

PD/BAY 298

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BOTSWANA HOUSING FINANCE

PROJECT PAPER

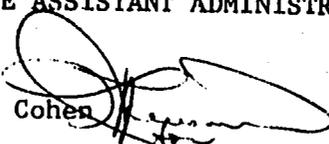
[633-HG-003]

June 1985

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Norman Cohen 

SUBJECT: Authorization of Housing Guaranty for Botswana Housing Finance, 633-HG-003

I. Problem: Your approval is requested for a \$14.0 million housing guaranty (HG) for the Government of Botswana (GOB) for a low-cost shelter project in the Francistown municipality.

II. Project Description: The purpose of the project is to bring about changes in GOB shelter sector policy so as: 1) to improve the capacity of municipal governments and GOB agencies to manage the financial aspects of low-cost shelter programs, with emphasis on Francistown and the Self Help Housing Agency (SHHA) and 2) to stimulate increased private sector involvement in and mobilize domestic capital for low-cost shelter programs. The project will consist of a Housing Guaranty loan of \$14.0 million to the Ministry of Finance and Development Planning for on-lending to the city of Francistown and the Botswana Building Society (BBS). The HG loan will be complemented by \$200,000 in grant funds from the Housing the Urban Poor (HUP) centrally funded project, which is administered by the Office of Housing and Urban Programs, Bureau for Private Enterprise.

The GOB will contribute approximately \$13.9 million to this project, and another \$5-6 million through the Botswana Housing Corporation, a parastatal. It will also contribute the land and the necessary personnel for project planning, implementation, and monitoring from the Ministry of Local Government and Lands and the Francistown Town Council (and other town councils with respect to BBS financing).

III. Background: Since independence in 1966, Botswana has been going through a rapid transformation from an almost entirely rural to a relatively urbanized country. This has contributed to rapid economic development; it has also placed a burden on institutions and resources to cope with the resettlement of a substantial segment of Botswana's population into urban areas. Botswana's largest cities, Gaborone and Francistown, have been growing in recent years at a rate of eight to ten percent per year, thus creating a shortage of adequate low-income housing.

AID has been involved in the Botswana shelter sector since 1976 when a \$2.4 million HG (633-HG-001) was authorized for site and service housing in Gaborone. To accompany the capital (HG) component, an Operational Program Grant (OPG) was authorized in

1977 to the Cooperative Housing Foundation, a non-profit U.S. institution. Through this OPG, resident advisors and short-term technical assistance were provided to strengthen the nascent Gaborone SHHA and to support the growth of the self-help housing approach for all cities of Botswana.

In 1982, the GOB requested that AID further assist in the provision of low-cost shelter for the expansion of Gaborone. AID's response was to finance through a second HG (622-HG-002) the first two phases of the westward expansion of the capital city. In addition to infrastructure, improved latrines, and building material loans, this \$15.0 million HG includes community facilities and small economic development activities in the project area.

During the past few years, in addition to continuing to support the SHHA program, AID has focused on national housing policy. AID advisors and short-term technical assistance are being utilized to improve the overall efficiency and equity within the shelter sector by working on a number of issues at the national level.

IV. ECPR Review of the Project Paper: The PP satisfactorily addressed a number of concerns which were raised at the time of the PID review. The most serious of these issues related to steps to avoid a subsidized interest rate to borrowers in this housing project and efforts to redress the recent record of severe debt arrearages experienced by the SHHA in payments by borrowers. An increase in the proposed interest rate from eight to ten percent was deemed sufficient to cover Government costs and to take account of the inflation factor. Arrearages remain a problem, but an action plan is being devised to deal with it more effectively, and the GOB intends to pass stricter regulations on foreclosure. Conditions precedent (detailed in the Project Paper) containing these and other measures designed to alleviate the arrearage problem will be placed in the Housing Program Agreement.

Two additional economic issues related to GOB policy were discussed at the ECPR and will appear within a covenant in the Guaranty Authorization. One will encourage the GOB to take steps to mobilize domestic capital as a future source of funding for low-income housing. Since Botswana is one of the few African countries with an excess of liquidity, it should not be necessary to borrow abroad for housing projects which can be financed largely with local currency. The GOB will also be encouraged to withdraw from the residential renting business, which has been largely subsidized and therefore unprofitable, by offering these units for sale to their occupants through attractive long-term mortgages.

The covenant calls for establishing a routine which regularizes policy dialogue over the life of the project on the above two issues and other issues which impact the GOB's ability to resolve

the shortage of low-income housing. The ECPR also agreed that the Housing Program Agreement should contain a refined project purpose statement. This document and the Project Paper contain the revised statement.

V. Initial Environmental Examination (IEE): The Africa Bureau's Environmental Officer concurred in and GC/AFR cleared the negative threshold decision recommended by USAID/Botswana at the PID stage. The reduction in life of project cost during project paper design has no impact on the environment..

VI. Project Management and Implementation: The Regional Housing and Urban Development Office for East and Southern Africa, RHUDO/E&SA, in Nairobi, will be responsible for implementation of this project.

VII. Recommendation: That you sign the attached Housing Guaranty Authorization.

Attachments: Guaranty Authorization
Project Paper

Clearances:

AFR/PD/SAP:WStickel	<u>WS</u>	Date	<u>6/12/85</u>
AFR/SA:LPompa	<u>LP</u>	Date	<u>6/13/85</u>
AFR/DP:DWilson	Draft	Date	<u>6/13/85</u>
AFR/TR/SDP:BBoyd	Draft	Date	<u>6/11/85</u>
GC/H:BVeret	Draft	Date	<u>6/10/85</u>
PRE/H:MPita	Draft	Date	<u>6/13/85</u>
DAA/AFR/ESA:LSalers	<u>LS</u>	Date	<u>6/14/85</u>

AFR/PD/SAP:^{WE}Welllott:6/6/85:632-8818:WANG 2101L

PROJECT DATA SHEET

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete
 Amendment Number
 DOCUMENT CODE 3

3. PROJECT NUMBER
 633-HG-003

4. PROJECT TITLE (maximum 40 characters)
 Botswana Housing Finance

5. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM YY
 06 30 90

7. ESTIMATED DATE OF OBLIGATION
 (Under "B" below, enter 1, 2, 3, or 4)
 A. Initial FY 86 B. Quarter C. Final FY 90

8. COSTS (\$000 OR EQUIVALENT \$1 = P 1.43)

A. FUNDING SOURCE	FIRST FY 86			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
1. Appropriated Total	30		30	200		200
(Grant)	(30)	()	(30)	(200)	()	(200)
(Loan)	()	()	()	()	()	()
Other U.S. 1. HG Loan	7,000		7,000	14,000		14,000
2. _____						
Host Country		365	365		13,900	13,900
Other Donor(s)						
TOTALS	7,030	365	7,395	14,200		28,100

9. SCHEDULE OF AID FUNDING (\$000)

D. OBLIGATIONS TO DATE	E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
	1. Grant	2. Loan	1. Grant	2. Loan
(1) HG	720	865		
(2) HUP	720	866	200	14,000
(3) _____				
TOTALS	1,440	1,731	200	14,000

10. SECONDARY TECHNICAL CODES (maximum 3 codes of 3 positions each)
 840

11. SECONDARY PURPOSE CODE
 720

12. SPECIAL COMMENTS CODES (maximum 7 codes of 4 positions each)

A. Code	BUW	DEL	EQTY	INTR	LAB	PART
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The purpose of the project is to bring about changes in GOB shelter sector policy so as: 1) to improve the capacity of municipal governments and GOB agencies to manage the financial aspects of low-cost shelter programs, with emphasis on Francistown and the Self Help Housing Agency (SHHA) and 2) to stimulate increased private sector involvement in and mobilize domestic capital for low-cost shelter programs.

13. SCHEDULED EVALUATIONS

Interim MM YY 06 87 Final MM YY 01 90

14. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify)

15. AMENDMENT NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

APPROVED BY
 Signature: Paul Guedet
 Name: Paul Guedet
 Title: Director, USAID/Botswana

Date Signed: 03 26 85

16. IF YES DOCUMENT RECEIVED IN AID/1, OR FOR AID/1 DOCUMENTS DATE OF DISTRIBUTION

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I. SUMMARY AND RECOMMENDATIONS

A. BACKGROUND

Since independence in 1966, Botswana has been going through a rapid transformation from an almost entirely rural to a relatively urbanized country. This has contributed to rapid economic development; it has also placed a burden on institutions and resources to cope with the resettlement of a substantial segment of Botswana's population into urban areas. Botswana's two largest cities, Gaborone and Francistown, have been growing in recent years at a rate of eight to 10 percent per year.

AID continues to play a crucial role in assisting Botswana to meet the low-cost shelter demand that has accompanied this urban growth. AID has been involved in the Botswana shelter sector since 1976 when a \$2.4 million HG (633-HG-001) was authorized for site and service housing in Gaborone. That HG loan provided for the overall development of the Broadhurst II area of Gaborone, by financing basic infrastructure (roads, drainage, water reticulation, and streetlighting), improved latrines, and building material loans to plot allottees for self-help construction. A total of 1,808 plots for low-income families were developed.

To accompany the capital (HG) component, an Operational Program Grant (OPG) was authorized in 1977 to the Cooperative Housing Foundation, a non-profit U.S. institution. Through this OPG, resident advisors and short-term technical assistance were provided to strengthen the nascent Gaborone Self-Help Housing Agency (SHHA) and to support the growth of the self-help housing approach for all cities of Botswana. This OPG also funded technical support to the GOB to develop a national housing policy. Funds for this first HG project and the OPG are fully disbursed.

In 1982, the Government of Botswana (GOB) requested that AID further assist in the provision of low-cost shelter for the expansion of Gaborone. AID's response was to finance through a second HG (633-HG-002) the first two phases of the westward expansion of the capital city to an area known as Gaborone West. In addition to infrastructure, improved latrines, and building material loans, this \$15 million HG includes community facilities and small economic development activities in the project area. All the infrastructure for the first phase (1,700 site and service

plots) of this project is in place. All of the plots have been allocated and substantial self-help construction is in progress. Construction on the second phase will begin in FY 1986. A total of 3,200 site and service plots are contained in the Gaborone West project.

A grant for \$1,070,000 accompanies the Gaborone West project. This is a follow-up to the OPG, and provides:

- An advisor to the Gaborone SHHA to enhance its capacity to provide assistance to plotholders in self-help construction;
- Two advisors to staff the newly created Housing Section in the Ministry of Local Government and Lands (MLGL);
- Short-term technical assistance for special studies and issues; and
- Training for SHHA personnel.

Today a SHHA is an integral component of each of the four major city governments. However, some management problems persist, particularly in the area of cost recovery. The self-help concept, applying low infrastructure standards, is fully accepted by the Government, embodied in national policy, and reflected in the development plans for each of Botswana's cities.

During the past few years, in addition to continuing to support the SHHA program, AID has focused on national housing policy. AID advisors and short-term technical assistance are being utilized to improve the overall efficiency and equity within the shelter sector, by working on a number of issues at the national level. A permanent role for the national government in shelter policy and planning is being established. This project represents a further evolution of AID's involvement. While again supporting the SHHA program, this project has several components that represent an effort by the GOB and AID working together, to try new approaches to refocus the public and broaden the private roles in shelter. This is most appropriate at this time because Botswana is at a point of transition. Although Botswana has had rapid urban growth since independence, the small absolute number of urban dwellers and the very rapid growth of the GNP until the early 1980's gave the government the "breathing space" lacked by so many other African nations. Today, the cities are reaching a size where issues of urban efficiency and

appropriate urban investment must be considered at the same time that the nation is facing what is expected to be a long period of only modest economic growth.

With these conditions noted as background, AID, the GOB, and the Francistown Town Council began discussions in February, 1984 about providing assistance to the development of that City. Although the GOB approached AID about financing through a HG development of a certain area, known as Phase IV, discussions since February have been broad-based. It was agreed that although Francistown will be the initial target of the project, a component of the project would be programmatic in nature, with HG funds applied to finance low-cost housing throughout the country. Further, it was agreed that the Francistown component itself would be designed in consideration of some of the systemic problems with the existing housing delivery system affecting all urban areas of Botswana. In this sense, the HG investment in Francistown will be seen as a demonstration for national application. The project described represents a consensus among AID, the Francistown Town Council, and the Government of Botswana on how urban growth can best be accommodated over the next decade.

B. THE PROBLEM

As indicated by a recent AID-funded study of long-term housing finance needs in Botswana, the percent of GDP invested in housing must rise from 3.2 percent to five percent in order to accommodate population growth and urban migration. This study also showed that not more than 20 percent of urban families could afford the full cost of a completed house at the minimum standard now used by the Botswana Housing Corporation (BHC). Given the sparsity of private housing finance in the country, this places a large burden on the one remaining alternative to squatting, low-cost site and service housing financed by the Government.

The one building society in the country, although expanding its operation, has not to date complemented direct government low-cost shelter programs. The excessive burden placed on government shelter programs is evident in the inability of government institutions to sustain a sufficient production level, and to provide adequate monitoring, long-range planning, and, in the case of the SHHA's, technical and community development assistance to pliotholders.

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The ill effects of inadequate resources allocated for shelter and the overburden on public institutions is most evident in Francistown. That city is faced with an unprecedented population growth that has overwhelmed the capacity of the GOB and the municipality to respond. The result is a proliferation of highly unsanitary squatter settlements, now estimated at 2,200 households. This is an alarming situation for Botswana, which to date has been relatively successful in attending to the problems that so often cause squatting in Africa. While the rate of population growth would challenge any city of the developing world, the situation in Francistown is compounded due to systemic problems, some of which are on a national scale, in the delivery of shelter and services to low and middle-income families.

In addition to the existing shelter deficit, Francistown's high annual growth rate of nine percent requires 700 new housing units per Year. Although not a large number in absolute terms, this pace of growth nonetheless strains the institutional capacity of the City and its financial resources. Francistown's growing and important role as the commercial and government center for northern Botswana is jeopardized by the current inability to properly manage its finances, alleviate its backlog of shelter demand, and accommodate the future shelter needs of a rapidly growing population.

The Francistown government operating budget deficit has grown steadily since 1980. For the current year, the national government grant offsetting this deficit rose to 28.6 percent of the City's budget. This reflects both poor financial management and a failure to fully recover costs in the large self-help housing program, which now constitutes the largest component of the deficit. This reliance on national funding is contrary to government policy. As Francistown's importance to the national economy grows, its inability to generate adequate resources will further hamper its ability to support the economic development of the City and to provide and service shelter for low and middle-income families. The worsening financial problems are also contrary to the trend, supported by GOB policy, toward greater autonomy for Botswana's cities.

C. SUMMARY PROJECT DESCRIPTION

1. Goal and Purposes

The goal of this project is to improve shelter and urban services for low-income families.

The purpose of this project is to bring about changes in GOB shelter sector policy so as: (1) to improve the capacity of municipal governments and GOB agencies to manage the financial aspects of low-cost shelter programs, with emphasis on Francistown and the Self Help Housing Agency (SHHA) and (2) to stimulate increased private sector involvement and mobilize domestic capital for low-cost shelter programs.

2. Project Inputs

This project will consist of a Housing Guaranty loan of \$14 million to the Ministry of Finance and Development Planning for on-lending to the city of Francistown and the Botswana Building Society (BBS). The HG loan will be complemented by \$200,000 in grant funds from the Housing the Urban Poor (HUP) centrally funded project, which is administered by the Office of Housing and Urban Programs, Bureau for Private Enterprise.

The Government of Botswana will contribute approximately \$13.9 million to this project, and another \$5-6 million through the Botswana Housing Corporation, a parastatal. It will also contribute the land and the necessary personnel for project planning, implementation, and monitoring from the Ministry of Local Government and Lands and the Francistown Town Council (and other town councils with respect to BBS financing).

3. Project Outputs

The project outputs will consist of the following:

Physical*

- 1,125 squatter plots upgraded.
- 2,325 site and service plots.

*All physical outputs will be in Francistown except for the 600 sewered plots and associated BBS loans, of which approximately 250 will be in Francistown and 350 will be in other Botswana cities.

13x

- 1,700 - 2,000 building loans for SHHA areas.
- 600 low/medium-income sewerage site and service plots.
- 600 loans through the Botswana Building Society for plot purchase and house construction.
- 315 Botswana Housing Corporation completed houses.
- Primary schools, community facilities, SHHA ward office, and small enterprise plots.
- Maintenance equipment for the Francistown Engineer's Department.
- Sewage effluent system.

Institutional

- Improved cost recovery through reduction in SHHA program arrears.
- Increased capability of the Francistown SHHA to allocate low-cost plots and facilitate their development.
- Organizational development of municipal treasury departments.
- Capacity of the private sector to provide long-term mortgage lending to low/middle-income families nationwide.

Policy

- Effective national cost recovery procedures for shelter expenses.
- Better access to secure land tenure for mortgage lending.
- Complementary participation of the private sector in Government-initiated land development projects nationwide.

4. Beneficiaries

Direct beneficiaries of this project will be families below the Botswana urban median income of P2,400* (\$1,680) per year. About 28 percent will be existing squatter families in Francistown, whose incomes are substantially below the

*An exchange rate of P1.00 = \$.70 is used throughout this document.

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median. Fifty-seven (57) percent of the families will be allottees of new site and service plots, most of whom now live in Francistown in squatter areas that cannot be upgraded, or are renting rooms in other low-cost areas. The remainder (15 percent) will be families in Francistown and other urban areas near the median income, who purchase plots, developed to somewhat higher infrastructure standards, through private sector finance.

Indirect beneficiaries will include those who receive employment in construction of the infrastructure, and small informal builders who are hired for much of the actual house construction. Other beneficiaries will be those who establish small businesses as a result of the 50-100 small enterprise plots to be developed with HG financing, or who gain employment in the major industrial area contained in this overall development.

D. PROJECT IDENTIFICATION DOCUMENT ISSUES

The following issues were raised during the review of the PID for this project:

1. Interest Rates: The project committee noted that subsidized interest rates should be avoided to the maximum extent possible. As a result of discussions with the GOB during preparation of this project paper a basic on-lending rate of 10 percent has been agreed to. This is an increase from the eight percent previously charged by the central Government for this type of on-lending. Given the fact that a variable rate HG loan is likely, it is not practical to relate the on-lending rate directly to the HG rate. For example, given the typical spread over the 26-week Treasury Bill rate, the current HG rate would now be around nine percent, whereas the GOB would have been paying around 11 percent on this same loan in mid-1984.

