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QUARTERLY REPORT

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Assistance to the Ministry of Housing
Government of Zimbabwe

with

Aided Self-Help Housing

Assistance provided under Limited Scope Grant Agreement No. 613-0205, of the United Stages Agency for International Development.

Report of: Jon Wegge
Aided Self-Help Housing Advisor
Personal Service Contract #613-0205-S-00-3003.

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I. General Observations

A. Policy

Some movement on policy issues has taken place during the third quarter of 1983. This movement has been in response to several apparent pressures, including:

1. Scrutiny of the FY1982/83 performance of MOH;
2. Preparation by MOH for defense of the FY83/84 MOH budget by the Minister in Parliament;
3. Concern within MOH over the USAID and UNDP agreements;
4. Review of the draft Project Delivery Plan for Phase I of Parkridge-Fontainbleau;
5. Concern within MOH over housing policy for minimum wage earners;
6. The suggestion by Ministry of Finance, Economic Planning, and Development that MOH policy was not Government policy (approved by Cabinet).

The fact that some policy debate has occurred during the past quarter indicates that MOH is responsive to outside pressure. The major issue underlying the debate has been the issue of affordability. Although affordability of project benefits to below-median income households is a principle agreed to by MOH, with regard to HG projects, no definition of what that actually means was available until the Phase I PDP (a document which MOH had to take seriously) was completed and circulated in early July. Throughout the PDP, wherever a policy area was "gray" and open to interpretation, I suggested a definition of policy which I felt was in accord with the general policy espoused by MOH.

It seems apparent that the various pressures listed above caused the Permanent Secretary to convene a meeting on August 1 of the Deputy Secretaries, Director of TSD, Principal Architect, and advisors to discuss formation of a national housing corporation, review the PDP, examine policy for minimum wage earners, and examine "what was agreed between the Government of Zimbabwe and 'Umtali' States Aid for International Development with regard to the funding and development of low cost housing at Parkridge Fontainbleau and secondary towns of Chinhoyi, Kadoma, and Marondera," and with UNDP with regard to Kwekwe and Gutu pilot projects.

This meeting lasted virtually all day. Fortunately, it concentrated on minimum wage earner policy and on the USAID agreements, with some review of the PDP. Concentration on policy for minimum wage earners was fortunate because the gulf between MOH housing standards and what minimum wage earners (Z$105 per month industrial, Z$50 agricultural) can afford to pay for shelter is very clear. My role in this meeting was to prepare a summary of salient points in the USAID Implementation Agreements and to argue forcefully (I'm

afraid I've become something of a bore on the subject) for defining affordability in terms of what people can realistically afford to pay for shelter; including in affordability calculations all mandatory charges people must pay, and then producing project standards and procedures which reflect a level of physical outputs linked to affordability.

The outcome of the meeting was (copy of report and recommendations attached) that 25% of income was about the most a household should be expected to pay for all shelter costs; that a serviced plot and monthly service charges implied a monthly cost of at least $15; that a four-room house implied a monthly repayment of at least $28.35; that a four-room house on a serviced plot was affordable only to families earning more than $175 per month; that progressive development of shelter is feasible and desirable and could take place over a reasonably short period, given support by project staff; and that in view of scarce public funding and in order to support a general policy of self-reliance, MOH should support a housing policy which offered solutions ranging from open plots to fully-developed housing so that shelter solutions would be affordable and available to all income segments of the population.

I regarded the outcome of this meeting as highly favorable to rationalizing MOH policy. Together with advisors Beardmore and Chana, the following day I drafted the attached report which then was discussed by MOH staff with the Minister. (Note that the attached report carefully separates MOH staff from advisors, to give maximum impression that it had the full support and agreement of MOH staff, and that advisors merely assisted them in their deliberations.) It would appear that the Minister, faced by a unified staff, agreed with all recommendations, except that no more than 24 months should be permitted for progressive development to reach the four-room house stage.

Analysis of how change takes place frequently uses the following series of actions as a model: "un-freeze the current situation; move it to a new position; freeze it at the new position." Since it appeared that the policy situation had unfrozen and been moved to a new position, as soon as I knew of the Minister's agreement with the report and recommendations, I ensured that copies of it were widely distributed in MOH, hoping that by seeing it in writing, staff would in fact accept it as policy.

However, as the third quarter passed, it appeared that the policy change had not been "frozen' at its new position. Rather, it seemed that the Minister, having been manuevered by his staff into a position he did not favor, slowly began to recover "lost ground." Several factors assisted him in doing so, including:

1. the anticipated Parliamentary debate of MOH policy during budget defense did not develop; rather, the MOH budget was passed quite quietly.

2. the issue of whether MOH policy, especially with regard to brigade formation and the four-room minimum house, was Government policy was laid to rest when the Prime Minister spoke in Kwekwe at the "handing-over" of the first houses produced by the Kwekwe construction brigade to renters. His speech endorsed MOH policy (policy prior to August 1) in virtually all aspects.

3. during review of the PDP within MOH, it seemed that MOH staff had forgotten the report and recommendations of August 1. For example, the Director of TSD gave every evidence of trying his best to find ways to omit from the PDP any language or project component which provided a definition of project principles. All decisions about revising key points, such as loan sizes considered affordable and percent of income which should be spent on shelter, were made by the Director or Permanent Secretary, after referring it to the Minister. In addition, support by other advisors on key policy points, even by simple reference to the report and recommendations of August 1, was minimal.

