saharan Africa](image)

African cities present many notable differences from those in China. By far the most visible is the presence of slums: indicators of informality and thus a lack of planning control. The presence of slums is the clearest signal that Africa has not learned from the Chinese model of long-term urban management. Africa has more than 570 million slum-dwellers, according to UN-Habitat, with over half of the urban population (61.7 percent) living in slums.

Slums are a characteristic of Africa’s cities and an indication of insufficient investment in infrastructure. African urbanization has happened quickly, but with little change in the industrialization of most of its countries. In fact the share of manufacturing in the GDP of many countries has actually declined in the last 15 years.

Chinese urban expansion was mainly the result of the movement of labour from rural to urban areas that followed the transformation from agriculture to industry and services. This type of

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10 Ibid
11 Maria E. Freire, Somik Lall, and Danny Leipziger (2014) p 5
urbanization did not occur in Angola and many African countries—those whose economic growth has been associated with natural resource exploitation but not with increased manufacturing shares of GDP (Collier 2006; Gollin et al. 2013). Urbanization in Africa (at least in these countries) was more often triggered by development of natural resource exports rather than by improvements in manufacturing productivity. In these countries, urbanization is likely to have been driven by the income effect of natural resource endowments.

Countries like Angola are highly urbanized without having industrialized much. Cities in countries deriving substantial income from commodities and natural resource exports will grow in response to the consumption of non-tradables associated with that increase in disposable income. In this case, resource-led development would lead to the creation of “consumption cities” by increasing the income surplus and shifting workers away from the tradable sector. In Sub-Saharan Africa, as food yields have remained low. Despite the lack of agricultural development or pull from industry, Africa has still urbanized to the same level as Asia over the last half-century as illustrated above in Figure 1. Natural resources extractive activities are highly capital-intensive, and their production creates very little new direct employment. But the rents generated provide a different origin for a “pull” into urban areas as the increased purchasing power made available from resources increases demand for urban goods and amenities (Gollin et al 2013).

Harrison and Yang (2015) note the presence of Chinese companies and project financing in Africa is having an impact in cities on the continent. Since around 1980, and especially after 1990, Chinese property developers are making their mark in Africa. There has been an increase in Chinese real estate investment in recent years, as Chinese firms have had to look outside their homeland for opportunities. Trade volumes between China and Africa have grown twenty-fold since 2000. China’s trade with Africa exceeded $200 billion in 2013 from just $9 billion in 2000. Chinese financing is now a key influence on development in African cities. New models of bilateral cooperation and strategic public-private partnerships are being forged with African countries that affect urban growth from planning, to building transport infrastructure, to financing large residential developments.

China has been an influence on the urban development of many African cities, and has had an effect on the architectural form of those cities. Chinese contractors and architects are able to build urban projects at lower cost and on schedule, but in doing so, they out-compete local companies and ignore cultural context. African companies are unable to compete. This leads to loss of local jobs and businesses in construction and employment of construction workers.

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14 Maria E. Freire, Somik Lall, and Danny Leipziger (2014) p 10
15 Gollin et al, p 10
16 Gollin et al. p11.
moved into more value-added phases of the building process: project management and real estate development – all areas where return on capital is highest.\(^{19}\)

In the last decade and a half, Chinese trade and financing has increasingly become an important influence on development in African cities. Much of the financing has been in the form of credit lines from Chinese institutions that have been guaranteed as commodity-backed loans. Chinese Foreign Direct Investment (FDI) in Africa has remained quite small compared to these other commercial forms of financing\(^{20}\). It is a misconception that just because China is Africa’s top trading partner that it is also the largest foreign investor. In fact China ranks seventh overall in FDI, far behind the United States which is Africa’s largest source of foreign investment\(^{21}\). New models of Chinese bilateral cooperation and strategic public-private partnerships are being forged with African countries that affect urban planning, transport infrastructure, and the financing of large residential developments.