In considering the proposed on-lending rate of 10 percent, the project team assessed domestic savings and borrowing rates of commercial banks, the cost of funds to the Government, the liquidity situation of financial institutions as an indicator of future interest rate movement, and the inflation rate. Ten (10) percent was found to be generally consistent with these various factors. Furthermore, it reflects a reasonable estimate of what the average HG interest rate might be over a 30-year period. (see Section V.E.2 for an analysis of the on-lending rates).

15x.

Also raised under the heading of interest rates were the subsidies for Botswana Housing Corporation housing. This is rental housing, and the subsidy is in the form of sub-economic rents. The National Housing Policy calls for BHC to move toward "economic rents," and this issue is being addressed by the housing advisors in country. Because of the fact that the standards for BHC housing were not based on affordability, and hence much of this housing is rented to families who could not now afford its full cost, a sudden escalation of rents to economic levels is not feasible. The GOB and the BHC are, however, now considering a stepwise increase over several years to bring these rents toward economic levels.

2. SHHA Arrearage Problem: The seriousness of this problem was noted, and the project committee recommended a condition precedent or covenant concerning the submission of an acceptable plan to reduce arrearages among plottolders in SHHA areas. The Francistown Town Council has been advised that the borrowing and disbursements will be contingent upon attaining councillors' support on this issue by way of a formal resolution, reaching periodic goals for the reduction of arrearages, and implementing a detailed and updated action plan for dealing with this problem. Further, MLGL has been informed that the implementation agreement will contain a condition precedent (see Section IV.G) that the Government pass new regulations and procedures for foreclosure, which AID has already approved. (see Section V.E.4 for a further discussion of SHHA arrearages).

II. PROJECT RATIONALE

A. GOVERNMENT OF BOTSWANA HOUSING POLICY

In early 1980, Botswana formed a Presidential Commission on Housing Policy. This Commission, with technical support from AID, produced a comprehensive National Housing Policy, which was adopted by Parliament in April, 1982.

The overall thrust of the Policy is to make more efficient use of resources to better house Botswana citizens of all

incomes. A greater reliance is to be placed on self-help and private sector initiative. With respect to urban areas, the goal is construction of new housing at a pace that will eliminate the reliance on unauthorized settlements for shelter.

The role of the Government is more strictly defined in this Policy. Its major function is land acquisition, overall planning and control, provision of infrastructure and community services, and provision of technical assistance.

Botswana's finance institutions are to expand their lending activities to lower income families and to rural areas. In the past, any private long or short-term lending for housing was restricted to high-income families.

The Policy contains guidelines for the use of subsidies. First, any subsidies are to be directed to housing production rather than housing consumption. Second, subsidies are to be reduced and redirected solely to the poorest families. The policy recognizes that this implies that most subsidy will be directed to urban site and service projects and to rural areas. Finally, the Botswana Housing Corporation is to move toward economic rent levels for its housing stock.

The sixth National Development Plan (NDP VI), which will cover 1985-1991, is now being drafted. This will be the first national plan to contain a chapter on housing. A draft of this chapter has been produced, and provides further detail on the plans and policies of the Government in this sector. It points out the need for the Town Councils to develop management capabilities to better maintain low-income housing areas. Financial management and expenditure control are to be improved overall.

Concerning SHHA areas, the draft NDP VI questions the current practice of fixing one standard service levy for recovery of costs, and applying it to all such areas within a city. SHHA staff, it is pointed out, are undertrained, needing both formal and on-the-job training.

Also noted is the need for a middle income (defined by the Government as roughly the 60th to 85th income percentile) housing program. Currently, there is a substantial number of urban households who cannot under current conditions afford a plot with full land title, yet whose incomes are beyond those of the intended beneficiaries of the SHHA program. The full cost-recovery rent of new BHC housing is too high for this group, even were this housing produced at

17X

a rate commensurate with need, which is not the case. This is due to the relatively high standards employed by BHC.

To follow up on finance aspects of the National Housing Policy, a two-day housing finance workshop was held in August, 1984, attended by 28 public and private sector officials, under the direction of the Housing Section of MLGL. The workshop concluded that there is no need for a new financial institution, but that instead P20 (\$14) million should be allocated by the Government over four to five years as "seed money" to existing organizations to foster a middle-income housing finance program. This should be complemented by further attraction of private funds into the system and use of excess short-term liquidity. Further consideration will be given in 1985 to the role of various organizations in implementing this program. The private sector component of this project will demonstrate one method for expanding housing finance for families near the median income. AID will continue to assist the GOB in further studying and developing a national approach to middle-income housing.

In the urban areas, the cost and environmental implications of using private, on-site water connections and waterborne toilet systems for new low-income areas are to be analyzed. This will provide the basis for a policy decision on how to facilitate long-term upgrading, while establishing procedures to prevent surface and ground water pollution. (WASH II is to conduct a study of the comparative advantages of water and non-water borne sewerage in Botswana's low-income site and service areas).

This project is fully consistent with Botswana shelter policy in the key areas of reduced standards, cost recovery, and reliance on self-help construction. Some policy components will be implemented for the first time in Botswana, initially on a demonstration basis in Francistown and then nationwide. Among these are involvement of a private sector finance institution in other than high-cost housing, median-income site and service plots for more rapid upgrading, and full amortization by ploholders of infrastructure development costs. Furthermore, the thrust of this project's technical assistance is to improve fiscal management of the Francistown government, and thereby increase its ability to manage and maintain low-cost housing areas.

B. AID HOUSING BASIC NEEDS STUDY

In order for the GOB to better understand from a macroeconomic perspective the role that shelter investment must play in the national economy for the country to reach its shelter policy objectives, AID sponsored a Housing Basic Needs Study in mid 1984. This study applied a generic methodology developed by PRE/H and its consultants specifically for developing countries.

The methodology projects housing needs based on population, macroeconomic factors, income, and existing characteristics of the housing stock. Based on alternative minimum shelter standards, the investment required to ensure that all households are housed at this standard or better is established. For households unable to afford the "minimum standard" shelter, the public investment necessary to make up for the shortfall is computed.

This study indicated that the six major urban areas, Gaborone, Francistown, Selebi-Phikwe, Lobatse, Orapa, and Jwaneng, will have to absorb over 2,700 new households per year over the next five years. Yet only 20 percent will be able to afford the unsubsidized rent of the lowest cost Botswana Housing Corporation house. The remaining 80 percent must rely on site and service schemes financed through the SHHA, unauthorized settlements, or, for the first time as a result of this project, Botswana Building Society financing. The situation is worse if the backlog of demand for BHC units is considered or the fact that BHC production has at times fallen below 500 units per year.

For 1984 housing investment is estimated at 3.2 percent of GDP. The study determined that housing investment will have to rise to 5.0 percent of GDP in 1985, and at no time fall below 4.3 percent during the next 20 years. Under the current distribution of housing production responsibilities, whereby 65 percent of new urban shelter is under the SHHA programs, the production level of the SHHA's would have to more than double over the next 20 years.

The need for housing subsidies for the poorest families was indicated by this study. For example, it was found that the poorest 20 percent of the urban population cannot afford to upgrade its existing housing through the provision of an improved pit latrine. Another 20 percent can only afford to upgrade a unit, but not to construct a new minimum unit of modern materials in a new site and service area.

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This study showed the continuing importance of upgrading as a solution for families who have squatted on state land. Among this population are many of those families unable to afford modern construction of minimum shelter. The other important characteristic of the SHHA program in relation to the results of this study is the amount of low-cost rented housing built in site and service areas. Many households will build extra rooms on their plots for subletting, and these are the homes for many families in the first and second quintiles unable to afford to build a minimum shelter on a SHHA plot, as well, of course, as those who could afford a plot but have not received one due to the excess of demand over supply.

Overall, the Housing Basic Needs Study reinforces the need for the continuation of affordable Government-sponsored shelter programs for the first two income quintiles. Increased participation of the private sector is crucial to complement public sector programs. Their participation as part of this project is consistent with the need to increase the share of GDP going for shelter.

C. EFFECT OF AID-FUNDED TECHNICAL ASSISTANCE

As part of the Gaborone West project, AID is funding three long-term housing advisors in Botswana. Two of these advisors are staffing the newly-created Housing Section in MLGL. The third advisor is occupying the position of Senior Technical Officer in the Gaborone SHHA. One MLGL advisor and the SHHA advisor arrived in February, 1984. The second MLGL advisor has been in country since only August of 1984. While this relatively short tenure precludes any comprehensive assessment of the impact of this assistance, progress in several areas is evident.

The overall objective of assistance at the national level is to implement the National Housing Policy. At this stage, a draft implementation plan has been prepared. As importantly, a housing chapter for the Sixth National Development Plan, covering the period 1985-1991, has been drafted. With the approval of these two documents in draft form, the GOB is now in a position to move forward on the specific issues being addressed through AID long and short-term assistance.

One priority area has been to eliminate housing subsidies to non-low-income Botswana. These subsidies take the form, by and large, of sub-economic rents for the BHC housing

stock of several thousand units. A thorough investigation of the historic costs of this housing, maintenance expenses, and the opportunity cost of BHC capital has been conducted. Based on the findings of this study and consideration of an appropriate methodology for establishing economic rents, a proposal for periodic rent increases to bring those rents to economic levels gradually over several years is being prepared.

A second responsibility is to coordinate various departments of the Government, parastatals, and the private sector to develop a middle-income housing strategy. Botswana now has a substantial population segment for whom no appropriate housing alternatives exist. This structural problem was less evident in the past due to highly subsidized BHC rents on the one hand, and access to site and service plots intended more for lower income families on the other. With the overall slowdown in the economy and the accelerating growth of some cities, this structural problem is becoming more severe.

A third area is housing finance. Here the problem is lack of an aggressive housing finance sector willing to make long-term loans for other than high-income families. The MLGL recently held a housing finance workshop, attended by public and private sector Batswana, to examine the issue of shelter for the large middle-income population (see Annex N). A strategy for expanding housing finance will be developed in 1985 based upon the results of this and subsequent workshops, and the inefficiencies in the existing system illustrated in the Housing Basic Needs Study.

The housing finance issue is related to that of middle-income housing. The private sector finance component of this Francistown HG project has been designed with consideration to the existing systemic shelter delivery problems, which have become more evident as a result of AID analysis. This project will demonstrate one approach to the middle-income and shelter finance issues.

The SHHA advisor has extensive daily responsibilities in regulating, monitoring, and providing limited field assistance to all self-help construction in Gaborone SHHA areas (over 6,000 plots). These day-to-day responsibilities have been especially demanding due to the rapid allocation of as many as 200 plots per month at Gaborone West. In addition to management responsibilities, he has had some success in streamlining the SHHA's functions in the

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technical area. Accomplishments to date include redesigning the standard SHHA house plans, drafting structural stability regulations, and participating in the review of the development control code. He has conducted intermittent on-the-job training of technical staff, including a seminar on supervision for middle-management staff.

Short-term technical assistance has consisted of the Housing Basic Needs Study, SHHA debt management analysis and training, technical review of Gaborone West standards, sociological review of a pilot village upgrading project, and organization of the housing plan. In response to the worsening arrearage problem for all SHHA's, AID sent a debt management specialist to Botswana for one month in May, 1984, who identified several ways for addressing the problem. This was followed by two workshops facilitated by the RHUDO regional training advisor. AID is monitoring progress on reduction of arrears, and will continue to provide technical assistance on this important issue. (See Section V.E. 4 for analysis of SHHA arrears).

A final area of AID involvement in the shelter sector is training of SHHA staff countrywide. A two-year program of intermittent short-term training is now being designed by the RHUDO regional training advisor and the Institute for Development Management, located in Gaborone, which will conduct the training. To complement this task-oriented training, an exchange program has begun whereby SHHA personnel and Zimbabwe officials working on a similar project in that country are brought together to discuss problems and project approaches. So far, 20 Botswana housing personnel have visited the Zimbabwe project.

D. LESSONS LEARNED FROM PREVIOUS BOTSWANA HG PROJECTS

AID, has been involved in the Botswana shelter sector since 1976, and is now halfway through its second HG project. Noted below are some of the key lessons learned from these projects:

1. Housing and Infrastructure Standards: The Botswana are willing to accept low infrastructure standards, such as earthen roads, water standpipes, and non-water-borne sewerage. They are not, however, for a variety of sociological and cultural reasons, willing to accept plot sizes typical of site and service projects in most other developing countries. This project will have plots averaging 400m², about a 20 percent

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reduction from the average size of eight years ago, and at the lower end of the size range for low-cost plots as prescribed in the National Housing Policy. A continuing dialogue with the GOB on the issue of standards is appropriate. Nonetheless, because the GOB has accepted low infrastructure standards, the marginal reduction in per plot costs as a result of plot size reduction is relatively small.

2. Self-Help Construction: Previous project areas funded by AID have seen rapid house consolidation. Typically, within one year a two-room house of permanent materials is in place. Recent surveys have shown that about half of SHHA house construction is by small informal contractors, and that construction quality is closely correlated to the ability of the SHHA to monitor it. The Technical Section of the Francistown SHHA is relatively strong and will benefit in the early years of this project by intermittent assistance of the SHHA technical advisor in Gaborone and the regional technical staff from RHUDO/Nairobi. This project will experiment with providing building loans that the plotholder can use to hire a small builder as well as purchase materials, in order to support this segment of the construction sector.
3. Role of the SHHA: The National Housing Policy calls for sites and services as the solution for 65 percent of Botswana's urban housing needs. To date the only site and service development has been low-cost SHHA plots. This, coupled with the lack of a strong housing finance system and small amount of leasehold and freehold land appropriate for mortgage lending, has led to persistent pressure on the Government to provide plots for higher income families. There are continual pressures to raise the SHHA target income group. As evidenced by the large size of some SHHA houses, it is not uncommon for an upper-income family to receive a SHHA plot. There is clearly a need for SHHA to narrow its focus to poorer families by having the private sector play a role in median-income shelter.
4. Capital Assets of Botswana Citizens: The weak correlation between income and housing expenditure is indicative of the substantial wealth often held in cattle, and the access to additional income and capital through the extended family. Excess capital of this sort is held by many SHHA plotholders, and could be attracted into a housing finance system.

5. The Service Levy System: This system of cost recovery was developed specifically for SHHA areas. After eight years its strengths and weaknesses are more evident. On the positive side, it is essentially a full cost recovery system that requires little or no downpayment. On the negative side, it does not distinguish between capital and recurrent costs and does not provide for plotholder amortization of capital costs. Therefore, it is often perceived as an endless rental payment. As agreed to for this project, MLGL and the Francistown Town Council will review the service levy structure and alter it to improve its effectiveness.
6. Debt Collection in SHHA Areas: To some extent, SHHA's are sending out mixed signals in undertaking debt collection functions. On the one hand, SHHA's are asked to assist people in becoming urban dwellers by providing infrastructure, basic services, technical assistance, and building material loans. On the other hand, SHHA's are required to adhere to the concept of cost recovery and can only do this through various collection efforts. One alternative is to place debt management under the municipal treasury departments, which currently exercise supervision of SHHA revenue collectors and oversee account reconciliation. For Francistown, this transfer will be considered in 1986, following improvement in the current arrearage situation, and will serve to determine its applicability nationwide.
7. Importance of Economic Development in Project Areas: The first HG project had some non-residential plots included, for which economic development activities were identified as one possible use. However, because the size, siting, and configuration of those plots, as well as their level of servicing, were not planned specifically for this activity, they never reached their potential for providing employment and convenient retail services to plotholders. Projects should be planned with specific areas for small business development, and these areas should be appropriately sited and serviced.
8. Importance of Project Phasing: There is a tendency to plan and develop large site and service projects rather than several smaller ones due to more efficient use of MLGL personnel time and lower per plot infrastructure construction costs. Large projects,

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however, often fail to adequately address the more or less steady demand for plots. Where poor construction phasing is the case, an inconsistent burden is placed on the SHHA, which at one instance cannot provide adequate oversight and services to a large number of new allottees, and at another is underworked. As a result, the overall capacity of the SHHA suffers. AID, MLGL, and the Francistown SHHA have developed five year phasing for project construction, which will allow for a relatively steady pace of plot allocations.

E. GOVERNMENT OF BOTSWANA HOUSING INSTITUTIONS

The Government of Botswana is well-organized to undertake projects of the scale of Francistown Phase IV. Most of the project design, planning, and management functions are at the national Government level. Allocation of plots issuance of building material loans, cost recovery, and management of the SHHA program are all according to unified policies and procedures established by the national Government. However, these functions, as well as project maintenance, are carried out by local government staff, which includes the SHHA. (see Section V.A for an assessment of the various institutions involved in this project).

A distinguishing characteristic of low-cost housing development in Botswana is this mixture of local and national Government responsibilities. Many of the skills necessary for planning and implementation of large projects, such as engineering, contract management, and project financial planning, do not exist at the local government level. Hence these skills are pooled at the Ministry of Local Government and Lands for service to all municipalities.

The GOB, in establishing a Housing Section in its Ministry of Local Government and Lands, has formalized national concern over the local issue of adequate shelter within each municipality. All three of the professional positions in this Section are now filled by advisors (two funded by AID and one by the World Bank). Each has a qualified counterpart who is expected to ultimately assume responsibilities. This Section is part of the Phase IV project planning consultative process and has a key role in establishing the mix of housing, housing standards, and cost recovery, and ensuring compliance with national policy.

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F. THE PRIVATE SECTOR

Four private financial institutions participate in Botswana's banking sector. Three of the institutions are commercial banks (Barclays, Standard, and Bank of Credit and Commerce). They do not make long-term mortgage loans, and have expressed no interest in doing so. A fifth institution, the Botswana Development Corporation, is a parastatal that invests in residential property through subsidiaries, but makes no loans directly to individuals. Its principal investment activities are in the areas of industry and agriculture.

During project development, these institutions were assessed to determine their appropriateness for participation in the private sector component, and their interest in so doing. It was determined that, while some of these could eventually expand their operations to housing finance, at this stage only the Botswana Building Society was appropriate for participation. It is possible that some of these institutions may ultimately consider shelter finance as a lending activity based on lessons learned from this project.