Some examples of this are:

a. The Director of TSD, after consultation with the Permanent Secretry, but without other inputs, required that:

i. the percent of income to be devoted to shelter be raised from 25% to 27.5%;

ii. all allocation targeting procedures be deleted;

iii. section on establishing a construction brigade be deleted;

iv. off-site administrative costs of brigade operation be deleted from the purchase price of brigade-constructed housing;

v. the budget for housing loans be calculated on the basis of all beneficiaries being eligible for loans of $3,100 (the maximum affordable by a household earning $175 per month).

The purpose of these changes was made quite clear: the Director and Secretary wished to produce a document which defined policy in a convenient way to please the Minister, regardless of whether the project defined by the document could be implemented to benefit lower-income people. Therefore, in order that four-room houses could be built, only people with sufficient incomes should participate. This led to deletion of allocation targeting by income distribution and to the tacit understanding that only households earning close to $175 per month would be selected, thus narrowly meeting the HG Programme below-median income requirement while ensuring that the beneficiaries who were selected would be those who were most likely to be able to build four rooms. The negative "public relations" impact of this tacit understanding was offset by also deleting the requirement that beneficiaries earn an income sufficient to afford only a plot, thus making it appear that the project was open to all lower-income households and conveniently ignoring the fact that project requirements imposed by MOH also imposed a de-facto lower income limit which would be quite close to the upper income limit permitted by the HG Programme.

Other deletions and additions by MOH to the PDP were aimed at ensuring a major role for brigade construction, primarily by eliminating some of the overhead costs of brigade construction from the price of housing completed by them, by selecting only the highest-income beneficiaries permitted, by making it appear that everyone would get a $3,100 loan, and by restraining the attractiveness of aided self-help. In this instance, the $3,100 maximum affordable loan was a convenient number, since MOH was maintaining that brigades could produce a four-room house for little more than that, despite mounting evidence that real costs were likely to be nearly double their estimate.

The effect of these changes was to produce a PDP that would be more palatable to the Minister although unlikely to gain USAID approval or be a viable plan for implementation.

b. After a preliminary review by the Minister on August 10, it was further required that the PDP be amended to:

i. stipulate that four-room "cores" be developed by all beneficiaries;

ii. give no more than 18 months for progressive development of the four-room house (the difference

between 18 and 24 months being converted to a 6-month "grace" period available to builders at the option of the local authority);

iii. require that USAID disburse the remaining $5 million of HG funds at one time (Dec. 1, 1983);

iv. permit no beneficiary to live on-site during construction of housing.

The effect of these requirements was to reinforce the direction taken by the Director and Permanent Secretary; they also show how the sense of unity and cohesion among staff which was apparently emerging from the August 1 policy discussion collapsed in the short space of a few days. Although review and revision of the PDP continued after the Minister's preliminary review of August 10, it was aimed at ensuring that the document met the requirements stipulated by the Permanent Secretary and Minister.

3. during consultation with MOH before and at USAID Mission/GOZ progress conferences in early August, the Mission (which had been made aware by me of the possible policy changes of August 1) confined itself to making vague references to its pleasure with the possible policy changes and evidently accepted vague promises by MOH that an acceptable PDP would shortly be forthcoming. Mission interest in the project seems to be minimal to me, while its interest in either pleasing GOZ or at least not offending GOZ in any way seems extravagant to me. Please note that this statement of apparent criticism is solely my perception of events and that I have not been made aware of other circumstances which may impose constraints on the Mission vis-a-vis the project.

In summary, during the third quarter a variety of pressures on MOH produced a policy debate; there was considerable apparent progress toward policy rationalization; because pressure from all points collapsed, real progress toward rationalizing policy through internal debate remains doubtful. The key factor making internal rationalization of policy doubtful is perhaps that MOH staff did have the chance to have an impact on policy, did have some apparent effect, but failed to consolidate a legitimate role for themselves in policy deliberations.

B. Programmes and Projects: Impact on Policy

As revised in early September, 1983, the project procedures and regulations, especially that of requiring the completion of four rooms within 18 months, tend to contradict the level of assistance, especially financial assistance, that can be provided to beneficiaries. Since affordability

virtually dictates that beneficiaries opt for self-help, it is apparent that many beneficiaries will fail to meet stated project goals and it is likely that debate will occur about whether self-help has failed or whether policy is too restrictive.

Since the revised, MOH-approved PDP is now ready for circulation outside MOH, further rationalization of policy may occur through debate with agencies outside MOH, especially with the City of Harare. In order to develop some level of coordination between MOH and COH, as well as to provide a forum for discussion of policy and implementation, the PDP suggests setting up a "Project Management Oversight Committee" composed of MOH and COH staff. This will be established in the fourth quarter of 1983. Hopefully, the discussions of this committee can have a positive effect on policy which will be reflected in the final version of the PDP.

In my view, the time consumed in producing a reasonably acceptable PDP is well worthwhile. To be acceptable, the PDP should define policy in detail sufficient for guiding implementation; project components, procedures, and regulations should be a good "fit" with beneficiary ability, and project financial arrangements should be feasible. It is apparent that other projects developed by MOH, which are largely rural housing projects, will have little effect on policy. Other projects do not seek to define policy; rather, they never examine the implications of policy for implementation. Even a cursory examination of the planning which exists for other projects raises substantive questions about the feasibility of funding and implementing them, but such questions are discussed very little. The current MOH-approved PDP does set forward a reasonably detailed plan for implementation, but the MOH review of it in the past quarter has resulted in a contradictory plan lacking the consistency and flexibility needed for implementation. In my opinion, further review and revision after consultation with COH will be a valuable lesson for MOH because senior staff at MOH will be exposed to questioning of the plan's feasibility by others experienced in implementation. Hopefully, re-consideration of some of the restrictive or contradictory components of the plan will have an impact on policy, even if only by permitting greater flexibility of implementation methods.