Chinese impact on urban development differed from country to country and from city to city. Political and economical realities in Africa and China differ too much for a straightforward ‘copy and paste’ approach. In cases where the urban model is being copied, for example in Angola’s Kilamba Kiaxi, we see the affect local conditions and the relationship with superimposed models.\(^{22}\)

**Angola’s oil-fuelled post-war urbanisation**

A little over a decade ago, Angola emerged from a protracted conflict dating back to the early 1960s. That conflict arrested economic development for 40 years but also caused a massive shift of population to the cities. Millions of Angolans fled the countryside for the relative safety of the urban shantytowns. With their meager resources, they built dwellings on land obtained by mostly informal mechanisms, often with little security of tenure. Migration led, by the end of the war, to a huge pent-up demand for housing and basic services in the overcrowded cities. International investments that Angola expected to receive after 2002 to help in post-war reconstruction were slow to materialize. The same period saw a significant rise in the value of Angola’s commodity exports, and newly available low-cost credit from China has created an opportunity to finance its post-war reconstruction. By 2004, Angola had turned to China for oil-backed loans to rebuild its devastated infrastructure and over-crowded cities\(^ {23}\). Angola leads the list of China’s principal African trading partners, followed by South Africa, Sudan, Nigeria and Egypt. China’s African engagement is largely state-to-state, involving the purchase of extractive resources and the provision of investment credits for infrastructure and construction.

Angola is sub-Saharan Africa’s third-largest economy, with crude oil accounting for almost all of its exports and more than two-thirds of government revenues. Angola’s economy has grown almost 10-fold since its civil war ended in 2002. Thanks chiefly to the demand for oil, the country’s growth rate peaked at more than 20 per cent in 2007 and has averaged a respectable seven per cent over the past decade.


The dramatic fall of petroleum prices from 2014 through 2016, has resulted in the Angolan state budget being substantially reduced. It is unlikely that the government will be able to provide investment and subsidies to continue building new housing in the same form and rhythm as before. Between 2014 and 2016 the state budget allocations have fallen from US$ 74 billion to US$ 41 billion. The proportion of GDP represented by the construction sector has declined from 8% in 2014 to 3.1% in 2016.

The significant delivery of housing by the State during the last decade, totalling 172,575 units until the end of 2015, has not only satisfied an important segment of the middle-class and better-paid civil servants but also created high expectations from lower-paid workers and the economically active urban poor who also seek to benefit from subsidised social housing. The unmet demand for housing at the bottom of the pyramid is emerging as an important driver of the housing economy. The government remains committed politically to deliver on its social housing promises that were announced by the State President in 2008. At that time the shortfall in the housing stock was estimated to be 1.9 million units and the Government mapped out a plan to deliver one million of these units. The resources that government expected to be able to draw on in order to do this, however, are no longer as significant and new resource mobilisation strategies are needed. In this new and challenging economic environment, an un-taped resource that could be the key to growing Angola’s housing and urban infrastructure sector is ‘land’.

Photo: Kilamba new city in Luanda, China’s largest housing project in Africa

Post-socialist countries like Angola, Mozambique, Ethiopia and China have unique opportunities through the conversion of State-monopoly-owned land for urban uses. The case often mentioned is Shenzhen, and its model of real-estate development. The experience of Shenzhen may offer lessons for African cities on what could be replicated or adapted; and on what to avoid at all costs. China’s decision in the early 1980s to promote municipalisation, decentralize governance and give local authorities true financial autonomy stimulated rapid urban and economic growth. Chinese cities’ most valuable asset was the state land that they managed and were able to lease or sell development rights to private sector investors. Municipalities like Shenzhen were able to
use the earnings from sales of ‘use-rights’ and leases to finance social housing and the provision of urban infrastructure. The conversion of land in this manner increased real-estate values and generated more wealth and stimulated rapid urban growth, but also led to conflict with rural communities at the city’s periphery. These are resources that remain un-tapped in cities in Angola.