The BBS functioned as a branch of the United Building Society of south Africa from 1972 until 1976, when it became an independent entity. It has grown slowly, operating conservatively and in the traditional manner of mutual savings institutions. With the exception of some GOB loans, its resources have come primarily from mutual savings "shares" and savings deposits. The combined savings of several GOB agencies make the Government a large shareholder in the BBS. Total assets as of March 31, 1984 were P22.6 (\$15.8) million, including a mortgage loan portfolio of P15.7 (\$11.0) million, consisting of only 1,000 loans. (see Section V.A.3 for a more detailed discussion of the BBS).

The BBS's borrowers have traditionally been middle and upper-income employees of public sector agencies and large private firms. The society lends exclusively to Botswana citizens.

GOB representatives at the recent Housing Finance Workshop indicated that they saw the BBS as a vehicle for channeling a greater level of resources to would-be homeowners. In several discussions with AID, the BBS has affirmed its interest in moving into the median-income market. Recent actions by the BBS reflect that, in fact, they are taking steps to broaden their operations. This project

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constitutes an opportunity to encourage the BBS to expand its activities, and to demonstrate the viability of lending to lower income households.

G. BOTSWANA HOUSING CORPORATION

Much of the raw land planned for residential development in Botswana and not designated sites and services is conveyed to the Botswana Housing Corporation (BHC). The BHC is a parastatal, receiving funding through the Government Public Debt Service Fund. It has a rental housing stock of about 6,800 units, all in urban areas, including 622 in Francistown. In addition, BHC has sold about 775 units. In the Phase IV project area 315 plots are planned for BHC housing.

AID has been in contact with BHC now for several years and from time to time has investigated initiating a program with them. It has been decided not to provide HG funds to the BHC to support their participation in this project. There are two reasons. First, the BHC is well funded by the Government. Second, although, BHC has experimented with lower cost housing, they have not expressed an interest in trying to reach as far down as the 50th income percentile. In Francistown, the Phase IV project area will contain over 70 percent SHHA or low/medium-cost private sector-financed units. Hence, BHC will play an important role in making Phase IV a balanced development by complementing this housing with higher cost housing.

H. EXISTING CONDITIONS IN FRANCISTOWN

1. Urban Growth

Francistown is the oldest city in Botswana, having been first developed as a small mining settlement following discovery of gold in 1866. During the 20th century, the importance of the mining industry declined, and the City's economic base became its function as the commercial, administrative, and communication center for the northern part of the Country. The first uncontrolled influx of Botswana occurred in the 1950's and several squatter areas since upgraded date to this era.

Following independence in 1966, it became apparent that future growth of the City was hindered by excessive ownership of the City's land by the mining industry (the Tati Company). In 1969, the Government began a program of land acquisition to accommodate growth, and today 94 percent of the City's 31 square miles is Government-owned.

Francistown's population has been growing at an accelerating pace. The 1971 population of 19,900 increased to 23,300 by 1975, and today the Central Statistics Office uses 37,760 as the official estimate.* MLGL projects a growth rate of eight percent per year. At this rate, the City will double in size by 1994.

The rate and character of Francistown's growth is influenced to a considerable degree by its relationship to the hinterland. Francistown is the second largest administrative centre in Botswana, serving as a regional or district headquarters for at least 37 central Government ministries and departments. For many of these, the entire northern half of the country fall within their jurisdiction.

Francistown is also the major hub for transport and communications in northern Botswana. It is at the junction of the north-south roads serving Zimbabwe and Zambia. It also serves as a railway transshipment center. The advantages of Francistown in terms of its transportation and communication links has encouraged the growth of a large wholesaling sector serving northern Botswana, as well as parts of Zambia, Zimbabwe, and the Caprivi Strip of Namibia.

In addition to the economic factors affecting the growth of Francistown, there is evidence that the current drought has encouraged a higher rate of urban migration than exists normally within the area. Francistown has well over 100,000 people within 100 kms. Many of the migrants from this area may be temporary, waiting for better times to return to the village. However, the tendency is to maintain an urban base for at least part of the family once established.

The proximity of Francistown to the Zimbabwe border and the City's function as a regional wholesaling and transshipment center, makes it particularly susceptible to international events. Foreign exchange restrictions in both Zambia and Zimbabwe affect export of goods from or

*Based on extrapolation from the 1981 census, the population of Francistown would be 42,500.

through Francistown. Protectionist policies in Zimbabwe have already had an impact on textile production. On the other hand, Francistown is the closest attractive center to Zimbabwean businesses wishing to expand beyond their borders, particularly within the Southern African Common Customs Area, and the number of Zimbabwean businesses establishing operations in Francistown has increased substantially since the war in that country. There is no indication of a slowdown in investment. An improvement in worldwide economic conditions leading to recovery of the Zambian economy would probably have a considerable effect on sales out of Francistown to that country as well. Francistown, which shares with Selibi-Phikwe a large reservoir, has sufficient water to accommodate growth in spite of the recent drought.

In sum, Francistown, benefits from a variety of local and regional factors that will continue to contribute to growth of formal sector employment. Although a small city by African standards, it is the second largest in Botswana, and its already crucial importance to the continued growth of the Botswana economy will increase.

2. Housing Conditions

The housing stock of Francistown is shown in the table below for 1984.

TABLE I
FRANCISTOWN HOUSING STOCK

	<u>Number of Plots</u>	<u>Percent of Total</u>
SHHA		
Site and service	1,662	19
Upgrading	3,479	40
BHC		
Low cost	341	4
Medium cost	236	3
High cost	45	1
Institutional*	365	4
Private*	460	5
Squatters (estimate)	<u>2,200</u>	<u>25</u>
TOTAL	8,788	100%

*1983 figures

Note: These figures exclude the substantial number of rental accommodations on SHHA plots.

The SHHA manages a total of 5,141 plots, or 59 percent of the entire housing stock. Upgrading of existing squatter areas as a solution to Francistown's shelter problem dates to 1974 when World Bank financing was first provided. Starting in 1979, modest site and service components were added to complement upgrading efforts in an attempt to stay ahead of the squatting problem, and to relocate some families from upgrading areas as result of the rationalization of plots in those areas.

SHHA areas, whether upgraded or site and service, are generally developed to modest infrastructure standards. Typically, roads are of engineered earth design with open drainage, and water service consists of communal standpipes at a rate of one for every 12 to 20 families. Improved non-water borne latrines are provided. Plot sizes vary from 350 to 600 square meters.

In spite of an aggressive SHHA program, the problem of uncontrolled squatter settlement persists. Of approximately 2,200 squatter homes today, about 600 are in areas that cannot be developed as permanent housing areas due to flooding, rock outcrops that make upgrading too costly, or proximity to the City's sewerage ponds. Another 400 are in areas designated for commercial and industrial use. Squatters in these areas will be resettled where possible to site and service areas. Much of the remaining squatter housing will be upgraded as part of this project.

Most housing in squatter areas is of traditional design. Building materials are mud, wood, and thatch. A smaller amount is build of more permanent materials, usually concrete block and metal roofing. Upon upgrading, building material loans are made available in these areas. Experience has shown a slow drawdown of these loans among upgrading residents, and after five years more than 50 percent of the traditional housing usually remains.

A major concern about non-upgraded squatter areas is the lack of easy access to potable water. These families either walk up to two miles to other parts of the City serviced by standpipes or draw water from the Tati River when it is flowing, or dig shallow wells in the river bottom when dry. This poses obvious health hazards due to low quantity and poor quality in the case of the increasingly polluted surface and ground water sources.

Site and service housing is developed with modern materials. While only one room is required to fulfill obligations of the SHHA program, areas allocated three to five years ago

typically have houses of several small rooms. In many cases one or more of these rooms is sublet. A small number of SHHA households have purchased individual water connections and even added septic systems.

3. Municipal Revenue Generation and Financial Management

Revenue Generation

The Francistown budget has been in deficit since the 1980/81 fiscal year (Botswana's fiscal year runs April through March). In 1981, the water and electric utility companies were separated from the municipality and have since been operated independently. Their efficient cost recovery methods had previously helped to offset deficits in other areas of the Council's budget. The largest factor contributing to the budget deficit is the accumulated SHHA service levy arrearages. This stood at P576,000 (\$403,200) as of October 31, 1984. The arrearages have grown in recent years at the same time that the SHHA program has been considerably expanded, placing a growing burden on the City's finances. Deficits since 1981/82 have been made up by "deficit grants," direct grant funding by the central Government through MLGL.

The most important revenue items in the Francistown budget, both in terms of income generated and the broad base of residents to which they are applied, include the following:

- Local Government Tax: a progressively scaled tax on the income of anyone earning more than P300 (\$210) annually. This is the Council's second largest income item and is the most universally applied of all local taxes.
- Beer levy: a local brewery is taxed at the rate of P0.07 (~~.70~~) per litre produced. This fee will double in FY 1985/86.
- Trade Licenses: an annual or monthly fee is assessed for granting retail, wholesale, and hawkers' licenses. No local sales taxes are collected.
- Service Levy: a monthly fee assessed all occupants of COR plots to recover the costs of SHHA administration, refuse collection, road maintenance, water use, street lighting, and local infrastructure development costs.
- Rates: property taxes applied to leasehold and freehold properties based on the value of the land and its improvements.

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While the assessment of rates constitutes a viable source of revenue for Francistown, the actual proportion of rateable to non-rateable land in the municipal environs is shrinking. That is, in recent years in order to facilitate shelter for low-income households, an ever increasing share of land has been allocated on a COR basis. As COR properties are not subject to rates, an important component of the City's tax base has been effectively diminished.

The service levy assessed all COR plotheolders is calculated to support the costs of the SHHA program and those services provided to the properties developed under it. It also covers the development cost of local infrastructure in those areas. In the last few years the service levy has been progressively increased to account for increasing maintenance and administration costs. However, even though the Government has a good record in recalculating the service levy periodically, the levy itself does not include many of the overall costs of running the city. This has an advantage in that the difference in revenue collection between rateable and COR plots allows for a somewhat progressive local tax. Yet with the high arrears rate in COR areas and considering the low and declining ratio of rateable to COR land, a balanced budget would require a substantial increase in the tax burden on non-COR areas. This project, by providing a better mix of SHHA and non-SHHA plots, will more than double rateable residential land in the municipality. It will also ease the transfer of SHHA plots from non-rateable (COR) to rateable (fixed term grant) status.

MLGL deficit grants to Francistown for the last six fiscal years are shown in the table below:

TABLE II
FRANCISTOWN BUDGET

<u>Year</u>	<u>Deficit Grant</u>	<u>Total Budget</u>	<u>Grant as % of Budget</u>
1980/81	\$ 203,000	\$ 1,036,409	19.6%
1981/82	161,000	1,325,530	12.2%
1982/83	328,000	1,426,157	23.0%
1983/84	245,000	1,733,200	14.1%
1984/85	615,000	2,149,357	28.6%

For FY 1985/86 the actual deficit is projected to be P1.4 (\$1.0) million, of which the MLGL is expected to fund P1.0 (\$.7) million. The remaining P400,000 (\$280,000) would be made up through rate assessments.

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Financial Management

The financial management of Botswana's municipalities and local governments is tightly controlled by MLGL. The Francistown Town Council's budget must be approved by that Ministry, which also establishes accounting procedures for all local governments. The MLGL must authorize the individual revenue and expenditure items on the budget and, with apparently few exceptions, those items are standardized for local governments throughout Botswana. The Town Council is not able to impose a new tax or increase existing ones without the prior approval of MLGL.

Practically all municipalities, including Francistown, are unable to fund their budgets entirely from local revenues and turn to the MLGL to make up some or all of the difference. In the case of Francistown, the deficit trend has been worsening. Because of the tight control over municipal finances, there has been a lack of flexibility and incentive at the local level, which is required to achieve that independence. More direct causes of the town's financial problems are the shrinking base for application of property taxes (rates), as mentioned above, the critical problem of accumulated arrearages on service levy collections (see Section V.E.4), and inadequate internal financial management by the Treasury Department.

The Treasury's efforts now go little beyond bookkeeping and financial reporting, and even these tasks are not handled in a timely manner. Neither internal audits nor audits of other Council departments are carried out by Treasury, although there are intermittent audits by MLGL. A quarterly report is produced indicating the year-to-date relationship of revenues to expenditures on budget items, but this is not sufficiently timely to serve as a true cost control tool. No type of efficiency or cost control analysis is done for medium-term purposes.

Certain basic tasks such as bank account reconciliation and publication of financial statements are not executed in a timely manner. Consequently, cost control at the departmental level is difficult to effect, and prompt attention can not be given to cases of revenue shortfalls. The Council budget has thirty-three revenue items plus financing from several outside sources, yet there is no separate accounting for the flow of these monies. At least partially because of staff shortages, the Treasury has not been auditing the information it receives from the SHHA ward offices, or inventories from the SHHA building materials supply depots.

The Town Council in the past has lacked a hard policy for dealing with its budgetary and budget planning problems. This is due to a history of depending on the national Government and lack of common awareness, due to poor financial management, of the severity of the problem. Addressing this matter has become more urgent with the deficit situation worsening at the same time that urbanization and need for services is accelerating. The GOB recently called on local governments to increase self-sufficiency in local affairs, and announced a freeze on deficit grant financing at current levels. It is in response to the importance of the problem and national Government commitment to confronting it that AID has decided to provide assistance in this area.

III. DETAILED PROJECT DESCRIPTION

A. GOAL AND PURPOSES

The goal of this project is to improve shelter and urban services for low-income families.

The purpose of this project is to bring about changes in GOB shelter sector policy so as: (1) to improve the capacity of municipal governments and GOB agencies to manage the financial aspects of low-cost shelter programs, with emphasis on Francistown and the Self Help Housing Agency (SHHA) and (2) to stimulate increased private sector involvement and mobilize domestic capital for low-cost shelter programs.

B. PROJECT INPUTS

AID assistance to this project will consist of HG and grant funds. HG funds totalling \$14 million will be loaned to the Ministry of Finance and Development Planning. These funds will be borrowed by the GOB in two \$7 million Loan Contracts. For the first contracting the funds will be borrowed in three stages and for the second contracting the funds will be borrowed in two stages. These funds will be on-lent to the city of Francistown and to the Botswana Building Society. Repayment of each tranche of the HG loan will be over 30 years, with a 10-year grace period on repayment of the principal.

Grant assistance in the sum of \$200,000 will be provided through the Housing the Urban Poor central project. This

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project is administered by PRE/H. The grant funds will go for recurrent short-term technical assistance, as well as training, in the areas of municipal financial management and local revenue generation, and low-cost house design.

The Government of Botswana will contribute approximately \$13.9 million over the life of this project. These funds will go for installation of primary infrastructure, partial funding of SHHA low-cost shelter areas and community facilities, servicing of middle and upper income residential plots (which will be sold at cost plus a cross subsidy to reduce the price of lower cost plots), and a sewage effluent irrigation scheme. Another \$5.6 million will be contributed by the GOB through the Botswana Housing Corporation, a parastatal, for construction of middle and upper-income rental housing. The GOB is also contributing the land and personnel time of MLGL and the Francistown Town Council (and other town councils with respect to BBS-financed housing) for project planning, implementation, and monitoring.

C. PROJECT OUTPUTS

The overall physical, institutional, and policy outputs of the project are noted below:

Physical*

- 1,125 squatter plots upgraded with roads, drainage, streetlighting, water standpipes, and improved pit latrines.
- 2,325 new site and service plots, provided with roads, drainage, streetlighting, water standpipes, and improved pit latrines.
- 1,700 - 2,000 building loans for SHHA ploholders.
- 600 low/medium-income sewered site and service plots.
- 600 loans through the Botswana Building Society for plot purchase and house construction.
- 315 Botswana Housing Corporation completed houses.
- Six primary schools.

*Of the 600 sewered plots and associated BBS loans, approximately 250 will be in Francistown and 350 will be in other Botswana cities. The other physical outputs

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- Health clinic.
- Community center.
- SHHA ward office.
- 50-100 small enterprise plots.
- Sewage effluent irrigation scheme.
- Project maintenance equipment.

Institutional

- Improved cost recovery through reduction in SHHA program arrears.
- Increased capability of Francistown SHHA to allocate low-cost plots and facilitate their development.
- Organizational development of municipal treasury departments.
- Capacity of the private sector to provide long-term mortgage lending to low/middle-income families nationwide.

Policy

- Effective national cost recovery procedures for shelter expenses.
- Better access to secure land tenure for mortgage lending.
- Complementary participation of the private sector in Government-initiated land development projects.

The BBS-financed houses outside of Francistown are most likely to be in Gaborone, Lobatse, and Selebi-Phikwe. A review of current development plans indicates that at an absolute minimum, the following low-cost sewered plots will be developed by the Government over the next few years on state land for sale to individuals:

Gaborone	435
Lobatse	75
Selebi-Phikwe	20

In addition, there will be transfers of land already privately owned for which qualifying purchasers could look to BBS for financing under this project. Loans for further house expansion on SHHA plots transferred to leasehold title could also be considered.

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D. Beneficiaries

The beneficiaries of this project will be lower-income families in Francistown and other Botswana cities. The squatter upgrading area of 1,125 plots will cater entirely to families already resident in the City, and living in substandard conditions without adequate access to services. A sizable portion of the site and services plots will be allocated to existing Francistown squatter families from outside the project area. These families are now squatting on land that cannot be upgraded due to environmental or site characteristics, or, in a few cases, on land designated for commercial or industrial use. The remainder are mostly living in rented quarters on existing SHHA plots.

The median household income for this project is estimated at P2,400 (\$1,680) per year. Families in the areas to be upgraded will tend to have incomes significantly below the median. A 1981 survey of Francistown's already upgraded areas is illustrative of conditions generally present in all Francistown squatter areas. It showed that only half of the employed residents are in formal wage employment. Less than 10 percent had incomes in excess of P100 (\$70) per month. Allottees of site and service plots may have slightly higher incomes, since, due to the backlog of demand for plots, many of the allottees will have been living in Francistown for several years and thereby advanced economically.

By and large, the beneficiaries of this project will be families where one or more members have been resident in Francistown for many years. An analysis of recent allottees of SHHA plots indicated an average residency of 9.7 years. It also showed that fully 40 percent of the families allocated plots were headed by women. The average age of the head of household was 29.7 years and the average family size was 3.7.