C. Management: Institutional Capacity

The review of the PDP during the past quarter has shown quite clearly the management and institutional weaknesses of MOH. The management characteristics of MOH were elaborated in my report for the second quarter.

Although it may seem unlikely, it has taken the entire quarter to review the PDP and revise it into a version acceptable to MOH. The reasons for this slow performance include:

1. There are no decision-makers in MOH. Rather, all decision-making is centered in the office of the Minister. Even though staff may agree on a position, a decision of any importance must be cleared with the Permanent Secretary and Minister. As a consequence, making decisions with regard to the PDP was a lengthy process, particularly so since in general the Minister meets with the Director of TSD only once a week.

2. The scattering of functional responsibilities in the Ministry, which impedes swift action on almost any routine business, also impeded review of the PDP. It is difficult to get the right people in the right place at the right time. Review meetings were often scheduled and then canceled; some meetings had to review what had been reviewed previously, in order that staff who missed the previous meeting could be brought up to date.

3. The haphazard assigning of staff to functional responsibilities led to high turnover of staff from meeting to meeting. Who exactly would be at which meeting was hard to determine; frequently staff did not know they had been assigned a role in the review.

4. The lack of clear policy, or even clear direction by MOH made policy consideration and project programming difficult. Overall, led by the Director of TSD, MOH's approach to the PDP was that it should tell USAID as little as possible about virtually any project component. For example, the draft PDP had a section dealing with the establishment of a construction brigade by the City of Harare; this section was developed on the grounds that since brigade construction was an option for beneficiaries to choose, the PDP should set out a plan for establishing the brigade. This section was deleted entirely by the Director of TSD on the grounds that it would make it appear that MOH was making a committment to give funds to COH, that USAID shouldn't know what the costs entailed were, and since it was stated elsewhere in the PDP that a brigade would be established, USAID should take MOH's word for it that one would be established. Such discussions consumed considerable time.

My over-riding concern with preparation of the PDP was to produce a document sufficiently detailed that principles

could be turned into actions; overall, the factors referred to above had the effect of making it almost impossible for MOH to concentrate on the task. It would appear, however, that the time spent on the review has at least familiarized staff with the issues and has led to a reasonably detailed document being produced, one sufficiently detailed to permit further substantive discussion.

Within the management development framework set out in my report for the second quarter, of "effectiveness -- efficiency -- expansion -- maturity," as the sequence of organizational development, the performance of MOH in the review of the PDP showed clearly that MOH does not have the personality or capacity to examine critically its own development. Nor does it appear able to permit sufficient freedom of action or delegation of authority to enable staff to operate effectively or efficiently. A markedly high level of frustration was evident on the part of many of the staff who took part in the review. In addition, it appears that to some extent a virtual paranoia has crept in at the most senior level, with a consequent "us versus them" attitude which stifles discussion and consultation.

In summary, it seems apparent after nine months with MOH that the factors deterring the growth of institutional capacity considerably outweigh the factors which could lead to an increase in capacity. The deterring factors seem more to be senior level weaknesses than junior level inability. This may lead to losses of expatriates and competent although inexperienced junior staff with a consequent decrease in the technical capacity of MOH. Although the rather stifling policy atmosphere clearly plays a significant role in deterring institutional growth at the present time, it appears to me that senior management capacity is so limited that even a far freer policy atmosphere, one in which staff could participate in policy formulation, would not necessarily lead to enhanced institutional capacity. In other words, without rigid guidance by the political level, the executive and technical levels of the Ministry might very well be unable to figure out what they should do. This reflects the fact that the roles and functions of MOH are still not clearly defined.

II. Contract Work Within Terms of Reference

Remarks on Progress:

1. "Assist MOH, COH, and secondary towns in preparing for implementation of housing project financed by USAID:

In general, the strategy used to provide this assistance has remained the same and proven prudent. This strategy has been: first -- assist MOH to prepare a conceptual plan and methodology for the projects; second -- develop a process by

which MOH and the local authority, especially COH, are engaged in substantive consultation; third -- assist the local authority to implement the project.

Essentially, COH remains unwilling to voluntarily engage itself in project planning, because COH staff have had several bad experiences with MOH. In effect, no working relationship now exists between MOH and COH at the staff level; COH's general attitude is that MOH must provide fairly specific policy guidance before COH will again undertake an active role in project preparation. COH does, however, liaise directly with me on a limited basis, especially with regard to financing of the project, in order to produce the capital and recurrent estimates it requires for its financial planning. It seems apparent that once a written specific project document is produced, COH will willingly engage itself in further project preparation, especially if a consultative process (MOH/COH) is developed.

Therefore, most of my work in this area of my contract's terms has in this quarter been on the PDP, since it is the means by which MOH will produce specific guidance for COH. Since the PDP was completed in draft form by me in early July, emphasis in this quarter has been on getting it reviewed and revised by MOH, so that it can be discussed with other agencies, including COH, thus opening opportunities to provide substantive assistance to COH. Details of this review process are found earlier in this report.

2. "In conjunction with counterpart staff, identify and recommend resource requirements."