Angolan cities have extensive un-planned high-density settlements ‘musseques’, where land occupation remains un-documented and dwellings un-serviced. In post-socialist countries like Angola, the State has a unique opportunity through the registration and regularisation of tenure to increase land values and ensure that part of this value is captured from private investment for the public benefit. Municipalities can use revenues in the form of fees from registration, land use transfers and taxes for upgrading infrastructure and the provision of social housing, promoting a virtuous cycle of increasing values that accompany urban transformation24.

*Photo: Luanda’s un-planned high-density ‘musseques’*

If Angola’s remaining housing needs are to be addressed, new sources of investment will be necessary and un-tapped resources need to be unblocked. Both the local and international private sector has been reluctant so far to provide their own financing and invest in real-estate due to weak land tenure and the lack of legislative reforms to make a functional land market. Solving the problems about land tenure is the first step to stimulate the engagement of private sector participation in providing financing for housing. Implementing some of the long-pending reforms in housing credit, participatory planning and fiscal decentralization for municipalities could encourage the home owners themselves and private sector to invest in urban development.

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http://www.housingfinanceafrica.org/blog/opportunities-for-angolas-new-urbanism-after-the-collapse-of-the-oil-economy
and housing opportunities. The same reforms are also likely to stimulate foreign direct investment (FDI) in the real-estate sector.

Land and housing registration is out of date and municipal cadastres need to be created. Only a few thousand properties out of Luanda’s one-million dwellings are fully registered and regularly pay taxes. Real-estate taxes contributed only 1.28% of revenues to the State budget in 2015 and 2016. Legislation providing secure tenure remains to be finalized and gazetted and local administrations trained to implement land readjustment of informal settlements. The law on mortgages needs to be finalised allowing financial institutions to hold liens on real-estate, giving them the confidence to invest their own resources in the housing market. Fiscal decentralisation from the central state budget to municipalities will provide incentives to capture land value and invest in public infrastructure that can in-turn create more value.

While the Angolan government continues to seek to borrow funds from China against projected oil production, the conditions of these loans have had to be renegotiated. Since 2015 the Chinese economy is also slowing down and the demands for resources from Africa are waning. For the moment, Chinese property investors are still searching for opportunities in Africa, but a weakened home base may ultimately hurt companies operating in Africa. China’s offerings of credit lines to Africa are likely also to be affected. Harrison and Yang iterate that Chinese presence in Africa, and in its cities, is well established, and the impact from China is likely to persist into the future.

An easing of the terms of repayment of loans to Angola was agreed in June 2015 and new infrastructural loans, tied to Chinese companies, valued at US$ 6 billion were promised. Angola has, however, committed itself to find new ways of diversifying and growing its economy in the new environment of lower commodity prices. China’s urban development experience in land-value-capture, if shared, may prove to be as valuable as its loans.

If a new strategy to finance housing and urban growth is to be sustainable, it is critical to engage the private sector and householders themselves; but this depends on strong policy environments and a productive dialogue between the public and private sector. Planned reforms related to urban land, mortgage credit and municipal financing need to be implemented in order to unblock opportunities to respond to the Angola’s enormous pent-up housing demand.

**Author Bio:** Allan Cain is an architect and specialist in project planning, urban development and is the director of Development Workshop Angola. He has a degree in Environmental Studies, did his graduate studies at the Architectural Association (London, UK) and further specialist studies at Harvard Business School and Bolder, Colorado (in Microfinance and Housing Finance). He has worked as a consultant and lead research projects for the World Bank, UN Habitat the European Union and is a member of the boards of several development institutions. He has lectured at universities in China, Angola, Norway, USA, South Africa, UK and Canada where he is a visiting professor at the University of Ottawa. His articles and papers have been published widely in international journals. He is co-founder of Angola’s first non-bank microfinance institution and has pioneered housing micro-finance in Angola.

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