Those who purchase the higher cost sewered site and service plots with Botswana Building Society financing will be in the P2,000 - 2400 (\$1,400 - 1,680) yearly income range. These are families who otherwise would be competing for SHHA-managed lower standard plots, but who have greater resources and would more quickly consolidate their homes and become capable of affording further infrastructure upgrading.

Secondary beneficiaries of this project will first include those who get employment in formal sector construction of infrastructure. Ultimately, the greater boost to

employment will be through house construction on individual plots by small more informal builders. One survey indicated that 49 percent of Francistown SHHA plottolders do not in fact build their own homes, but rely on quasi-professional masons who work nearly exclusively in SHHA areas.

Finally, the Francistown component of this project will contain 50-100 small enterprise plots financed out of the HG funds. These will be designed with minimum services, and will be made available on a full cost-recovery rental basis by the Town Council to area residents for starting small businesses. The Francistown project area will also contain an industrial area, fully financed by the GOB, for medium and large-scale industries. Creation of jobs in both areas will be monitored during this project.

E. LAND TENURE

In SHHA areas, the state retains title to the land but issues a Certificate of Rights (COR) to the squatter household or allottee of a new site and service plot. This is a unique form of land rights developed by Botswana to allocate residential land in SHHA areas expeditiously and with minimal survey, registration, and other fees. The COR holder retains the right to use the plot for residential purposes in perpetuity. This right is inheritable. Transfer of the right is only with permission of the Town Council in order to control speculation and promote transfer to another low-income family.

Conversion of the COR to the standard 99-year leasehold, known as a fixed term grant, which is acceptable as collateral for bank lending, is possible, although few families have done so and hence the vast majority of SHHA plottolders are hindered in their access to credit for house expansion or other purposes. An experimental registry of COR's in one area of Gaborone has been completed, and this may lessen the reluctance of banks to lend to these SHHA plottolders. This project will include an alternative solution to this problem by having plottolders amortize development costs. Hence they will automatically become eligible to attain leasehold title.

This project is also confronting land tenure deficiencies through demonstrating in Francistown a better mix of COR and FTG title at the time of plot allocation. The GOB has agreed to reduce the portion of COR plots in the Phase IV development area from 65 to 55 percent, and better target allocation of the COR plots to families who could not now afford full leasehold title. At the same time, those who can afford full leasehold title will be encouraged to

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F. PROJECT FINANCIAL

Shown below are the capital expenditures projected for the Francistown Phase IV project:

TABLE III
PROJECT COSTS (\$000's)

	<u>Total Cost</u>	<u>HG Financing</u>	<u>HG Cost</u>
Architecture/			
Engineering	720	56%	402
Primary Sewerage	2,590	--	--
Secondary Water	1,578	56%	884
Upgrading	578	90%	521
Sites and Services*	10,241	56%	5,736
Industrial Area	2,254	--	--
Small Enterprise Plots	100	100%	100
Maintenance Vehicles,			
Equipment	307	56%	172
SHHA Office, Equipment	58	90%	53
Primary Schools	2,065	64%	1,322
Clinic	85	64%	54
Community Center	74	64%	47
Building Loans			
(SHHA Plots)	2,186	90%	1,968
Private Housing			
Finance	2,543	100%	2,543
SUBTOTAL	<u>25,379</u>		<u>14,000</u>
Contingency	2,540		--
BHC Housing	5,441		--
TOTAL	<u>\$33,360</u>		<u>\$14,000</u>

*Includes secondary and tertiary sewerage, tertiary water reticulation and pit latrine substructures.

The table below shows the projected HG expenditures per calendar year. (See Annex F for detailed project costs per year).

TABLE IV
HG EXPENDITURES BY CALENDAR YEAR (\$000's)

<u>Year</u>	<u>Expenditure</u>
1985	\$ 334
1986	2,150
1987	3,157
1988	4,467
1989	2,705
1990	1,187
	<u>14,000</u>

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Costings are based on mid-1985 figures, inflated by 10 percent per year thereafter. The first tranche of \$7 million would be contracted in the first quarter of FY 1986. The second \$7 million would be contracted in early 1988. In order not to have any funds remain in escrow for more than one year, each contracting will have multiple borrowings as shown below for calendar years.

(\$ millions)	1985	1986	1987	1988	1989
First Loan Contracted	\$ 7				
First Borrowing.....	2.4				
Second Borrowing.....		\$2.3			
Third Borrowing.....			\$2.3		
Second Loan Contracted.....				\$ 7	
First Borrowing.....				4	
Second Borrowing.....					\$ 3

Upon contracting the HG, an advance of about 10 percent of the funds will be made to the GOB. This will cover HG-eligible expenditures already made by the GOB, which are anticipated to be about \$100,000 by the second quarter of 1985, and further expenditures into 1986. Subsequent disbursements will be made based upon work in place to replenish the advance. The final disbursement for each borrowing will be retained pending AID satisfaction that the HG-financed shelter is substantially allocated to eligible families, and that all conditions precedent are satisfied.

Except for the private housing finance, all expenditures are planned for Francistown. However, in the latter years of this project, should the market for SHHA-standard housing in Francistown not be sufficient, any remaining HG funds will be made available for low-cost shelter in other urban areas. Approximately \$1.5 million of the private housing finance expenditure item will be for non-Francistown housing.

IV PROJECT IMPLEMENTATION

A. THE BORROWER

The borrower of this HG loan will be the Government of Botswana through the Ministry of Finance and Development Planning (MFDP). The GOB will issue a full faith and credit guaranty for the loan to back the U.S. Government guaranty. The MFDP Permanent Secretary will have responsibility for the negotiations and actual borrowing of funds. The Ministry's Office of Economic Planning will be responsible for on-lending equivalent local currency to implementing institutions, and collecting repayments. The MFDP will take the full foreign exchange devaluation risk.

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The Ministry will on-lend at a 10 percent interest rate to the Francistown Town Council for construction of infrastructure and community facilities, and for issuance by the Francistown SHHA of building loans. Funds will also be on-lent at 10 percent to the Botswana Building Society for mortgage lending to eligible beneficiaries for purchase of private sector plots and house construction on these plots.

D. PROJECT DESIGN AND CONSTRUCTION -- FRANCISTOWN

An engineering feasibility study for the Francistown Phase IV project area was completed in 1984. A draft site plan has been prepared by the Department of Town and Regional Planning of MLGL, and is now being reviewed. Following final approval of this site plan, detailed engineering design work will be done and specifications and bills of quantity will be drawn up by a private firm under contract to MLGL. Subsequently, construction contracts will be let by MLGL for infrastructure work. The chief engineer for the Urban and Housing Division of MLGL and the Engineer's Department of the Francistown Town Council will supervise and inspect the work. The Department of Surveys and Lands of MLGL will demarcate plots by aerial photography for squatter upgrading areas and to cadastral standards for site and service and private sector plots.

The initial project delivery plan will be prepared by the Economic Planning Officer of MLGL assigned to this project. The Urban Development Coordinator for Francistown, who reports to MLGL, will monitor overall progress on the Francistown component of the project. He will update the project delivery plan and all domestic reports on expenditures and plot allocations. Calculations to determine HG-eligible expenditures will be prepared by the Urban Development Coordinator for review by AID for purposes of disbursing HG funds from escrow.

The SHHA is part of the consultative team in the site design of the project area. In addition, the SHHA, together with the City Engineer, directs construction by small contractors of the substructures of the SHHA plot pit latrines (the superstructures are built by plot allottees). The Engineer's Department also designs and contracts for construction of community facilities.

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C. ALLOCATION OF SHHA PLOTS AND ESTATE MANAGEMENT --
FRANCISTOWN

Following completion of infrastructure and pit latrine substructures, the plots will be turned over to the SHHA for allocation to low-income households. There are four conditions for eligibility for a SHHA plot:

- At least six months residence in Francistown.
- Head of household at least 21 years of age.
- Not already owning land in Francistown.
- Family yearly income not more than P3,500 (\$2,450). (allocation to families in the P2,500 - 3,500 (\$1,750 - \$2,450) income range is held to 10 percent of all allocations).

The SHHA guides the settlement and house consolidation process. After allottees are chosen, the three divisions of the SHHA each have a crucial role. The Community Development Division provides orientation for new ploholders, works with ploholders who have difficulty making payments, and generally tries to integrate the allottees into the formal urban sector.

The Technical Division assists allottees in building minimum shelter, administers the building loans program, and monitors and inspects new construction. Building loan amounts are based on family income, and each drawdown from a loan is based on the cash needed for the next phase of construction. This Division has developed a series of simplified house plans appropriate for sequential house construction over time; however, the allottee is free to use or not use one of these standard plans as he sees fit. Most families will hire a small contractor to build the house or to supplement self-help efforts.

The Administration/Finance Division collects the service levy and building loan repayments, and monitors financial aspects of the SHHA program. The repayment of the funds on-lent by the Ministry of Finance and Development Planning is handled by the Treasury Department. The Francistown Engineering Department is responsible for overall maintenance of the infrastructure.

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D. PRIVATE SECTOR PARTICIPATION

The principal contribution of the private sector to this project will be the participation of the Botswana Building Society. The Society will provide financing to approximately 600 families in the 40th to 50th income percentile for the purchase of serviced plots and the construction of core houses. Of the 600 mortgages, about 250 will be in the Francistown Phase IV project area and the others will be in other urban areas.

One result of the francistown Phase IV development will be an increase by about 1,100 in the number of plots with full property title suitable for mortgage financing. About 250 of these will be set aside especially for median-income families for HG funding through BBS. It is assumed that BBS will finance development on some of the other plots through its existing liquidity.

Households in the 40th to 50th income percentile will make applications at a BBS branch office. There they will be screened according to procedures mutually agreed to by BBS, the MLGL Housing Section, and AID. Qualifying applications will be forwarded to the Gaborone head office for final approval. AID and the Housing Section will periodically review documentation on BBS lending.

Steady project implementation would require the BBS to fund the 600 loans over a four year period (1986-1990) at the rate of about 150 loans per year (10-15 loans per month). While a degree of irregularity in the rate of completed units and loan disbursements is likely, a workload of this size would require not more than one loan processor. Two persons should be capable of handling the workload in months where the number of cases might be two or three times that rate.

The BBS does not employ its own full time property appraiser but contracts with private firms offering this service. It contemplates hiring a full-time staff person for this purpose at such time when warranted by a greater volume of lending.

Since a certain degree of standardization in building plans is expected for the BBS-financed units, the actual valuation process will be somewhat simplified. However, the inspection of work progress remains a critical factor in order to ensure quality of construction and a level of structural completion that corresponds to mortgage amounts disbursed. This is especially important since most construction will not be done by the larger contractors with whom BBS is accustomed to doing business in Gaborone.

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A term of 25 years is anticipated for loans through the BBS. Presently, the Society is charging 13.0 percent for loans under P20,000 (\$14,000). Based on the project's on-lending rate of 10 percent from the Government for 25 years, the BBS would be able to pass on these funds for mortgage lending under this project at the current rate.

Mortgage loans by the BBS under this project will finance both purchase of the plot (based on the Government's expenditure in serving it) and house construction on the plot. It is anticipated that most allottees of these plots will hire small contractors for construction. The BBS has always made loans of this sort that combine plot purchase with construction. The procedures that BBS already has in place for this type of lending will by and large be applied to this project nationwide. These will be reviewed more closely by the Housing Section of MLGL prior to issuance of the first mortgages. The following table shows a typical disbursement pattern for a BBS mortgage loan.

TABLE V
BOTSWANA BUILDING SOCIETY MORTGAGE LOAN DISBURSEMENT

<u>Work Stage</u>	<u>% of Loan Disbursed*</u>	<u>Inspections Required</u>
Advance	20%	--
Site preparation	-	Town Council
Trenches complete	-	Town Council and BBS
Backfill complete	15%	BBS
Walls complete	-	BBS
Framing for roof	15%	Town Council and BBS
Roof complete	-	BBS
Plumbing	-	Town Council
Finish work complete	15%	BBS
Completion of works	30%	Town Council and BBS
Retention	5%	--
TOTAL	100%	

*Excludes purchase price of plot.

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Prior to disbursement of the 30 percent corresponding to 'Completion of work,' the borrower must confirm his acceptance of the construction work and provide BBS with a certificate of occupancy from the Town Council. Periodic disbursements of HG local currency equivalent will be made by the Ministry of Finance and Development Planning based upon the face value of mortgages issued under this project. Each application for disbursement to reimburse BBS will first be reviewed by the Housing Section of MLGL.

E. TECHNICAL ASSISTANCE AND TRAINING

An assessment of the Francistown SHHA indicates that this project can be successfully implemented without a resident advisor to the SHHA. It has been determined that the crucial areas for technical assistance in order to strengthen the housing sector and urban management overall lie outside of the SHHA. In making this decision, AID has taken into consideration the indirect support to the Francistown SHHA from the Current AID-funded advisors in the Gaborone SHHA and MLGL. The crucial position of Urban Development Coordinator for Francistown will be filled through 1986 by a qualified expatriot funded by the World Bank. RHUDO is assisting the GOB in selecting this person.

This project contains \$200,000 for technical assistance and training from PRE/H central funds (Housing the Urban Poor project). The main focus of technical assistance will be financial management and revenue generation on the part of the Francistown Treasury Department. This includes revenue generation from this project, as well as existing SHHA upgrading and site and service areas of the city, and non-SHHA rate-paying areas. (see Annex G for the technical assistance schedule and costings).

The technical assistance in financial management and revenue generation will be under the technical direction of the regional financial management advisor to the RHUDO. He will visit Francistown periodically to work with the Treasury and to establish performance objectives and review progress in meeting these objectives. He will also provide direction to any outside consultants. Full responsibility for SHHA revenue collection is expected to be transferred to this Department with RHUDO assistance.

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Specific areas for initial assistance will include:

- accounts payable/receivable ledgers
- general ledger record keeping
- cost accounting records
- capital asset records
- preparation of financial statements
- accounting for inflation
- preparation of source and use of funds statements
- development of financial analysis capacity
- budget planning

Short seminars will be provided on municipal revenue generation as well, and these would ordinarily be made available to treasury personnel from other major urban areas of the Country. The regional advisor will also assess existing short-term training for Treasury personnel. Where appropriate, AID will provide funding to improve or expand these training opportunities, and may also establish special training programs on a regional basis, to which Botswana personnel would attend.

This project will also receive indirect support from the existing grant project attached to the Gaborone West HG. Some of the work of the Gaborone SHHA technical advisor, such as improvements in standard house designs, will be applicable to the Francistown SHHA to strengthen this project. The RHUDO technical advisor will also be of assistance in these areas.

National Government oversight of this project through the newly created MLGL Housing Section will also contribute to its success. As part of their duties in the area of housing finance, the AID technical advisors staffing this Section will provide assistance in certain aspects of the private sector component of the project and in reducing SHHA arrears.

Finally, limited technical assistance will be provided to the Botswana Building Society. In an effort to minimize construction costs, and because the BBS has no staff architect nor any employee familiar with low-cost housing, a series of standard house plans along with bills of quantity will be developed for purchasers of private sector housing. These project beneficiaries will, of course, not be required to use one of these plans. However by encouraging use of standard plans, property appraisal and inspection will be simplified,

costs will be reduced, and higher quality construction will result. This work will require two to four weeks of assistance by a RHUDO architect familiar with low-cost house design.

RHUDO, AID/Botswana, and the GOB will reassess technical assistance needs quarterly. Should a problem develop contingency funds totaling \$75,000 will be available to extend the term of the urban development coordinator or provide supplemental short or medium-term assistance.

F. PROJECT IMPLEMENTATION SCHEDULE

The expenditure schedule, which follows project construction, is contained in Annex F. The actions required of the GOB, BBS, and AID through 1986, as well as major benchmarks in project development for this period, are noted below:

Third Quarter FY 85

1. AID approval of project paper and authorization of \$14 million HG loan.
2. PRE/H issues letter of advice to GOB.
3. RHUDO and GC/H prepare draft Implementation Agreement for review and comment.
4. Project Site Plan approved by GOB.
5. Upgrading of blocks one and two begins.
6. Project design contract bid.
7. Municipal financial management technical assistance plan drafted.

Fourth Quarter FY 85

1. AID and GOB sign Implementaton Agreement.
2. Municipal financial management technical assistance begins.
3. GOB prepares project delivery plan for first phase.

First Quarter FY 86

1. GOB requests bids from U.S. lenders for \$7 million borrowing.
2. AID, GOB, and U.S. lender sign loan agreements for first borrowing.
3. \$7 million contracted, of which \$2.4 million immediately borrowed. Of this \$2.4 million, \$1.4 million advanced to GOB and \$1 million put in U.S. escrow Account.
4. Construction of primary sewerage begins.
5. Construction of first primary school.

Second Quarter FY 86

1. SHHA debt collection responsibilities transferred to Treasury Department.
2. Main civils contract bid.
3. BBS lending procedures and requirements established.

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Third Quarter FY 86

1. Construction contract awarded.
2. Construction of first site and service and private sector plots begins.
3. Construction of SHHA ward office.

Fourth Quarter FY 86

1. First SHHA site and service allottees selected.
2. First applications made for BBS mortgage lending.
3. Second borrowing of \$2.3 million (from total \$7 million contracted in first quarter of FY 86).

First Quarter FY 87

1. First BBS loans issued.
2. First SHHA site and service plots allocated and building loans issued.
3. Construction of second primary school.

The numbers of plots upgraded and the number of new plots serviced for SHHA allocation and BBS financing are shown below.

TABLE VI
PROJECT PHYSICAL OUTPUTS (CALENDAR YEAR)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
<u>Shelter</u>						
Upgrading	400	725	--	--	--	--
SHHA site and Service	--	513	394	849	569	--
Private Sector (BBS)	--	140	180	160	120	--
TOTAL	<u>400</u>	<u>1,381</u>	<u>574</u>	<u>1,009</u>	<u>709</u>	<u>--</u>
<u>Facilities</u>						
Primary Schools	--	1	1	2	1	1
Community Center	--	--	--	1	--	--
Health Clinic	--	--	--	1	--	--
SHHA Ward Office	--	1	--	--	--	--

*The figures here on upgrading and site and service plots are for all plots in the Francistown component of the project. AID will finance 90 percent of the cost of servicing these plots. Private Sector plots noted are low/middle-income for BBS financing nationwide. HG funds will be on-lent to the BBS to cover 100% of the mortgages for eligible beneficiaries who purchase these plots.