No counterpart staff are available. MOH's policy that all MOH staff should be engaged as needed to work with advisors has in practice meant that no one is regularly available; that no one is assigned to any specific area of responsibility, and that no one has developed much more than a passing acquaintance with the project except for the Director of TSD, whose responsiveness to other pressures in MOH far outweighs his reponsiveness to advice. In effect, the PDP identified and recommended project resource requirements in considerable detail; these recommendations have been considered in review of the PDP but rejected to a considerable extent, largely on non-technical grounds. The resource requirements included in the revised PDP, such as the level of funding needed for housing loans, are the product of wishful thinking rather than analysis of facts. No consideration has been given even to whether the GOZ can or should make the exaggerated project contribution now set out in the revised PDP. Although the greatly diminished FY83/84 MOH budget clearly demonstrates the scarcity of local resources for housing, MOH continues to plan as if there were no resource constraints.

3. "Mobilize and organize small contractors and beneficiaries for mutual self help."

(7.) "Identify their training requirements."

Proposals for self-help construction, including mutual self-help, are included in the revised PDP. Training requirements of small contractors and beneficiaries are not known, although the PDP sets out a comprehensive package of orientation and technical assistance for beneficiaries. MOH regards contractors of any size with suspicion; during review of the PDP it became accepted that many beneficiaries who opt for self-help would indeed be opting to hire a small builder. However, mobilizing or organizing small contractors will not occur until the project is implemented, because of the sensitivity of the issue. COH experience with Glen View indicates that there will be no problem identifying small contractors to participate in Parkridge/Fontainbleau.

4. "Develop fair allocation procedures."

Fair allocation procedures were proposed in the draft PDP. The proposed allocation procedures suggested spreading the project's shelter opportunities across approximately the 20th to 50th percentiles of income distribution by targeting a set number of plots to a set number of households according to income distribution within the 20th to 50th percentiles. Because the targeting method used permitted reasonably accurate estimating of the financial resources required by the target population, a reasonably accurate estimate could be developed for both the average affordable loan ($2,038) and the total housing loans budget.

These procedures were rejected by MOH for two reasons: first, the procedures did not permit allocation in strict accordance with the existing housing waiting list; second, they obviously would not enable all allocations to be made to households earning very close to the median income of $175 per month, as desired by MOH. Obviously, allocation in strict accord with the waiting list will also not enable all allottees to be those households earning near the median, but the contradiction between MOH's two reasons for rejecting the allocation procedures was apparently not understood by MOH staff. It is very clear that during allocation MOH will attempt to skew allocations toward the upper-most ranks of the below-median income households on the waiting list. However, because of earlier insistence by MOH that the waiting list be strictly observed during allocation, it is likely that the final PDP will provide for allocation in strict accord with the waiting list. Because MOH has accused COH of not allocating according to the list, it will become difficult for MOH to skew allocation toward households near the median, unless MOH issues instruction in writing to COH to force a skewed allocation, which is unlikely to occur.

5. "Prepare educational and training aids."

Synopsis of aided self-help and case study of self-help housing in Seychelles prepared for use in the UNCHS staff training programme. No activity with regard to USAID project anticipated until on-site implementation begins.

6. "Assist in supervision of construction."

Work in this area is limited since only infrastructure is currently under construction. However, requests to the consultant engineers (J. Burrow Partners) to provide final revised estimates of infrastructure costs, to permit revision of the PDP budget resulted in obtaining documentary evidence of significant cost over-runs in Phase I infrastructure work. The over-runs amounted to about 26% of the original tender prices. Analysis of the reasons for the over-runs showed that the primary reason was that variation orders had been issued very freely on all the contracts. A number of these variation orders were for substantial amounts of work (for example, a $100,000 storm drain), some for work which had simply been forgotten by the consultants when planning the project, some due to physical contingencies.

While some of the over-run was due to price increases allowed under the contracts, the sheer volume of variation orders issued was ample evidence that financial control of the infrastructure was lacking, if not non-existent. This was not solely the fault of the consultant engineers. Early during implementation, they did inform MOH of necessary or desirable changes and request permission to authorize variation orders. However, MOH rarely if ever responded, largely because these requests were simply not dealt with by the then acting director of TSD, a non-technical person. Since the consultants were unable to obtain direction from MOH, and since MOH apparently had no concern about how much the work cost, it became standard practice to simply issue variation orders for virtually any change. For example, at some time during water and sewerage installation it was decided that installation by the contractors of water and sewer connections to every plot, including a standpipe and valve, would be desirable. Although this work cost about $325,000, MOH records have no reference to any discussion about carrying out this work, which was not included in the original scope of infrastructure construction. The consultants defended their decision by referring to a cryptic note in some poorly-prepared "minutes" of a meeting long ago, which they stated gave them authorization to proceed.

I believed that it was urgently necessary to provide a means for greater financial control over contract work. Since it was apparent that MOH still was little-concerned about the total cost of the work, it seemed necessary to at least provide a mechanism by which the responsibility for deciding on the issuing of variation orders would be clear;

further, it seemed reasonable that MOH should be the agency making the financial decision, with assistance by the consultants. Therefore, I prepared a letter to the consultants, which after considerable discussion the Director of TSD signed and sent, instructing them to issue no variation orders without the written consent of MOH; the letter also instructed them to provide information about the proposed variation order and its financial cost to MOH at the time of requesting permission to issue the order.

This mechanism may well slow down work, since it seems unlikely that the Director of TSD will actually consider and respond quickly to requests for variations. However, it will also establish a clearer sense of responsibility within MOH for costs and reassert MOH control over the consultants.

7. see 3 above

8. "Organize bulk buying, storage, and distribution."

Procedures for this activity are outlined in the PDP.

9. "Develop and implement building materials loan program."

The building materials loan program procedures are outlined in the PDP; however, they may require revision to be workable, since MOH now requires that no more than 20% of a loan be in cash. More flexibility should be built into the loan program so that beneficiaries have greater choice over the source and kind of materials they wish to acquire.

A significant uncertainty at this point is exactly which COH agency will operate the materials store; the City Treasurer's Department or the Department of Community Services.

10. "Provide training."

Participated in the UNCHS/MOH staff training program which was carried out in July. Presented discussion paper on aided self-help; presented case study of self-help housing program in the Seychelles.

11. "Recommend ways and means of maximizing employment."

No activity.

SUMMARY:

Work on a number of specific contract responsibilities continues to be limited by protocol and the wide difference between MOH policy and the purposes of the project. Most activity has concentrated on providing assistance on the areas of contract responsibility during review of the PDP, thus most work has been directly with MOH staff. It appears

that more direct activity in areas of contract responsibility will only occur during implementation.

III. Additional Work

Additional work during the past quarter focused on assisting th UNCHS project team with preparing for the use of graduated payment mortgages in the two MOH/UNDP projects. I choose to provide inputs into this preparation because it appeared that MOH was viewing graduated payment mortgages very uncritically since GPM's can be viewed as a means for putting more capital into the hands of lower-income people. While this is often a desirable objective, the UNCHS staff and MOH were obviously viewing GPM's as a means of enabling people to "afford" the MOH standard four-room house. In effect, "progressive development" would be replaced by "progressive financing."

Of particular concern to me was the type of GPM chosen. It provides for a constant annual increase in payments over the life of the mortgage, i.e., payments would rise every year for 25 years. While this approach maximizes the amount of capital which can be "afforded," (by about 30% more than a level-payment mortgage), it poses a number of problems. First, it makes the assumption that income will rise at the same or a greater rate (the security of the loan and the probable repayment default rate rest on that assumption) so that beneficiaries can continue to "afford" the loan. Second, the GPM has the effect of virtually precluding any future additions to the housing by automatically absorbing the portion of increased future earnings which are likely to be devoted to shelter. Third, administering such loans is difficult, for three reasons:

1. The monthly payment amount changes annually;

2. If the nominal annual interest rate of the loans is variable rather than fixed, each fluctuation of the rate requires that a new amortization schedule be prepared. In the event of rapid rises in interest rates, the loans could become non-amortizing; obviously, the lending institution's cash flow of earnings from the loan could not be predicted accurately. This may affect infrastructure loans.

3. Administratively, simple interest is often difficult to explain to poorly-educated beneficiaries; compound interest is even more difficult. It is difficult for people to understand why their principal balance does not decline by the amount of every payment they make. In the case of the GPM proposed by the UNCHS team, the principal balance would actually rise significantly for about 10/12 years before beginning to be reduced; only after 18/20 years would the initial principal begin to be reduced. It would seem likely that friction between beneficiaries and municipal administration could be high when beneficiaries wishing to

pre-pay loans discovered they still owed more than they had originally borrowed, even after making payments for a number of years. Although GPMs are often criticized as difficult to administer because amortization schedules must be tailored for virtually each borrower, and because payments do change, these problems can be overcome technically; it would seem much more difficult to overcome "consumer resistance" to the mechanics of repayment.

The major advantage of GPMs in this project is that it provides a method for attracting some Building Society money into lower-income housing. In these specific projects, the GPM used (5% constant annual increase in payments; 25 year maturity; 12.5% nominal interest rate) enables beneficiaries to receive about 30.5% more initial capital than they could afford with a level-payment 25-year, 12.5% mortgage. It also offers a means, over a long term, for increasing the "pool" of housing finance available for re-lending, since the total repayments made under the GPM considerably exceed the total repayments made under a level-payment mortgage with the same interest rate and maturity.

These advantages, however, should be examined against the disadvantages. Even assuming that the administrative problems can be overcome through training, the effects of the GPM chosen by UNCHS/MOH on beneficiaries and on housing finance in both the public and private sectors include the following primarily financial considerations:

Since payments rise every year, and never "flatten-out," disposable income must rise every year by at least the amount the payments rise. While an annual income rise of 5% seems likely, obviously, if incomes do not rise at least as fast as inflation (currently 15%-17% for urban families and 30% for rural families, according to GOZ), housing payments will be harder and harder to make, because families will have to choose between housing and other necessities. This is a likely consequence of the GPM and is of particular concern since the GOZ is de-subsidizing staple food prices and, in the last round of wage increases, raised wages by a dollar amount equivalent only to the amount of the decrease in staple food subsidies. Clearly, the percentage of a household's budget used for food rose while the percentage available to pay for shelter fell.

Trends of income and economic demand for shelter are unpredictable. Evidence shows that in fact, since many poor people are able over a period of years to improve their housing, they must be able to find the money to pay for it. Improvements, however, are made at their own pace. The GPM combines with MOH policy to fix "progressive development" into a rigid pattern. MOH policy assumes that people are willing to pay 25% to 27.5% of total income for housing; when GPM loans are made using that assumption to calculate the amount of capital which can be borrowed, the GPM tacitly

assumes that people will for the next 25 years continue to be willing to pay that percentage of income for housing. Since suvery evidence shows that most lower-income families now pay only 16%-18% of income for housing, it seems unlikely that the two assumptions are true.

In effect, by replacing progressive development with "progressive financing," people are given as much housing as they can possibly afford now and, in order to continue to afford it, their ability to afford it can not decline. At the same time, their ability to improve their housing is inhibited by the fact that increased ability to pay for shelter due to increased earnings is absorbed by increases in GPM payments, thus making saving for improvements difficult.