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G. CONDITIONS PRECEDENT

Following approval of this project paper, RHUDO, with the assistance of GC/H, will draft a project Implementation Agreement for review by the GOB. AID and the GOB have discussed the general conditions for AID participation in this project. At this stage, the following conditions precedent are to be incorporated into the Project Implementation Agreement:

1. Prior to the borrowing of the HG loan, the Francistown Town Council, with the assistance of MLGL, will develop a detailed action plan for reducing arrears. This action plan will include an implementation schedule and a series of milestones to mark improvements in arrearages. This action plan will be made official by a resolution of the Council. Further, the resolution will pledge Council support for the principle of cost recovery and enforcement of service levy collections by the SHHA and Treasury Department.
2. Prior to the borrowing the GOB will approve amendments to the State Lands Act simplifying the foreclosure process.
3. Prior to the borrowing the use of the Customary Court System for dealing with cases of severe debt will be formally approved and the SHHA will initiate a major effort to use this system.
4. Actual disbursements of the loan will be predicated on the SHHA or Treasury Department meeting the milestone for arrearages reduction for that period, as formally adopted in the action plan.

Prior to each disbursement of funds from escrow, AID will conduct a project review with MLGL and the Francistown SHHA to verify the need for additional funding and to identify any problems in meeting the schedule of the project delivery plan. If necessary, the project delivery plan will be updated prior to each disbursement.

H. PROJECT MONITORING

Project monitoring will be the responsibility of the RHUDO office in Nairobi under the overall direction of AID/Botswana. A RHUDO housing officer will make site visits every six weeks on average. Each site visit will be concerned largely with construction progress, allocation of SHHA plots and building loans, issuance of private sector mortgages, loan disbursements, compliance with conditions precedent and covenants, cost

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control, and institutional development on the part of the SHHA and Francistown Treasury Department. The project delivery plan, as updated, will be the basic document detailing project progress. The RHUDO officer will also determine the need for additional short-term technical assistance to adequately support the implementation of this project.

The RHUDO regional financial management advisor will make field trips periodically to provide technical assistance and monitor progress on improving financial management and control on the part of the Francistown Treasury Department. He will also provide oversight to any short-term consultancies and training concerning financial management.

I. PROJECT EVALUATION

There will be a regular and final evaluation of this project. The regular evaluation will be in mid-1987. The final evaluation will be in 1990. Evaluations will be under the joint direction of the RHUDO and AID/Botswana.

The regular evaluation will occur at a point when most squatter upgrading will be complete and about one-third of the site and service plots will have been developed and allocated. In addition to evaluating performance in meeting the conditions of the project as specified in the Implementation Agreement, this evaluation will be concerned with the following:

- Effectiveness of the project in maintaining a flexible plot allocation system in order to stay ahead of squatting.
- The effect of financial technical assistance and transfer of SHHA revenue collection responsibilities on municipal revenue generation.
- The popularity of the private sector finance component of the project as a means to increase home ownership opportunities for median income families.
- The SHHA's effectiveness in plot allocation and provision of technical and community development assistance.
- The relative merits of alternate systems for issuing building loans.
- The need for supplemental technical assistance.

The final evaluation will examine the effectiveness of the project in meeting the long-term goals of public sector institutional development and permanent establishment of a

role for private finance in complementing public sector shelter programs. Special project amenities and components, such as area landscaping and the sewage effluent system, will be evaluated. The final evaluation will also examine the overall cost-effectiveness of implementing projects on a large scale, designed to create communities of mixed income families.

V. PROJECT ANALYSIS

A. INSTITUTIONAL ANALYSIS

1. Government of Botswana

The Ministry of Finance and Development Planning and the Ministry of Local Government and Lands are the two central Government institutions directly involved with this project.

Ministry of Finance and Development Planning (MFDP)

MFDP is the senior ministry in Botswana employing over 1,000 people in seven departments. Responsibilities include taxes, statistics, customs, accounting, and economic planning and analysis. MFDP coordinates the national budget and the needs of the various ministries for project financing from domestic and donor sources.

Ministry of Local Government and Lands (MLGL)

Overall Organization: MLGL contains most of the key shelter and urban development responsibilities at the national level. The Ministry has approximately 450 employees in "regular posts" and another 400 in "industrial class" positions. The Ministry has seven departments: Headquarters, District Administration, Local Government Audit, Surveys and Lands, Food, Town and Regional Planning, and Unified Local Government Service. Housing and urban development functions are incorporated in the Headquarters Department as are other specialized functions, such as architecture and engineering, staff development and training, and finance and planning. The chief operating officer, the Permanent Secretary, is also Chairman of the Board of the Botswana Housing Corporation.

Project development is the initial responsibility of an economic planner in MLGL, who coordinates project planning within the Ministry and with outside ministries and agencies. He is the main liaison with MFDP in coordinating funding levels for projects.

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Housing Section: Since 1983, the Ministry has contained a Housing Section under the Undersecretary (Housing and Urban). The Section is headed by the Low Cost Housing Officer (LCHO), who at current is an expatriot funded by the World Bank. This position will be localized in April, 1985. Under the LCHO are two professional positions - Housing Officers I and II - each of which is occupied by an AID-funded advisor and his local counterpart.

The LCHO is the key policy formulation position in MLGL with respect to low-cost housing. The duties of this position include, first and foremost, enhancing the SHHA low-cost housing effort through overall policy development, program monitoring, and training. The Section is also responsible for establishing policy and general oversight in such areas as housing subsidies, middle-income housing, access to housing finance, long-range planning, and housing standards.

This Section is an active member of the project steering committee, and will continue to play a major role throughout planning and implementation. The housing officers will assist the MLGL economic planner in the preparation of the project delivery plan. They will also have a major role in processing the approval of the legal amendments to the State Lands Act concerning the foreclosure process, BHC rent increases, and analysis of the service levy. As the arrearages problem is significant for all four SHHA's, they will work with each town council on a national program for its reduction.

The Housing Section is in an advisory position in relation to the Botswana Building Society. BBS, as a nominally private institution, is independent from formal MLGL oversight. Yet, partly due to continuing support for that institution by the Government, in the form of direct lending by MFDP and placement of Government deposits, a cooperative working arrangement has developed between the Housing Section and BBS.

Urban Development Coordinator: The Urban Development Coordinator (UDC) under the Undersecretary (Housing and Urban), although not in the Housing Section, plays a crucial role in projects funded through MFDP. The UDC is responsible for coordinating the planning of SHHA areas with the City and various central Government departments, for approving SHHA claims for reimbursement for the purchase of building materials, and for coordinating the inspection of contractors' work and approving payments by

MLGL engineers and the Francistown Engineering Department for infrastructure and community facility construction. The UDC for Francistown is also chairman of the project steering committee, which is composed of representatives from various sections of MLGL and the Francistown Town Council. As noted earlier, the UDC position will be filled through World Bank financing. The current assistant UDC has the qualifications and ability to assume the UDC position after two years of understudy.

Department of Town and Regional Planning: This Department is responsible for developing long-range master plans for each city, and for site planning for specific projects. A DTRP planner is resident in Francistown, receiving support and supervision from DTRP senior staff in Gaborone.

DTRP prepared a new master plan for Francistown in 1984. The plan, which will guide development in the City for 10 years, addresses issues of urban migration and the need to provide adequate land for low-cost shelter. The Plan also embodies Government policy of mixing income groups within each development area, such as Phase IV, to the extent practical.

For individual projects, this Department is responsible for project identification, feasibility studies, and site plans. This work for the project has been completed. The site plan is pending final approval by the Francistown Town Council and the Town and Country Planning Board, a national body. These approvals are expected by April, 1985. The Department will coordinate with the Chief Engineer of MLGL's Housing and Urban Division in preparing bid documents and awarding contracts for detailed engineering design and construction of infrastructure in the Francistown component of this project. The Department will coordinate with the Francistown Engineering Department for the construction of schools, community facilities, and pit latrines, and for landscaping, consistent with the approved site plan.

Department of Surveys and Lands: Responsibility for mapping, aerial photography, and cadastral and boundary surveys rests with the Department of Surveys and Lands. They also prepare the covenants and restriction that accompany the transfer of land to town councils, the Botswana Housing Corporation, and private developers.

This Department has done the initial aerial photography for the upgrading area of the Francistown project area. Following plot rationalization and the setting of plot markers by the residents of the squatter area, under the

direction of the Community Development Division of the SHHA, Surveys and Lands will do another series of aerial photographs. These will be the basis for defining individual plots in the squatter area for purposes of issuing COR's. Surveys and Lands will survey new sites and services areas to cadastral standards acceptable for eventual conversion of individual plots from COR to long-term leasehold title.

Water Utilities Corporation

In 1970, the Water Utilities Corporation (WUC) was established. Its activities are restricted to the urban areas where public water services can be financially self-supporting. The chief executive is responsible to a board of directors, which is appointed by the Minister of Mineral Resources and Water Affairs. Divisional engineers are responsible for design and construction of works by direct labor contract. However, for large projects, such as Francistown Phase IV, WUC will contract out design and construction.

Payments are made at cashier's offices in Francistown for private water hookups. The Treasury Department makes periodic payments to WUC for total water use in SHHA areas, which is metered at each standpipe. This cost is in turn passed on to plotters as a component of the service levy.

Botswana Power Corporation

Established in 1970, the Botswana Power Corporation (BPC) provides power to urban areas and industrial developments, and is the agent of the GOB for installation, commissioning, and subsequent operation of the reticulation in villages under the rural development electrification program. The board of directors of BPC is appointed by the Minister of Mineral Resources and Water Development. Botswana is tied into the South Africa power grid, but with the commissioning of a major new coal-fired power plant in Morupule in 1985, the Country will be self-sufficient in electricity.

Under this project, power will be provided to community facilities and streetlighting will be installed. For non-SHHA areas, including 500 plots to be financed by BBS with HG funds, local electrical reticulation will be installed with capacity sufficient for full private hookups.

2. Francistown Town Council

The Francistown Town Council government has jurisdiction over most typical local government functions. In some

respects it is under the central Government, through MLGL, which dictates many standardized procedures and regulations for all Botswana urban areas. The sections of the Francistown Town Council most concerned with this project are the Self-Help Housing Agency, the Engineering Department, and the Treasury Department.

Self-Help Housing Agency

The Francistown SHHA was established in 1974, and continues to function as the management agency for low-cost site and service and upgrading areas within the municipality. It is also part of the project team in the planning and design of new projects that include low-cost shelter components. The SHHA director is the Principal Housing Officer of the Francistown Town Council, and reports to the Town Clerk. The SHHA is divided into three divisions: Administration/Finance, Technical Assistance, and Community Development. In addition to headquarters, the SHHA operates several ward offices where the majority of SHHA staff are assigned.

The three aspects of the SHHA's work are closely interlinked and need to be integrated both at the operational level in the wards, and at the management and supporting level in Headquarters. This results in a matrix form of organization in which authority and communication flow in two directions: functional or technical authority and communication flow vertically between sections and their field staff, and coordinating and project authority and communication flow horizontally between members of different sections at field level under head office leadership, and at headquarters under departmental leadership.

The Community Development and Technical Assistance Divisions are the two most concerned with the SHHA's main objectives and outputs, the settlement or resettlement of low-income families, and house building and consolidation. The Administration/Finance Division is concerned with the supporting activities of service levy and building material loan payments, cost accounting, reports enforcement, and supplies management. The SHHA has a total of 48 positions, eight at headquarters and the rest assigned to the ward offices, in addition to a few "industrial class" employees. Of the 48 positions, all but four are now filled.

The Francistown SHHA is a relatively stable organization with well-defined lines of responsibility. Its current director has been with the SHHA for four years. The

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Technical Assistance Division was recently evaluated by the SHHA advisor in Gaborone and found to be of especially high quality. The Francistown SHHA has benefited from a World Bank/GOB-funded resident advisor from the Cooperative Housing Foundation for three years.

The SHHA will be able to implement this project with its existing staff. In part, this will be accomplished through reallocation of staff, as is consistent with SHHA policy, from older site and service and upgrading areas where most basic house construction is completed, to new project areas. In 1986, a new ward office for Phase IV will be built. Ultimately, this ward office will have a staff of 15-20.

Engineering Department

The Engineering Department includes a Town Engineer, Deputy Town Engineer, Town Planner, and Town Architect. In addition, there are three technical officers for field inspection and maintenance, a surveyor, a draftsman, and work crews. Three assistant technical officer positions are currently vacant, but expected to be filled this year. The Engineering Department has the capacity to execute the functions expected as part of the Francistown component of this project. These will include contracting and supervising works on the pit latrines, schools, community facilities, SHHA ward office, and landscaping. They will also be responsible for the maintenance of these facilities as well as roads and sewerage.

Treasury Department

The Treasury Department will have no direct role in shelter construction or management. It will however be the focus of AID's technical assistance because of its function in cost recovery, revenue generation, and financial management, and hence ultimately its importance to Francistown's ability to maintain low-cost shelter areas and accommodate growth.

The Treasury Department is responsible for preparation of the budget, revenue collection, and day-to-day management of Francistown's financial affairs. The Department is headed by the Town Treasurer and his deputy, and divided into an Accounts Section (13 positions) and a Revenue Section (21 positions). As of December, 1984, there were seven vacancies, two of which were due to long-term training. Because of the MLGL's continuing difficulties in finding qualified individuals, there was no immediate prospect of filling these positions.

The problem of vacancies is compounded by the overall low level of training among staff. In the Accounts Section all personnel above the level of Accounts Clerks have earned the basic National Diploma in Accounting and have at least two years experience. The Senior Accounts Clerk, however, has only one year of accountancy training. The Accounts Clerks are secondary school graduates but have no specific training in bookkeeping or accounting. The skills deficit is more severe in the Revenue Section, where none of the employees have received specific training for their positions. The overall lack of training in the Treasury is a major impediment to its ability to execute assigned responsibilities.

Given the relative lack of trained personnel in Botswana and the Government's difficulty in competing with the private sector for those most qualified, this Department's deficiencies will continue. This makes the provision of technical assistance, as outlined in Section IV.E, of all the more importance in the short and medium term.

3. Botswana Building Society (BBS)

Formerly a branch of the United Building Society of South Africa, the Botswana Building Society became an independent entity in January, 1977. Its activities are authorized by the Building Societies Law (CAP. 42:02) dated January, 1975, with subsequent amendments. It is regulated by the Permanent Secretary of MFDP, with day-to-day operations supervised by the Bank of Botswana.

The BBS is a mutually owned savings institution, whose capital is made up of three categories of "Shares":

- Indefinite Period Paid-Up Shares.
- Fixed Period Paid-Up Shares (5 years maturity).
- Subscription Shares.

These "Shares" are really such only to the extent that the yields they pay are called dividends, and voting rights correspond to the number of shares owned, according to the category they fall into. Various agencies of the GOB combine to own 100 percent of the Fixed Period Paid-Up Shares.

The Society is administered by a seven member board of directors, elected by the shareholders. Composition of the

Board as of December, 1984 reflected a wide variety of private sector interests, in addition to two members employed in the public sector.

In 1981 the Society hired a new general manager. This person has had considerable management experience in building societies in Great Britain and several African countries. The BBS has operated very conservatively over the years, and grown slowly. The hiring of this new general manager has coincided with a number of steps taken by the BBS toward expanding their activities. Their participation in this project will substantially expand their operation to much lower income families and allow them to cooperate more effectively with the public sector.

Since 1981 the staff has grown from 15 to 45. Approximately two-thirds of those are working in its recently completed headquarters in the Broadhurst area of Gaborone. In addition, a large branch office is operated in the central business district of the capital city. In the last two years branches have been opened in Francistown, Selebi Phikwe, and Lobatse, and are presently staffed with about three employees each. Management expenses for the year ending March 31, 1984 were up 47 percent from the previous year, and 150 percent from three years earlier.

BBS Lending Activities

The Society is permitted by law to lend for a variety of commercial, industrial and residential purposes. In practice, the BBS has invested exclusively in residential mortgages. It will make home improvement loans, but only in cases where it has an existing first lien mortgage. The Society will not accept a lien position inferior to any other lender.

The BBS has no minimum or maximum loan amounts. Based on its entire portfolio of about 1,000 loans (December, 1984), its average loan amount is about P18,000 (\$12,600). For mortgages made in 1984, the average loan amount has been between P25,000 (\$17,500) and P30,000 (\$21,000).

The BBS is permitted by law to make loans for up to 30 years, but generally lends for no more than 25 years. The Society benefits from the Government Guarantee Mortgage Scheme (GGMS) through which the BBS may finance up to 95 percent of the lesser of the purchase price or appraised value of any freehold or long-term leasehold house, not costing more than P 25,000 (\$17,500). On uninsured loans, the BBS will finance up to 75 percent of the value, but on

eligible properties, the Government guarantees the next 20 percent allowing BBS financing of a full 95 percent of the purchase price. The excess of the sales price over P25,000 can be financed at the normal maximum rate of 75 percent. Thus, all borrowers can receive some benefit from the GGMS. The borrower is required to pay only five percent down plus the legal and appraisal fees. These fees range from P140 (\$98) for a house costing P4,000 (\$2,800) to P565 (\$396) for a house costing P25,000 (\$17,500).

No fee or premium is charged for the GGMS, and the BBS has not had to file any claims under the program. To be eligible, the monthly payment should not exceed one quarter of the applicant's gross monthly income. In two-income households, the entire income of the spouse is taken into consideration. These same criteria are applied to applicants for an uninsured loan at the BBS.

As of December, 1984, the Society charged 13 percent on loan amounts below P20,000 (\$14,000), and 14 percent on loans exceeding that figure. No loan fees or points are charged. The GOB charges a transfer duty equivalent to five percent of the property value in excess of P20,000 (\$14,000), but only for property re-sales and not initial sale of state land by the Government. The BBS has a policy of lending only to citizens of Botswana. BBS mortgages carry a provision for rate adjustments in accordance with the legal limits as enforced by the Bank of Botswana. No other type of mortgage instrument is offered. During the last four years BBS mortgage rates have fluctuated from a low of 10.5 percent in 1980-81 to a high of 14.5 percent in December, 1982.