For example, assuming that ability to pay for shelter does rise 5% a year, a person who by paying 25% of his total income could now afford a $3000 GPM loan on UNCHS/MOH terms would pay $22.82 per month in the first year. In ten years, since increased GPM payments would have absorbed any potential savings for improvement, he would have no savings to put toward shelter improvement, his monthly payments would have risen to $32.82 (i.e. remained at 25% of total income) and the balance on his GPM loan would stand at $3,865 (an increase of $865 of debt).

If the same person took a level-payment mortgage at the same interest rate (12.5%) and term (25 years), he could only afford now to borrow $2,086, by paying the same $22.82 per month. However, in 10 years, by saving his increased ability to pay for shelter, he would have accumulated $2,570, his monthly payment would still be $22.82 (or 17.7% of his income), and his loan balance would have been reduced by $165.

Such a comparison makes several aspects of GPM's fairly clear. It makes it possible to put more capital into the hands of a person now, enabling them to purchase more shelter than they otherwise could obtain. However, in effect, either shelter resources need to be expanded considerably in order to provide shelter opportunities to the same number of people now, or fewer people can have the opportunity to obtain shelter. Assuming that people can afford the initial payment now and also assuming that incomes will rise commensurate with GPM payments over the entire period of the mortgage is not the same as assuming that in each year of the mortgage people will actually be able to afford the payments. It is likely that incomes will not rise steadily (even if the rises do average the needed increase) and that consumption patterns will change (willingness to pay for shelter vis-a-vis other necessities). Therefore, it is also likely that, since the GPM fixes the portion of income to be paid for shelter, the default rate on payments will be higher than would otherwise occur, causing administrative, financial, and political problems greater than would otherwise occur. Pre-payment of

loans would be more difficult for borrowers since loan balances rise for a period of years before reducing, and security for lenders would be more hazardous for the same reason.

For example, the person borrowing a GPM loan of $3,000 would have to pay $3,865 in 10 years to pay off the loan; should he default, the value of the house would have to have risen to at least that amount to permit the lender to recover the entire outstanding balance (i.e., recover both principal and capitalized interest). On the other hand, a person borrowing a level-payment mortgage of the same terms (12.5% and 25 years) would have to pay off a balance of about $2,644 and the house would not have had to increase at all in value to permit the lender to recover the outstanding balance in the event of default.

In a sense, the GPM loan is commendable for its potential ability to increase the pool of housing resources. For example, a $1,000 GPM loan (12.5%, 25 years, 5% constant annual progression) earns a total of $3,345 in interest over the life of the mortgage while a level-payment mortgage on the same terms earns only $2,291. In order for a fixed-rate loan of $1,000 to earn as much as the GPM, the level-payment mortgage would have to carry an interest rate of about 21.5%. While questions would certainly be raised about the equity of mobilizing such an increase in housing resources from lower-income people, in the case of the two UNCHS projects, other questions can also be raised. In particular, although the GPM defers the increased earnings for about 20 years, they do eventually come to benefit the building societies by increasing their assets. Therefore, since the building societies benefit more than they would if they lent to lower-income people on conventional terms at current market rates, it seems only fair to insist that they assume a considerable share of the risk, absorb some administrative and other costs, and be required to use at least the increased earnings for further investment in lower-income housing. On the whole, a simpler mechanism for attracting building society funds for lower-income housing would seem desirable.

My activity in this area during the past quarter has been motivated by my concern about affordability in general and the the proposed GPM in particular. In addition to making comments as set out above to UNCHS staff, I have suggested alternatives to the GPM proposed, such as GPM's which "flatten-out" after a period of years or which have less capitalized interest, and sequentially-escalating mortgages. In my opinion, the GPM proposed raises several fundamental issues about affordability and financial soundness which unless thoughtfully resolved could have significant impacts on the HG Program projects.

IV. Issues To Be Resolved

Issues to be resolved revolve primarily around finalizing the Project Delivery Plan. Please see Section 1 and Section 2 for details.

Other issues requiring resolution are found in the following section.

V. Grant Project 613-0205

So far, the grant project under which my assistance has been provided to the MOH has been hampered by slow delivery of commodities to be provided through the grant. Specifically, training equipment to be purchased by the USAID Mission has not yet been ordered, although both Richard Beardmore and I have responded as quickly as possible to Mission requests for information about the equipment, including preparing draft telexes, providing specific information on equipment, and ensuring that MOH is consulted. This equipment would be very valuable in preparing for and carrying out the planned Management Training Program, but it now appears unlikely to be available. Equipment procured locally by MOH is on hand.

A further problem with the grant is that MOH shows little understanding of how the grant could be used, and little interest in either using what it does receive properly or making proposals to use other grant funds for specialized technical assistance or for training. It seems unlikely that the full amount of the grant will be utilized by MOH within the period of the grant.

MOH clearly views what it has received under the grant, in terms of commodities, as essentially for MOH use rather than project use. To date, only one vehicle has been received, a Peugeot 504 sedan. Although Mr. Beardmore and I put USAID stickers on it as soon as it arrived, it currently is unmarked. Keys and log book for it are kept personally by the Permanent Secretary, who finds it necessary to control use of the vehicle himself. Right now, the vehicle is only occasionally required for project travel and is generally available as required. However, most of its use is for non-project purposes. As project planning moves forward, increased consultation with COH will require greater project use of the vehicle. As implementation takes place, the project's transport requirements will become greater.

While some of this transport requirement will be offset by delivery of the micro-bus and two trucks now on order, it is apparent that MOH will not willingly release vehicles for full-time project use. Of particular concern to me is the fact that lack of transport has hampered my work, and the evidence that MOH views the vehicles as being solely under its control without regard to the stipulations of the grant

agreement. This has resulted during the past quarter in some friction between the Permanent Secretary and myself. After completing the draft PDP and revising it after MOH review, I proposed that, as planned, I would begin to assist COH on a much more frequent basis, probably daily, and therefore requested that the project vehicle be made available to me on a more or less full-time basis, while noting that obviously I was completely willing to ensure that it would be available for other project uses.

My memo proposing this was reviewed by the Director of TSD prior to going to the Permanent Secretary. The Director stated that it was unlikely the Secretary would permit the vehicle to be made available and suggested that I either delete the request for transport or simply note that transport may be required. I pointed out that active consultation with COH by me had been agreed to, that I did in fact require transport, that the vehicle was specifically for the project, and that not only did I view my request as reasonable and proper, but that I couldn't endorse non-project use of the vehicle when it was required for project use. The Director then agreed to forward the memo to the Secretary.

The following Friday the Secretary called me into his office, together with Mr. Beardmore, the Director, and both Deputy Secretaries. He was visibly angry and stated that my memo accused him of mis-administering the vehicle. He was also upset, he said, by another memo of mine which reviewed the changes made by MOH to the original draft Project Delivery Plan, which he viewed as too critical of MOH policy. I said I failed to see how my memo could be construed as accusing him of mis-administering the vehicle (copy of the memo is attached) and noted that I had in fact been notifying him that there would be greater project need for transport than had been the case before MOH-approval of a draft PDP, that I had offered to share the vehicle with other project needs, and that in view of MOH's scarcity of transport, that I had suggested several times previously that we review the list of vehicles to be acquired for the project with a view to amending it to acquiring within the commodities budget more vehicles of greater use to MOH.

Obviously, my reply and position was not agreeable to the Secretary. He stated that the vehicle was government property and its use government-controlled; that his use of it (such as taking it home at night) was proper because he needed often to attend early meetings or go to the airport, and that other senior officials did the same thing; that my request was unfortunate primarily because it had been in writing and therefore required a reply. He said that if the way the vehicle was being used was not proper (perhaps 5% to 10% of its use was for project purposes), it would be handed over to Mr. Beardmore and I and that USAID would have to fuel it, maintain it, license it, and insure it, as was the case

with UNDP vehicles (due to inability of GOZ and UN to agree on a vehicle operating plan). He was unwilling to listen to an explanation of vehicle arrangements set forward in the grant agreement.

The Secretary then said that he was considering whether he should have me thrown out of the country for making the request and for having been critical of MOH in the memo I wrote about changes to the PDP (also attached). Since he did have to reply to the memo about the vehicle (the other memo simply made recommendations, no requests) he would consider his reply and inform me on Monday whether he would throw me out. However, on Monday he informed me, again in a meeting with the same group, that he would simply forget the matter and make no response to the request. Should I repeat such a request in writing, he said, he would have me thrown out of the country.

A few days later I reviewed the incident with the Mission Project Officer, stated my concern about proper use of commodities received under the grant, and suggested that the Mission clarify the situation with MOH before further commodities, especially vehicles, were received.

V. Work Programme For Fourth Quarter

The following tasks are foreseen for the fourth quarter:

1. To assist in making the Project Management Oversight Committee operational; through it, to contribute further to rationalizing housing policy with regard to the HG projects.

2. To assist in revising the PDP, ensuring that comments by the City of Harare are reviewed through the mechanism of the Project Management Oversight Committee, with a view to gaining joint MOH/COH approval of a PDP which would be fairly acceptable to USAID, by the end of the quarter.

3. To prepare for the Management Training Programme, assist in its final planning, and participate in the training.

4. To participate in visits to and planning of Phase II projects.

MEMORANDUM

To Permanent Secretary Thru' Director, TSD	From Self-Help Housing Advisor (Cde Wagge)
Ref HC/HAR/4/1 P/3/49	Tel Ext. 3 Date 14th July, 1983

Subject: Revised PDP for Parkridge-Fontainbleau Phase I

Discussion: Attached are copies of a revised and comprehensive project delivery plan for the remainder of Phase One. This plan has been discussed in general with the City of Harare but not in detail. I draw your attention to the following points :-

1. Income levels set forward are based on the housing preference and demand study and affordability is based on shelter expenses limited to 25% of monthly income; therefore, a full range of housing loans/house sizes is set forward;

2. The roles and functions of the implementing agencies are detailed.

3. The budget and summary cash flow reflect anticipated total costs and display the timing and level of funding burden on GOZ and MOH.

4. This plan does not deal at all with Phase II, for which $6 million has been committed by MOH on infrastructure contracts.

Comments: The plan is based on the principles of affordability, participation only by below-median income households, free choice of mode of construction, and full recovery of costs. In my opinion, it reflects MOH policies with the exception of totally complying with the 4-room standard; meets Harare's housing needs; and, because it is based strictly on affordability, it is a MOH proposal likely to be approved by USAID.

Recommendation: I recommend that prior to further discussion with the City in regard to Parkridge-Fontainbleau, MOH consider carefully this plan, particularly the points raised above, and approve plan in principle (not final approval); or, with explicit guidance from you, modify the plan so that it can be approved in principle.

Following approval in principle, discuss the plan with the City with regard to revising non-policy issues and prepare a final draft for the approval of the City Council.

Following approval by Council and Council's request for borrowing powers approval, MOH give final approval and transmit plan to USAID.

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CDES. NCUBE
ISMAIL
MUTIWANYUKA
CHANA
GURER
HORRELL
BEARDMORE
WEGGE

Please make yourselves available for a meeting in the Conference Room on Monday, 1st August, 1983 at 9am to discuss;

1. What was agreed between the Government of Zimbabwe and Umtali States Aid for International Development with regards to the funding and development of low cost housing at Parkridge Fontainbleau, and secondary towns of Chinhoyi, Kadoma and Marondera.