Prior to 1977, as a branch of the United Building Society, the Society loaned only to public sector employees. Consequently today, a large proportion of the BBS portfolio is comprised of loans to government employees. In recent years, a large number of loans have been made to employees of some of Botswana's larger companies. The BBS often arranges payroll deduction plans with public and private sector employers, who then remit to the Society. Roughly 10 percent of all BBS borrowers are self-employed.

The Society will finance only detached, single family residences. They have financed no apartment complexes and Botswana law does not allow the condominium form of home ownership. The Society will finance the acquisition of an existing home, as well as the construction of a new house. Private development of subdivisions or residential schemes is practically non-existent in Botswana.

In recent months the Society has closed an average of 30 loans per month. With an expansion of lending activity for which the Society is gearing up, they anticipate that this monthly average will increase. The BBS portfolio, following current lending practices, could grow to between 2,500 and 3,000 loans by 1990. Based on this estimate, the additional 600 loans from this project would result in a portfolio of between 3,100 and 3,600 loans. The HG-financed BBS loans would thus comprise between 17 and 19 percent of the Society's whole portfolio, and between 23 and 29 percent of new loans added during the 1985-1990 period.

These calculations provide a rough idea of the extent to which funding and administering the HG-financed loans will require attention by the BBS staff in general. Beyond the direct involvement of the loan processors and appraiser/inspector, such functions as credit evaluation, bookkeeping, and accounting, as well as payment collections, will be generated by these project loans and will require a corresponding increase in level of effort. Thus, in addition to hiring one or two more loan processors, plus the increased need for a property appraiser/inspector's time, the hiring of several (say three) additional staff in the areas of bookkeeping, accounting and loan servicing may ultimately be necessary as a result of this project.

BBS Depository Activities

The society offers four types of accounts:

<u>Account Type</u>	<u>Yield @ December, 1984</u>
Indefinite period Paid-Up Shares	9.0% (tax free)
Subscription Shares	8.0% (tax free)
Special Savings Accounts (P20,000 minimum balance, interest on daily balance)	8.0% (tax free)
Savings Accounts (No minimum balance)	2.0% (tax free)

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These rates have allowed the BBS to compete successfully for private deposits. From the investor's standpoint, BBS shares behave more like deposits than shares that are purchased in a stock market. There is no potential for capital gain or loss. Shares are redeemable at the BBS subject to certain time restrictions (or immediately in case of the shareholder's death). Dividends on Indefinite Period Paid-Up Shares are paid in March and September of each year. The Subscription Shares plan is similar to contract savings, but is not for the purpose of accumulating a down payment for a house. The investor agrees to pay a fixed monthly sum, from P1 (\$.70) upwards to a maximum paid up value not to exceed P75,000 (\$52,500). The investment period may range from 36 to 300 months. Partial withdrawals are permitted. As of March 31, 1984 share capital stood at P17.9 (\$12.5) million, up 16 percent from one year earlier.

The BBS does not offer checking accounts. In the past year, the BBS has fully computerized all of its depository accounts. All transactions are fed into a central system on a daily basis, and a summary report is produced. Tellers can verify account balances and transactions daily. The Society is currently taking steps to computerize its mortgage loan portfolio, in order to track payments and loan status in a similar manner.

Deposits with financial institutions in Botswana are not insured, but saver confidence does not appear to be a problem. In the past the BBS has not offered special programs, such as lotteries or drawings, to generate new savings, partly due to constraints in terms of staff and office space. Management believe that there probably is strong potential for drawing considerably more Botswana citizens into the depository system, and they hope to implement new measures in this area in the future. As of March 31, 1984 the Society's savings deposits stood at P3.26 (\$2.28) million, down from the peak two years earlier at P3.62 (\$2.53) million. Despite this fact, interest expense increased 73 percent over the same period, due principally to interest rate increases and a partial shift in the proportion of low-cost savings to higher cost Special Savings Accounts.

An additional source of capital for the BBS is the MFDP's Public Debt Service Fund (PDSF). Through the PDSF, MFDP has granted the society a P3.1 (\$2.2) million line of credit at 10 percent, repayable over 25 years. The BBS's only obligation, aside from repayment, is to invest the money in home mortgages for Botswana, according to its own

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internal policies. The Society plans to draw down the full amount over the next 12 to 18 months. As of December, 1984, P800,000 (\$560,000) had been drawn down under the PDSF.

BBS Payment Collections

According to BBS management, the Society has not had difficulty with payment arrearages. This, of course, reflects in large part the historically conservative lending policies of the institution and high incomes of mortgagors. Since 1972, there have been only three foreclosures. Legal proceedings are often started on accounts three months or more in arrears, but the problem is almost always resolved prior to completion of the process.

BBS methods for dealing with slow payers include the standard reminder letter sent after one monthly payment is missed; a personal letter is sent after two months and personal contact is made to discuss the situation. At 90 days the case is reviewed by the Board and referred to the Society's lawyers if no other arrangement can be made. The foreclosure process in Botswana appears to be reasonably efficient, and can be fully executed in eight to 12 months. This same process would apply to the private sector component of this project, as the families will have the same land title as for other BBS lending.

B. TECHNICAL ANALYSIS

1. Structure Plan for Francistown

In 1984, the Department of Town and Regional Planning of MLGL prepared a new master plan to guide development of Francistown for the next 10 years. As part of this planning process, population growth, employment generation, housing stock, transportation, regional role of Francistown, natural resources, and several other factors were all taken into account.

Based on a projected population growth of eight percent per year and the existing shelter deficit, the need for 1,200 plots per year was noted. The plan identifies the land south of the Tati River as the City's primary growth area over the plan period. This period includes Phase IV, which is to be completed by 1990, and Phase V, an area of comparable size further south.

An analysis of this plan indicates that the land selected for low-cost shelter is the most appropriate. This land

has proper physical characteristics for housing development, especially where non-water borne sanitation will be used. The area is the nearest tract of raw land within the municipal boundary to the central business district and existing industrial areas. The Phase IV development itself includes a large industrial area alongside the main north-south road and railway link.

Plans for the Phase IV development include agricultural development and auxiliary play fields in areas along the Tati River subject to flooding. Low-cost SHHA plots and more costly sewer plots, including those financed through BBS as part of this project, will be integrated to the extent practical, although in some areas the latter will be aggregated so that sewerage can be gravity fed.

2. Infrastructure Standards

Botswana has low infrastructure standards for all urban low-cost areas (site and service and upgrading). These include engineered earth roads, open drainage, and water standpipes within a maximum walking distance of 100 meters from any plot. Streetlighting along selected walkways is provided. Water reticulation in SHHA areas is ordinarily installed with a capacity sufficient for upgrading to private connections for 50 percent of the plots.

For the Francistown component of this project, road widths have been reduced from those previously applied. Tertiary road reserves will be 13 instead of 15 meters, and secondary roads 18 instead of 25 meters. Narrow footpaths of two to three-meter reserves will be used in some areas of the project to reduce walking distances.

Infrastructure standards will be somewhat higher for the private sector-financed plots in Francistown and other urban areas. Water and sewerage will be brought to each plot boundary for hookup during construction. To keep costs down an electrical connection will not be required for BBS financing. However, the electrical reticulation in these areas will have sufficient load for 100 percent individual connections. (See Annex Q for project site plan).

3. SHHA Self-Help Housing

An estimated total of 2,325 site and service plots will be developed on plots of 400 square meters on average. In upgrading areas, plots will also average 400 square meters, but individual plot sizes may range from 300-500 square meters. Construction of housing on SHHA plots, judging from past experience, will ordinarily be through the

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plotholder hiring an informal builder. Traditional building materials (e.g. mud, wattle, and thatch) are permitted in SHHA areas, but are seldom used except for temporary structures in site and service areas. In upgrading areas, most new construction after land tenure is established tends to be with modern materials, but existing structures of traditional materials usually remain for several years.

Construction will be largely with concrete block. Lintels are precast reinforced concrete. Roofs are wood-framed with metal sheeting. Windows are typically of steel casement design. A high degree of standardization exists in developed site and service areas in Francistown and other Botswana cities. This is due to two factors. First, Botswana has a narrow selection of building materials, relying on purchase from South Africa and Zimbabwe for cement, steel, wood, and hardware (although some of the fabrication and all of the blockmaking is done locally). Second, the SHHA's have in the past used a warehousing system for building material loans, whereby no cash changes hands but instead the loan is drawn down in materials at a SHHA building materials depot. This tends to further limit selection of materials. This project will experiment with an alternative voucher system that allows plottolders to use building loan funds for direct purchase of building material suppliers.

After trying several on-site sanitation systems, including septic systems, the GOB several years ago settled on a dry composting design, known locally as a REC II, for SHHA areas. This system is simple, easy to build, relatively inexpensive, and acceptable to plottolders. The system consists of two lined pits, which when filled can be pumped out (every four to eight years). MLGL is examining the design of the substructures to see if the cost per unit of P300 (\$210) can be reduced. To date, no environmental or health hazards have been experienced in SHHA areas where these latrines are properly sited and constructed.

Contracting for sub-structure construction of the REC II is done by the Francistown Engineering Department, which has proved capable of ensuring adequate quality. A further advantage of the REC II is that this substructure can be built by small contractors, thus providing a major source of employment for these local firms during development of new project areas.

The site and service allottee is required to first build the pit latrine superstructure and then a house of minimum

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nine square meters. The COR allows a 12-month building period, however up to two six-month extensions may be granted. The materials necessary to fulfill this minimum obligation cost P486 (\$340) in mid-1984. Few families will build the minimum house, but instead mobilize personal and extended family savings and build initial houses of two rooms of about ten square meters each, with separate outdoor entrances. Often one of these rooms is sublet. In upgrading areas only the pit latrine superstructure construction is required.

A series of standard house plans, along with bills of quantity, have been updated and improved by the AID-funded SHHA advisor in Gaborone. These will be tried in Francistown SHHA areas as well. Out of funds from the grant component of the Gaborone West project, AID may sponsor an architect specializing in energy efficient house design to improve the overall thermal performance of standard SHHA designs.

4. Private Sector Housing

As part of this project, the GOB will service 600 plots for which HG funds will be on-lent to the BBS for financing the purchase of these plots and house construction by eligible families. Applicants will apply directly to the BBS, which will verify their incomes according to procedures approved by AID and the Housing Section of MLGL.

A series of standard low-cost house plans, along with bills of quantity, will be prepared through AID technical assistance. The BBS will make these plans available to allottees; however, they will be permitted to use their own plans. All house plans will be approved by the Building Control Section of the engineer's department of the particular municipality, which will also make periodic construction inspections. These will be in addition to inspections made by the BBS appraiser for purposes of drawing down the BBS mortgage loan.

Construction with private finance will have to satisfy BBS concerns that the property retain substantial collateral value for the full term of the mortgage, which may be as long as 25 years. BBS has indicated that they will accept construction of materials commonly used in SHHA areas, along with the installation of on-site waterborne sewerage. Houses financed will generally be of two rooms.

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5. Community and Commercial Facilities

Community facilities for the Francistown component of the project will consist of six primary schools, a health clinic, and a community center (community facility expenditures are shown in Annex F). The number and size of these facilities will be in accordance with urban development standards. In addition, at least one SHHA ward office will be built. A warehouse for building materials may be added, depending on a future decision on whether the SHHA will continue its role as wholesale purchaser of these materials for plotheholders. All of these facilities will be fully serviced with water, sewerage, and electricity. Construction is ordinarily by individual tender for each facility in order to utilize small local contractors. In the past, this method has proved satisfactory. Plots for commercial use, serviced with minimum infrastructure, will also be provided under HG funding.

Under the Botswana Renewable Energy Project, a school design more appropriate for the Botswana climate has been developed. It is anticipated that this design will be used for the first primary school, and if found acceptable used for the others as well.

Discussions with various GOB officials has confirmed the accuracy of the construction schedule for community facilities prepared by MLGL. The staffing needs of these facilities are reflected in GOB budgets.

6. Sewage Treatment and Effluent Irrigation Scheme

As part of the Francistown development, the GOB will use domestic funds to build new sewage treatment facilities and settlement ponds south of the residential areas and about three miles from the existing ponds. The existing ponds are overloaded, and the resulting environmental hazard is compounded by recent squatting nearby. This area will be more appropriately used for industrial development, as it is contiguous to main road and rail lines. The Francistown project component, including BHC and private sector plots, will nearly double number of residential sewerage connections.

The new sewage ponds will be developed along with a sewage effluent irrigation scheme. The feasibility study for the new treatment facilities, which was completed in mid-1984, included an analysis of this scheme. Soils just east of the proposed ponds site were found marginally acceptable

for agriculture. Due to potential environmental hazards, a high value cash crop, such as vegetables or citrus, could not be produced. However, three alternatives were noted: a woodlot for the production of building materials and firewood, thatch grass for traditional roofing, and pasture.

A flood irrigation system will probably be used because it is mechanically simpler. The total area of the scheme will be about 45 hectares. The full cost in 1984 was estimated at P311,000 (\$218,000), of which only P79,000 (\$55,000) would be foreign exchange expenditures. Although small in scale, the establishment of a woodlot or source of roof thatching could have a significant demonstration effect countrywide.

C. SOCIAL ANALYSIS

1. Socio-Economic Context of Francistown

Officially established in 1897, Francistown is the oldest urban center in Botswana. In contrast to other urban areas, a substantial portion of the population was settled in the City prior to Botswana's Independence in 1966. Over 50 percent of the household heads living in the traditional areas of Francistown have been there for more than twenty years, and 48 percent of the population consider Francistown their primary home.

Until recently, Francistown had a slower growth rate than Botswana's newer urban centers, such as Gaborone and Selebi-Phikwe. In the 1971 census, Francistown's population was estimated at 18,613 and in 1981 it was recorded at 31,100 an increase of approximately 5.3 percent per annum. However, the current population has jumped around 40,000.

The recent increase in the population growth rate to eight percent can be attributed to a number of factors. The cumulative effect of three years of drought has caused rural denizens to move to urban centers when crops fail and cattle die. Additional employment opportunities have also triggered an upturn in immigration. Industrial investment in Francistown has increased due to improved accessibility to expanding markets. Francistown is close to many of the new markets in southern Africa that have opened up by virtue of the creation of the Southern Africa Development Coordinating Council (SADCC). The GOB is also planning to place the Botswana Railways' headquarters in Francistown while the Botswana Meat Commission intends to build a new abattoir, capable of handling 1200 head per day. Finally, the independence of Zimbabwe has resulted in Zimbabwean firms opening affiliates or sub-companies in Francistown.

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Although wage employment is growing rapidly, in assessing the economic context of the inhabitants of Francistown, it would be incorrect to assume a totally wage-oriented, formal urban base to that economy. One of the characteristics of Botswana is the strong interdependence between off-farm wage employment in urban areas and farm production. The majority of household heads living in cities have rural resources in the form of agricultural lands and cattle. Furthermore, certain members of the household typically reside in rural areas to manage these resources. Francistown also has a vibrant and active informal sector, and informal businesses are frequently an adjunct to other means of support. Formal cash income, while important, is not the only source of support.

2. Distribution of Income

Current data on urban income in Botswana are not available. The standard statistical source for analyzing income distribution is from 1974 and includes only parts of Francistown. Apart from dated data, there are three areas of difficulty when attempting to determine accurate income distribution in Botswana. They include estimating informal sector incomes, determining remittances from migrants, and approximating income in kind. While it may be relatively easy to determine wage income from formal employment, it becomes problematic to determine the percentage of low-income families needing housing who are included in the category of formal wage earners. The Gaborone West project uses a median family income of P2,400 (\$1,680). Because data is so limited, this figure will be used as the median for this project until a firmer figure can be established in late 1985 as a result of a comprehensive national income survey now starting.

Analysis of recent formal sector wage data indicates that P2,400 (\$1,680) is a reasonable estimate for 1985. In August, 1983, the Central Statistics Office conducted a census of formal sector employees in Francistown. This census showed that there were 7,943 formal sector wage employees in the City. As a means to approximate median family income, the distribution of wage earners by employment sector (see Annex I) is related to wages within each sector on a national basis, which is also available from 1983 (see Annex J). This produces a median wage income of P115 (\$81) in 1983.

In order to relate income of formal wage earners to family income, informal sector income must be accounted for. In

1981, 48.8 percent of the Francistown population was below 20 years of age. Hence, it is realistic to assume that about 50 percent of the Francistown population is in the labor force. Since 22 percent of the population are in wage income, about 28 percent are in the informal sector. A further assumption is that the typical informal sector employee is earning half that of a typical wage employee, or P57.5 (\$40) per month. The weighted average of informal and formal sector median incomes is about P80 (\$56) per month. Relating this to the average family size of 4.7 suggests P188 (\$132) per month or P2,256 (\$1,579) per year. Adjusted for inflation this would be right around the P2,400 (\$1,680) figure.

3. Project Beneficiaries

Over the life of the project, approximately 4,500 families will receive housing in the Phase IV project area. Assuming 5.5 persons per plot, the number of direct beneficiaries of the project will be approximately 25,000 individuals. A segment of intended beneficiaries will include squatters who have already settled in the project area. In 1983 SHHA estimated that there were about 1,000 squatters in blocks one and two, with an average monthly influx of 40 new compounds.

Based on a recent waiting list for SHHA site and service plots in Francistown, the following information provides insights into the anticipated beneficiaries:

- 66 percent were between 21 and 30 years of age.
- 22 percent had resided in Francistown 11 years or more.
- 74 percent had been in Francistown for five years or more.
- The mean number of children under 16 was two while the median was three.
- The mean income from wage employment per month was P119.75 (\$84).
- The median income was P176.35 (\$123) per month.
- 17 percent of the applicants were self employed with 25 percent of that group earning P51-P75 (\$36 - 52) per month, 25 percent earning P251 (\$178) and over, and the rest falling between these two extremes.

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- The types of self-employment included food and beer vending, carpentry, taxi drivers, bricklayers, mechanics and tailors.

The current SHHA policy is to limit applicants to a maximum per annum income of P2,500 (\$1,750) and a minimum of P400. However, 10 percent of the plots are available to families with an annual income of up to P3,500 (\$2,450). These income limitations will be adjusted periodically to account for inflation and changes in the income distribution in Francistown. However, because this project will provide some fully serviced plots for families in the 40th to 50th income percentile, thus relieving some of the demand for SHHA plots, the number of plots offered for families above the median will be kept to the minimum necessary to meet shortfalls in the supply of other shelter for families at this income.