2. What was agreed between the Government of Zimbabwe and the United Nations Development Programme with regards to pilot project at KweKwe and Gutu.

3. Project Delivery Plan for Parkridge Fontainbleau produced by Cde. Wegge.

4. Housing Corporation Paper produced by Cde. Mutiwanyuka.

5. Paper on Housing Policy for Minimum Wage Earners produced by Cde. Ncube.

IT IS IMPERATIVE FOR PEOPLE TO READ RELEVANT DOCUMENTS AND TO MAKE NOTES BEFORE COMING TO THE MEETING.

M.M. Chenga
SECRETARY FOR HOUSING

MMC/MS

26th July 1983

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REPORT AND RECOMMENDATIONS OF A WORKING PARTY CONVENED BY THE PERMANENT SECRETARY ON 1ST AUGUST, 1983 :

Present :	Cde. M. Chenga	Permanent Secretary
	Cde. N. Noube	Deputy Secretary (Policy)
	Cde. C. Mutiwanyuka	Deputy Secretary (A/F)
	Cde. H. Magdon-Ismail	Director, TSD.
	Cde. N. Horrell	Principal Architect
In Attendance:	Cde. Y. Gurer	UNCHS Advisor
	Cde. T. Chana	UN. C.T.A.
	Cde. J. Wegge	Self Help Housing Advisor
	Cde. R. Beardmore	Project Planning Advisor

1. The Working Party met in two sessions (5 hours) to examine the following :-

   a) Housing Policy for Minimum Wage Earners

   b) Agreements governing the USAID Housing Guarantee Projects and UNCHS/USAID Pilot Project. Summaries of these agreements are attached.

2. The members of the Working Party reached concensus on the following issues:

   a) Households earning the minimum domestic wage of $50 per month can only afford $12 for housing payments.

   b) Households earning the minimum industrial wage of $105 per month can only afford $26 for housing payments.

   c) Analysis of actual construction cost data of a four-roomed house implied a minimum monthly repayment of $28,35 for the house only.

   d) Analysis of actual stand development costs implied a minimum monthly repayment of $15, including recurrent service charges.

   e) A four-roomed house on a serviced stand is affordable only to households earning more than $175 per month.

   f) A serviced stand can be progressively developed by households with a wide range of incomes thus ensuring that, over time, even the minimum wage-earner can develop a fully completed home.

   g) The plot allocation agreements can be drawn up to ensure that the beneficiary completes house construction to an acceptable standard over a period of, say, 18 to 36 months.

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h) The rate of house construction will depend on the beneficiary's willingness, and ability to afford, save and build; technical, financial and community development assistance can be provided to facilitate this process.

i) The progressive development of the fully serviced stand could enable the beneficiary to save and mobilize his own domestic thrift potential to supplement public sector resources, leading to a more equitable spread of limited public financial resources over a greater number of people.

3. In view of the concensus reached in 2. above, the working group unanimously agreed the following points -

i) that financial resources for housing are limited, if not scarce, at both the household and national levels;

ii) that a fundamental element of a successful housing policy is the principle of affordability at both the household and national levels;

iii) that, at present, a serviced residential stand is affordable by all urban households earning the legal minimum wage, i.e. $50 per month;

iv) that an "open door" national housing policy must provide a full range of housing options and emphasises progressive development, i.e. it should allow for a continuum of solutions ranging from the "site only" option to a completely developed house.

v) that the adoption of the policy outlined in iv) above would:

a) maximise self-reliance in keeping with solialist policies of the Government;

b) facilitate the successful implementation of the Public Sector Investment Programme both domestically - and donor-funded.

Best Available Document

PERMANENT SECRETARY
Thru: DIRECTOR, T.S.D.

SELF-HELP ADVISOR
(CDE. WEGGE)

EXT: 5

HC/HAR/4/1

2 SEPTEMBER 1983

REVISED PHASE I PROJECT DELIVERY PLAN

Attached are copies of the revised draft project delivery plan. The document and my comments on it were reviewed on August 31 by the Director (TSD), the Deputy Secretary (A and F), the Deputy Secretary (Policy), the Project Planning Advisor, and myself. We agreed that the document should not be further revised now, but transmitted to MFEPD and City of Harare for their comments.

We also agreed that a time limit be set on receiving their written comments. Following review of their comments, MOH can prepare the final document. I have anticipated that two weeks will be needed to gather comments, and a further one to two weeks to prepare the final product. Therefore, it is expected that the PDP, with general agreement to it by MOH, COH, and MFEPD, should be ready for transmitting to USAID by the end of this month.

I have prepared letters (attached) of transmittal to COH and MFEPD. You will note that their letters inform them that I am their contact in MOH for the purpose of project review. I anticipate that, as agreed some months ago in keeping with my contract terms of reference, I will now spend considerable time at COH to facilitate review of the PDP and assist COH to prepare for implementation. Although I expect that work with COH on Phase I will occupy much of my time over the next several months, I will remain involved in planning of Phase II and, naturally, be available to MOH for other duties.

Since my work on the project will now involve considerable travel between MOH and COH, probably on a daily basis, I will require transportation. I request that the project vehicle be made available to me on an essentially full-time basis. Since only one vehicle is currently available to MOH for project transportation, I obviously am prepared to accommodate my need for the vehicle to other project requirements.

I anticipate beginning to provide assistance to COH, especially to the Department of Community Services, beginning September 6, and will liaise with them to make arrangements.

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