The selection process for the allottees objectively evaluates prospective applicants without any apparent discrimination. The applicant is required to complete an Employment Verification Form or a Self-Employed Verification Form, as well as a plot application. SHHA Headquarters reviews the application to determine if the individual is a citizen and 18 years of age or older, to substantiate income figures, and to ensure that the applicant does not own any other SHHA plots. SHHA Headquarters' recommendation is then presented to the Management Board for approval. Allocation is on a first come first served basis for those meeting the minimum qualifications. After approval the applicant attends an orientation session which includes, among other things, general information about SHHA, the rights and responsibilities of plot holders, an explanation of the service levy, and construction requirements.

Direct participation by the plotholder occurs in the selection of house design. At present, there is a variety of standard designs from which to choose. However, a family is not obliged to select one of these designs. The plotholder confers with a SHHA technical assistant to decide on the type of unit most appropriate for his needs. While the designs and materials typically used do provide for basic health, safety, and privacy at minimum costs, they have not always been found most appropriate for the climate. AID, relying on regional housing personnel and housing advisors already in Botswana, will work with the Botswana on improving both design and materials for low-cost housing under this project.

4. Affordability and Willingness to Pay

Several studies have been conducted in Botswana's various low-cost site and service and squatter upgrading areas, recording residents' attitudes toward their plots, houses and services. A consistent finding from these studies is that residents generally exhibit the natural desire for services to be free and plots and houses to be larger and of higher quality. Often it is argued that services in villages, such as water from standpipes, are provided free of cost. Since it is GOB policy not to subsidize these services in urban areas, as is sometimes done in rural areas, affordability becomes a key issue.

Botswana remains by and large a rural society. Even among urban dwellers there are strong rural links. One effect this has on housing schemes, such as Phase IV, is that the connection is not always clear between the standard of urban living and the price residents must pay for it.

At present, willingness to pay appears to be more of a problem than affordability. Recent statistics for the service levy indicated that 62 percent of the SHHA plottolders throughout Francistown are three or more months in arrears. Similar statistics on building material loan repayment show 38 percent of the plottolders are three or more months in arrears.

There are a series of reasons accounting for this phenomenon, other than affordability. The cultural reasons are complex and have to do with traditional values and social change. The degree of an individual's identification with structures of modernity, e.g., willing to part with a limited amount of cash for services to a plot, do not increase simply as a function of propinquity to a modern setting. Willingness to pay for shelter and services is generally correlated to the amount of time in an urban setting, material dependency, and urban work experience. The plottolders who pay (and most are paying, even if they are not reducing long accumulated arrears) are incorporating elements of modernity into their self-identity. However, this synthesis is a novel creation and it is hypothesized that this change is as much a result of the meaning that this cultural group invests in their changed material conditions as it is the result of SHHA seeking to impose change.

5. Overall Social Impact

The proposed project is not expected to affect urban migration. Botswana has experienced what some individuals refer to as a "culture of migration" since before independence. Today, employment opportunities are concentrated in urban centers. The average income of males in 1982 was 68 percent higher in urban areas than in rural areas. 1982 figures also indicate that 69 percent of working age males and 27 percent of working age females in Francistown were employed in wage work compared to 29 percent of males and 10 percent of females in peripheral villages. The chance of finding employment is undoubtedly the main factor causing urban migration.

Access to public services and facilities is not uniform in Botswana. Quality services are only available in large villages and in cities. The results of the 1982 National Migration Study show that the desire for better services accounts for a considerable portion of short-term movement, visits lasting up to several months, but is not a major factor influencing long-term migration. Only five percent of urban residents considered access to facilities and services a main reason for migrating to an urban area.

The proposed project will not result in any structural reorganization of the extended family. Botswana is characterized by a family structure remarkably flexible in adapting to the economic realities of the region. Individual members of the extended family are dispersed geographically to participate in different economic endeavors, in order to diversify the family's sources of support, and thereby contribute to the maintenance of the family unit.

The project's impact on women is expected to be favorable. At present 38 percent of the applicants for available site and service plots in Francistown are female; only 18 percent are single males. As with men, women migrate to urban centers in response to greater employment opportunities. The growth of cities has helped to diversify women's access to viable economic options.

The project will enable beneficiaries to live under acceptable circumstances. It will provide good sanitation, durable and sanitary housing, and flexibility for expanding and improving shelter as resources permit. It will provide services, community centers, and plots for entrepreneurial

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development. In sum, the project is soundly designed in terms of the social factors of Botswana, and will have a measurable impact on the quality of life of many poor households in Francistown. By providing access to housing, the project will lessen the economic disparities manifested in physical shelter and will satisfy some of the basic human needs of disadvantaged groups and women.

E. FINANCIAL ANALYSIS

1. Cost Recovery and Project Subsidies

Cost recovery in the Francistown project component will include a mixture of direct collection methods and indirect subsidies. The direct collection methods are the service levy, building loan repayments, and BBS loan repayments.

The service levy is assessed on all SHHA-managed plots and is Francistown's principal means of recovering development costs for these areas. The Town Council is required by MLGL to set the service levy at an "economic" level, in order to achieve full cost recovery.

The current service levy is P8.50 (\$5.95) per month. The elements of the service levy are shown below.

TABLE VII
FRANCISTOWN SHHA SERVICE LEVY CALCULATION

SHHA Administration	P 4.50
Refuse Collection	0.52
Town Council Administration	1.77
Road Maintenance	0.89
Infrastructure Capital Costs	1.43
Street Lighting	0.74
Water charges	0.80
Sub-Total	<u>P10.65</u>
Less development grant	2.55
Total	<u>P 8.10</u>
Plus 5% default factor	.40
SERVICE LEVY	<u>P 8.50</u>

Infrastructure capital costs are recovered at the on-lending rate from MFDP without an interest rate spread. This is acceptable because, as shown above, the SHHA administrative costs and bad debt are explicit components of the service levy.

For this project a modification to this system will be considered, whereby costs of developing the area will be separated from recurrent maintenance, water, and

administrative charges. The plotholder would be able to repay capital costs over a fixed amortization period, or shorter. As a result of accumulating equity in the plot, the right of transfer to full title will be automatic. The Housing Section of MFDP with AID assistance is working out the specifics of such a system.

The SHHA also administers a building materials loan (BML) program. Funds are on-lent by MFDP at the same 10 percent for relending to plotholders at 11 percent, retaining the one percent difference to help cover administrative costs. This small spread, which is inadequate to cover the full costs of administering this program, results in a modest cross-subsidy whereby all plotholders are assisting the poorer families in the project areas who must borrow to purchase materials for construction of minimum shelter.

The Botswana Building Society will serve as the lending vehicle through which P3.6 (\$2.5) million will be channelled to approximately 600 households to purchase serviced plots and construct low-cost homes. The HG funds will be passed on from MFDP to BBS at 10 percent interest over 25 years. A margin of about three percentage points will be retained by the BBS to cover its administrative expenses and risk. Households nationwide in the 40th to 50th income percentile will be eligible to participate in this component of the project.

Overall, three subsidy elements are factored into the SHHA areas of this project. Two of these subsidies take the form of transfers from the MFDP to the Town Council, while the third is a cross-subsidy between high and low-income households.

1. GOB policy calls for the MFDP to absorb all planning costs associated with development projects. Consequently, the town councils receive a grant of P140 (\$98), known as a development grant, for each SHHA plot that is allocated, in order to defray the development and administrative costs incurred at the local level.
2. The MFDP lends funds to the Town Councils for infrastructure costs and the BML program at interest rates slightly lower than that at which the local governments could currently otherwise obtain such funds (such as borrowing from the banking sector). Costs of secondary and tertiary infrastructure for

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residential areas and funds for re-lending by the SHHA's as building material loans, are charged to the Town Councils at 10 percent interest over 25 years (recently increased from eight percent). The net effect of these slightly concessionary rates is to reduce the repayments on the infrastructure development costs. (See the following section for a more thorough explanation of on-lending interest rates).

3. Fully serviced plots are sold directly by the Government, mostly to middle and upper income families, at a price somewhat higher than cost. This increment above cost is used to cross-subsidize by 25 percent some of the infrastructure development costs for SHHA areas.

Finally, it is worth noting that SHHA plotholders, because they do not actually hold "title" to their property, but instead hold the "right" to occupy it, do not pay property taxes (rates). While the service levy does cover many of the expenses typically financed through taxes, such as road maintenance, it includes only some of the broader government expenses. This system should not be considered a subsidy but instead, in effect, a way to make local property taxes somewhat more progressive. When SHHA plots are upgraded to standard title (long-term leasehold), the plotholders begin to pay rates.

2. Government of Botswana Interest Rate Structure

It is appropriate to put the MFDP on-lending interest rate in the context of other Botswana domestic interest rates and the inflation rate. The Bank of Botswana under MFDP's supervision regulates the banking system, including the Botswana Building Society and the country's three commercial banks, Standard, Barclay's and the Bank of Credit and Commerce International. The banking sector is fundamentally the country's financial system, as there is no market for trading of stocks, bonds or commodities. The GOB last issued bonds in 1982 at a rate of seven percent. It has not needed to raise money in this manner since, largely because the excess liquidity of the commercial banks during the last three years has resulted in large deposits at the Bank of Botswana, for which it pays only 3.5 percent interest. The overall liquidity ratio of the commercial banks stood at 37 percent in June, 1984, up from a two-year low of 31 percent in February, 1984.

The on-lending rate of the Bank of Botswana to the system has fallen progressively from 12 percent at the end of 1982 to a present level of nine percent. Depository rates at the three commercial banks as of December, 1984 ranged from five percent on 31-day accounts, to nine percent on 12 month deposits. Savings accounts yields were eight percent. The BBS was paying 8.5 percent on savings accounts of P200 (\$140) minimum balances, and between eight and nine percent on mutual savings shares.

The BBS charged 13 percent on mortgages of less than P20,000 (\$14,000) and 14 percent on loans exceeding that amount. The minimum loan rate at the commercial banks as of December, 1984 was approximately 11 percent. With excess liquidity continuing in the banking sector, and inflation still in a downward trend, members of the financial community indicated that there is some possibility of a further decline in interest rates. (See Annex Q for interest rate patterns in Botswana, 1981-84).

The cost of living index for urban and semi-urban areas rose at an annual rate of 7.9 percent for the first six months of 1984, as compared to a 12.1 percent rate for the same period in 1983. For all of 1983, the inflation rate was 10.3 percent, down from the 1982 level of 11.5 percent.

In contracting HG-002, the GOB selected the variable rate option and negotiated a 40 basis point spread over the six-month Treasury Bill bond-equivalent rate. If the GOB were to choose the variable option for this project, the rate, including the one-half percent guaranty fee would be around nine percent. This is based on the Six-Month Treasury Bill rate of around eight percent at the end of 1984.

In sum, the proposed on-lending rate is reasonable in relation to domestic economic conditions and dollar interest rates. Ten percent is slightly below commercial bank lending rates but significantly above the cost of domestic currency to the Botswana Government. The on-lending rate is 2.1 percentage points above the most recent inflation figure. Lending rates in most countries are generally two to four percentage points over the long-term inflation rate. In relation to the HG loan, the on-lending rate would actually allow the GOB a slight spread over the variable rate now being offered.

3. Housing Affordability

SHHA Housing

A total of 1,125 squatter plots will be upgraded under the Francistown project component. These ploholders will, upon upgrading, begin paying the standard Francistown service levy, which for 1985 is P8.50 (\$5.95). The only construction requirement of these families is to build the superstructure for the pit latrine, the materials for which now cost P150 (\$105). With a 15 year building loan at 11 percent the monthly payment on this sum would be P1.70 (\$1.19). Hence the combined minimum monthly cost for participation in this project by squatter families is P10.20 (\$7.14). Assuming 25 percent of income for housing, this is affordable for a family earning P490 (\$343) per year. It is estimated that this is about the 15-20th income percentile.

For site and service housing, the allottee must also build a house of at least nine square meters. The materials cost for this is P336 (\$235). Under the building loan program this cost plus that for the pit latrine materials translates to a monthly payment of P5.57 (\$3.90) for 15 years. The total monthly payment with service levy is therefore P14.07 (\$9.55). The minimum income required for allocation of a new site and service plot is P675 (\$473), which is the 20-30th income percentile. There is no initial fee or downpayment required in the SHHA program.

Few families will build the minimum required dwelling and most will hire an informal builder for most of the construction work. The table below shows repayments for various loans, what would be built with the loan amount (assuming use of an informal contractor), and beneficiary income characteristics.

TABLE VIII
SHHA HOUSING AFFORDABILITY*

<u>LOAN AMOUNT</u>	<u>MONTHLY REPAYMENT</u>	<u>ANNUAL INCOME</u>	<u>INCOME PERCENTILE</u>	<u>CONSTRUCTION</u>
P225	P11.06	P531	15-20	Latrine
P721	P16.69	P801	20-30	1 room and latrine
P1305	P23.33	P1198	30-35	2 rooms and latrine
P1785	P28.79	P1382	35-40	3 rooms and latrine

*The current maximum loan is P1,200 (\$840), and hence construction of more than one room today requires household savings as well. The monthly payment includes the current service levy. Construction is at minimum standard with no finish work, at P60/square meter.

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As noted earlier, a modification to the service levy will be studied, whereby the capital component of the levy will be separated out and amortized for site and service areas. This would have the advantage of allowing allottees to accumulate equity in the plot, and simplify the transfer of any plot to full leasehold title.

Private Sector Plots

The cost of servicing a plot for sale through BBS financing will be about P2,400 (\$1,680) in 1985 prices. The cost of construction for this housing, because it will be built to a higher standard by more professional builders will be about P90 (\$63) per square meter. Affordability for this housing is shown below.

TABLE IX
PRIVATE SECTOR HOUSING AFFORDABILITY

	<u>2 ROOMS AND COOKING AREA (20m2)</u>	<u>3 ROOMS AND COOKING AREA (28m2)//////</u>
<u>Fixed Costs</u>		
Plot	P2,400	P2,400
Construction	1,800	2,500
On site water/ Sanitation	550	550
TOTAL FIXED COSTS	<u>P4,750</u>	<u>P5,470</u>
<u>Monthly Costs</u>		
BBS Loan*	P48.22	P55.52
Rates	5.74	6.61
Water	3.00	3.00
TOTAL MONTHLY COST	<u>P56.96 (\$39.87)</u>	<u>P65.13 (\$45.59)</u>

*Assumes 13 percent interest for 25 years, ten percent down.

Assuming that a family in this income range should spend not more than 30 percent of income on shelter, the two-room unit is affordable for a family at P2,278 (\$1,595), which is just under the median income. A three-room house is affordable at P2,605 (\$1,824). This exceeds the tentative median of P2,400 (\$1,680) by less than 10 percent. Construction of a house of this size would be possible under this project only if data from the upcoming income survey indicated that the actual median is somewhat higher than this figure.

Initial costs for BBS-financed housing will be the downpayment and a BBS legal and appraisal fee. This fee will be about P120 (\$84) for the houses financed under this project.

4. Self-Help Housing Agency Debt Management

The Francistown SHHA has suffered from consistently high arrearages for the service levy and building material loan repayments. As of November, 1984, 62 percent of the 5,141 SHHA plot allottees were 90 days or more in arrears on the service levy. Eighty (80) percent were 30 days in arrears. Ninety and 30-day arrears rates in squatter upgrading areas were 73 and 85 percent respectively. Rates in site and service areas were somewhat lower at 43 and 69 percent. Building material loan delinquencies were 38 percent at 90 days and 63 percent at 30 days. Many of the families who continue to pay every month nonetheless have accumulated debt, and are therefore considered in arrears.

Total debt to the SHHA on November 1, 1984 was P570,337 (\$399,265) for service levies and P24,847 (\$17,393) for BML's. Of those 30 days in arrears on the service levy, the average debt per plot was P140,85 (\$98.60). This is equal to more than 16 months at the service levy in effect in November, 1984. In upgrading areas, the average debt was P177.04 (\$120.43), equivalent to more than 20 months. Average building material loan debts for those in arrears was P29.10 (\$20.37). The debt problem of the Francistown SHHA is shared by the other three SHHA's in Botswana. A number of actions have been taken or are in process in response to the arrears problems. These are occurring at both the national and local levels and are both being sponsored by AID, and undertaken by the Government independently. Significant actions are:

1. AID-sponsored a debt management consultancy of four weeks in country in May, 1984. The consultant analyzed the issue and recommended both short and long-term solutions. (See Annex R for a summary of these recommendations).
2. As follow-up to this consultancy, a workshop was held for senior SHHA officials, facilitated by the RHUDO regional training advisor. The workshop intended that each SHHA reach a consensus on steps to be taken to mitigate the problem. These were written into action plans. The Francistown SHHA's plan would reduce the

arrearages rate by 10 percent by March 31, 1985. A second week long debt management seminar for both managers and technical staff was conducted by the training advisor in November, 1984. The seminar reviewed progress toward the goals of SHHA action plans and brought in expertise from the government and private sector to aid in the training.

Also in November, 20 staff of the SHHA and the Ministry of Local Governments and Lands, including three AID-sponsored advisors, were given a weeks training on visitation to the Kuwadzana Project, Harare, Zimbabwe. Administration of this project offers a number of procedures new to Botswana aimed at preventing and managing debt arrears and at terminating ownership in instances where due payment is not collectable. Again each SHHA combined usable procedures into their action plans.

3. Locally, the Francistown SHHA is asking that plottolders who are in arrears submit voluntarily to "stop orders". These are automatic payroll deductions covering the service levy debt. Major employers and plottolders have generally responded favorably and over 50 percent of the people contacted have agreed to this measure.
4. The SHHA's have begun using the Customary Courts to service debt collection. These lowest level courts generally serve a tribal population but are legally empowered in both civil and criminal cases and can confiscate moveable property, levy fines, and sentence violators. To date there is a high rate of success in collections arranged through this process, particularly when arrears do not stem from real hardship. Frequently outstanding debt repayment is scheduled by the magistrate and stop orders are invoked to handle future debt. The capacities of these courts is such that a large number of SHHA cases cannot be tried in any one month when compared to the number of plots in arrears. Nonetheless, this procedure has put examples before the public and the SHHA's feel that the threat of court action will help bring people into line voluntarily.
5. One handicap to the SHHAs has been the time required to update records at month's ends prior to initiating collection or court procedures. A mini-computer system has been installed at a neighbouring SHHA and its software is now being tested. The system will be

installed in Francistown and should facilitate quicker response to arrearage problems and provide more reliable data.

6. Condemnation proceedings have been complicated and lengthy. The State Lands act, which provides the legal basis for this, is being revised to expedite and simplify this procedure. In short, the new regulations will reduce waiting periods so that condemnation may be completed within two months instead of nine or more, will reduce the required procedures from nine to three, and will be simplified to the point that basic training will allow the process to be initiated by SHHA staff rather than legal professionals.
7. The Ministry of Local Government and Lands has established a position of SHHA Advisor in its housing section. When filled the position will provide continuous oversight to SHHA activities at the national level.
8. An AID-sponsored advisor to MLGL and the MLGL Principal Finance Officer are conducting a review of the procedures used to recalculate annually the service levy charged by the SHHAs with an eye to reducing the major cost component, which is SHHA administration.
9. MLGL and the Office of the Attorney General are investigating the legal ramifications of requiring that both employers and employees submit to the stop order program of payroll deduction of BML and service levy fees.
10. The Ministry of Finance has issued an edict that grant aid to all municipalities is to be pegged at P3.2 (\$2.4) million and increased only for inflation for the next five years. This will place added pressure on the municipalities to generate greater revenue from SHHA areas.

The increased efforts of the Francistown SHHA in debt collection in recent months have shown some success. Thirty (30) day arrears rates fell from June to October, 1984 by four percentage points for the service levy and seven points for BML's. This represented an absolute decline of 63 service levy delinquencies and 29 BML delinquencies in spite of increases in the number of plots by 205 and outstanding BML's by 83.

In summing up the results of her survey on why SHHA plotholders do not pay, the debt management consultant noted:

"Plotholders don't appear to have an understanding of the financial implications of SHHA and what the service levies are used for. Survey results indicate that a significant number of plotholders cannot list the services they are provided nor do they know why the levy must be increased from time to time. Some plotholders assume that the government is a 'bottomless well' -- approximately 15 percent of those surveyed believe that services will continue no matter what."

Further, the service levy has become a political football, with many councillors demanding or suggesting that poor people not pay any levy. This was particularly prevalent during the recent elections. Obviously until the town councils provide greater support to the policy of full cost recovery and the SHHA's enforcement program, no substantial improvement in the situation can be expected.

5. Recurrent Cost Implications

The recurrent costs for the Francistown component of this project will consist largely of added expenditure for staff and depreciation of equipment by the Francistown Engineering Department, Ministry of Education (teachers), and Ministry of Health (health professionals and drugs). The estimated yearly expenditures are shown below:

TABLE X
PROJECT RECURRENT COSTS (\$000)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Infrastructure						
Maintenance	35	65	110	160	200	210
Education	-	50	100	150	175	200
Health			50	100	150	150
TOTAL	<u>35</u>	<u>115</u>	<u>260</u>	<u>410</u>	<u>525</u>	<u>560</u>

Infrastructure maintenance is recovered as a component of the service levy. Education and health costs come out of the national budget and are not recovered directly from project beneficiaries.

F. MACRO-ECONOMIC ANALYSIS

1. Background

Since independence in 1966, Botswana has had an economic growth, at times approaching 15 percent per year, that is the envy of the developing world. During the past five years, in spite of the worldwide economic slowdown of the early 1980's, growth of GDP nonetheless averaged nearly 11 percent. The GOB has followed a steady policy of maintaining consistent growth in the economy, building up reserves in good years and running them down in lean years.

The economy is heavily dependent on diamond mining, and hence with the sharp economic downturn of the diamond market in 1981, the Government took a number of steps to control the repercussions and keep the balance of payments in equilibrium. Botswana was cushioned somewhat from the effects of the recent recession. First, the recent expansion of diamond mining has resulted in a large increase in diamond exports and revenues. Second, since 85 percent of Botswana's imports come from South Africa, the fall in the value of the South African Rand relative to the US Dollar has meant that the purchasing power did not fall as far as the real value of diamond exports in dollar terms. In sum the slowdown resulted principally in a loss of government revenues and lower levels of exports and foreign exchange reserves. In the past two years the diamond situation has improved markedly, and with it foreign exchange reserves.

A key objective has been to increase productive employment. The growth of formal sector employment over the past five years has been in excess of 8.5 percent per year, excluding self-employment and household service. This high growth rate of formal employment, equal to some 8,000 jobs per year, has brought more and more people out of unproductive agricultural activity, or from urban underemployment, into higher paying modern sector work. In the past two years the drought has caused a slowdown in formal sector employment creation, especially in Gaborone. While no one can say when this situation will abate, the government is putting substantial investment into developing alternate water resources and enlarging storage capacity. This is expected to prevent a continuation of the drought from further slowing the economy.

The major problem affecting the Botswana has been in agriculture, where the drought has meant severely depressed conditions and low levels of income, as well as capital

losses in cattle. Despite progress made in a number of sub-sectors of import-substituting agriculture, this year's agriculture growth rate, if the drought subsidies, will be at most five percent.

During the National Development Plan VI period (1985-91), the GDP growth rate is projected at 4.2 percent per year. This is one-third the exceptional growth rate of the last 15 years. Per capita GDP will grow at only one percent per year. A major factor in the economic slowdown is the expectation of only minor expansion in mining until the 1990's.

2. Current Conditions

The Botswana economy has recovered strongly from a modest slump in the early 1980's. The Government ran a virtually balanced budget in the fiscal year ending March, 1984. This was made possible by a near doubling of mineral revenues and continued expenditure restraint.

It is estimated that real GDP grew by 13 percent in 1983. Per capita GDP now stands at about \$750 per year. A major factor in the rise in GDP was the increase in diamond production. The first visible balance of payment surplus, \$115 million, was produced in 1983. Export earnings in 1983 were \$608. This left a foreign trade deficit of only \$89 million, far down from \$210 million in 1982 and \$330 million in 1981. This strong improvement in exports, although mostly attributed to a recovery in diamond markets, but was due to increases in beef and manufactured goods.

The Government has built up its foreign exchange reserves to \$386 million. This is sufficient to fund more than six months of imports at the current level of trade. Even considering Botswana's reliance on export commodities with volatile demand and prices, especially diamonds and copper-nickel, this level of reserves gives the economy substantial protection from outside economic forces.

The structure of Botswana's imports remains healthy. Of total imports in 1983, 19 percent was for fuel and 13 percent for food. The fuel content will be further reduced when Botswana becomes fully self-sufficient in electricity generation in 1985. The modest fuel and food component of imports means that the GOB could compress its imports quickly and without substantial political implications in the event of a sudden downturn in the world economy.

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3. External Debt

The Botswana government has not relied heavily on external borrowing for development. As of March 31, 1984, total external debt to public and private sectors stood at \$201 million. Most of this is non-concessional or modestly-concessional borrowing, the biggest sources being IBRD (40%) and the First National Bank of Boston (11%) (see Annex L).

Total interest payments on external debt have risen steadily from \$4.96 million in fiscal 1980/81 to a projected \$14.35 for fiscal 1984/85. Much of this increase is to pay off a substantial part of the First National Bank of Boston loan, which is the only large short-term debt. The debt service ratio, expressed as the ratio of principal and interest payments to exports of goods and non-factor services, stood at 4.4 percent for the 1983/84 fiscal year.

The \$14 million Housing Guaranty loan will increase total government external debt by 6.2 percent. The debt service ratio will rise two to three tenths of a percentage point during the ten year grace period of the HG loan and perhaps by another one-tenth of a percentage point when principal repayments begin in 1995. Overall, the HG loan will have a positive effect on the economy. The quantity of grant and concessional aid going to Botswana is not likely to rise in real terms. The country graduated from IDA financing several years ago. Botswana is increasingly relying on market financing for development and the dominance of market over concessional debt will increase in the years ahead. Botswana has a strong record of using foreign exchange effectively for economic development purposes. In this setting a HG loan is a preferred form of foreign exchange borrowing, since the interest rate is below non-guarantied market rates and the period of the loan is longer. This will permit longer range development planning by the Government.

6. INITIAL ENVIRONMENTAL EXAMINATION

An Initial Environmental Examination of negative determination has been approved by AID/Washington (See Annex B).

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OUTGOING ANNEX A
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FM SECRETARY WASHDC
TO AMEMBASSY GABON/GE PRIORITY
INFO AMEMBASSY NAIROBI

UNCLAS STATE 330041

AIDAC NAIROBI FOR RHUO

C. O. 12358. N/A
TAGS.

SUBJECT: BOTSWANA FRANCISTOWN HOUSING GUARANTY PID
(633-NG-000)

1. AS REPORTED SEPT84, SUBJECT PID WAS REVIEWED BY PROJECT COMMITTEE AND DECISION WAS MADE TO RECOMMEND THAT THE MISSION PROCEED WITH THE PROJECT PAPER. THE FOLLOWING ISSUES AND COMMENTS ARE PROVIDED AS GUIDANCE IN PREPARING THE PP.

2. ISSUE: INTEREST RATES
AID'S POLICY IS THAT SUBSIDIZED INTEREST RATES SHOULD BE AVOIDED, TO MAXIMUM EXTENT POSSIBLE. GIVEN THE PREVAILING RATE OF INFLATION, THE 9 PER CENT RATE NOW BEING CHARGED APPEARS TOO LOW IN REAL TERMS. AN IMPORTANT OBJECTIVE OF HC LENDING IS TO IMPROVE HOUSING POLICIES OF THE RECIPIENT GOVERNMENT AND AS SUCH, THE MISSION SHOULD EXERCISE ANY POSSIBLE LEVERAGE PROVIDED BY THE PROJECT TO ENCOURAGE THE GOB TO UTILIZE POSITIVE REAL INTEREST RATES. FOR EXAMPLE, WE NOTED THAT THE BHC IS MAKING LOANS FOR HOUSING TO UPPER INCOME GROUPS AT SUBSIDIZED RATES ALTHOUGH THIS IS NOT IN ACCORDANCE WITH THE GOB'S HOUSING POLICY

RECOMMENDATION: THE PP SHOULD PROVIDE AN ANALYSIS OF THE INTEREST RATE STRUCTURE TO BE USED IN MAKING LOANS UNDER THIS PROJECT IN ORDER TO ILLUSTRATE THE GOB'S COST OF LENDING. THE PP TEAM AND THE MISSION SHOULD ALSO EXAMINE WAYS IN WHICH THE PROJECT COULD SERVE AS LEVERAGE TO REDUCE OR ELIMINATE SUBSIDIES AND THEREBY, ENCOURAGE STRICTER ADHERENCE TO THE GOB'S HOUSING POLICY.

3. ISSUE: ARREARAGE PROBLEM
WE CONSIDERED THE REPORTED 50 PERCENT RATE OF ARREARAGE ON LOANS MADE UNDER THE PREVIOUS NG'S A SERIOUS PROBLEM WHICH SHOULD BE ADDRESSED IN THIS PROJECT.

RECOMMENDATION: THAT THE PP ANALYZE THE ARREARAGE PROBLEM, I.E. DURATION AND CAUSES, AND PROPOSE WAYS IN WHICH THE ARREARAGE SITUATION CAN BE IMPROVED. THE

COMMITTEE CONSIDERED THE PROBLEM SERIOUS ENOUGH TO RECOMMEND INCLUSION OF A CP OF GOVERNMENT TO DISBURSEMENT CONCERNING THE SUBMISSION OF AN ACCEPTABLE PLAN TO REDUCE ARREARAGES.

4. COMMENTS

(A) THE CP REPRESENTATIVE NOTED THAT THIS NEW PROJECT WAS NOT MENTIONED IN THE FY 1986 ABS AND ASKED THAT THE PP INCLUDE A STATEMENT AS TO WHY IT WAS NOT INCLUDED.

(B) THE BUREAU ENVIRONMENTAL REPRESENTATIVE HAS CONCURRED IN THE IEE. IT IS NOW PENDING GC CLEARANCE.

(C) SOME QUESTIONS WERE RAISED ABOUT THE COSTS OF THE PROJECT. THE TOTAL PROJECT COST OF \$17.0 MILLION APPEARS TOO HIGH FOR A TOWN THE SIZE OF FRANCISTOWN. CONTINGENCY COSTS, IN PARTICULAR, SHOULD BE EXAMINED. THE PP SHOULD REFINE COST ESTIMATES AND PROVIDE A DETAILED FINANCIAL ANALYSIS.

(D) WHERE ANCILLARY FACILITIES LIKE THE CONSTRUCTION OF SCHOOLS ARE INVOLVED, THE PP SHOULD DISCUSS COORDINATION WITH OTHER RELEVANT GOE ENTITIES, SUCH AS MHC REGARDING THE AVAILABILITY OF TEACHERS.

(E) A QUESTION WAS RAISED ABOUT THE SELECTION PROCESS FOR ALLOTTEES. MORE INFORMATION SHOULD BE PROVIDED ON THIS PROCESS IN THE SOCIAL ANALYSIS OF THE PP AS WELL AS FURTHER DESCRIPTION OF THE PROPOSED BENEFICIARIES.

5. PLEASE ADVISE WHEN PP IS READY FOR SUBMISSION TO AID/W FOR REVIEW AND APPROVAL.
SHULTZ

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INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Francistown, Botswana

Project Title: Francistown Housing Guaranty Project

Funding: \$15 million HG, \$150,000 grant

IEE Prepared by: Stafford Baker, USAID/B Environmental Officer

ENVIRONMENTAL ACTION RECOMMENDED: Francistown's population is projected to grow at a rate of nine percent per year over the next ten years as people move into the town to take advantage of the employment opportunities made available by the expansion of the town's economic/commercial sector. Rapid growth has already been experienced over the past three years, and in the absence of serviced land for new households, squatter settlements have sprung up in every open area in and around the town. The uncontrolled squatter developments are characterized by severe environmental problems, including the lack of safe water and sanitation systems, housing construction on unsuitable soils and in some areas, the presence of health hazards from sewage effluent flows. Francistown Phase IV development has been planned to upgrade existing squatter areas or relocate households now in unsuitable areas, and to provide residential, commercial and industrial areas for future growth. The GOB's Department of Town and Regional Planning has carefully considered land use alternatives in developing the plan. An engineering feasibility study has examined the effects of the projected population growth on water, sewerage and road infrastructural systems and is the basis for the plans to renovate or expand these systems. Review and approval of all plans and studies by the Francistown Town Council has provided the socio-cultural checks on the appropriateness of the planned development. AID environmental concerns have been adequately addressed in the development plans. No specific issues requiring further environmental study have been identified, and it is therefore recommended that a Threshold Decision of a Negative Determination be made.

Action Recommended by: Paul Guedet, Director, AID/Botswana,

Date: September 24, 1984

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AID-3 ECON. CHRON-5

ANNEX B
page 2 of 10

VZ3ZCNA0351
RR RUEHNR
DE RUEHOR #3452 2591435
ZNR UUUUU ZZB
R 241330Z SEP 84
FM AMEMBASSY GABORONE
TO AMEMBASSY NAIROBI 4594
BT
UNCLAS GABORONE 3462

AIDAC

FOR REJDO

E.O. 12356 N/A

SUBJECT: FRANCISTOWN H3 PID

REF: NAIROBI 29797

USAID/BOTSWANA MISSION DIRECTOR GUEDET CONCURS IN NEGATIVE
DETERMINATION RECOMMENDED IN IEE FOR SUBJECT PROJECT.

MAINO
BT
#3452

NNNN

PB

UNCLASSIFIED

GABORONE 003452

DATE RECD:	
9/25/84	
REPLY DUE:	
10/1	
ACTION TO:	
RHUDO	
	INFO
DIR	
D/DIR	
REDSO	
RHUDO	
HQ/A	
HQ/II	
REFC	1
PRMG	
AGB	
ILNP	
PEJ	
PXD	
GSO	
PER	
RF	1
CHRON	1
C&R	
TMB	

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IIE

I. Description of the Project

Francistown, the oldest town in Botswana, was first developed as a small mining settlement following the discovery of gold in the area in 1866. The importance of the mining industry quickly declined and the main economic base of the town became its role as the commercial, administrative and communications center for northern Botswana. The regional or district headquarters of at least 37 Central Government Ministries and Departments and the headquarters for the North East District Council are in Francistown. The town is on Botswana's main north-south road and railroad linking Southern Botswana and Zimbabwe and is the starting point for road links west to Maun, the Okavango delta and north to Zambia. There are over 10 major transport companies with offices in Francistown operating regional and international routes. These links have encouraged the growth of a large wholesaling sector that services a large part of northern Botswana, plus parts of the Caprivi Strip, Zambia and Zimbabwe.

Francistown township was established on 60 hectares of land in 1911. Major acquisition of land in 1969 and 1972 increased the size of the township to 8,000 hectares. In 1983, land use totaled 1,263 hectares, divided as follows:

<u>Land Use</u>	<u>Area (ha)</u>
Residential	557
Industrial	168
Commercial	42
Public Open Space	232
Civic and Community	171
Railway Reserve	65
Roads Reserve	<u>28</u>
TOTAL	<u>1,263</u>

Squatter development is using an additional 75 ha of land and is increasing at a rate of about 30 ha per year.

89X

The 1981 census indicated a population of 31,056 with about five percent annual growth having been experienced over the previous ten years. Although hard data is unavailable it is generally held that since 1981 the population has grown at nine percent per year, and current population is 39,100. The substantial growth of the commercial and industrial sector of the town (largely attributed to access to Zimbabwean markets and capital since its independence in 1980), the stabilization of Selebe-Phikwe and Orapa's population (whose mining operation attracted skilled and unskilled labor from Francistown in the 1970s), the past three years of drought in the country (which has been shown to encourage urban migration), and the rapid growth of squatter settlements are all conditions which support this observation.

Francistown's housing stock consists of the following:

<u>Housing Type</u>	<u>No.</u>
SHHA Site and Service	1839
Upgrading	3789
BHC Low Cost	341
Medium/High Cost	281
Institutional	365
Private	460
Sub-Total	7037
Squatters	<u>1700</u>
TOTAL	<u>8775</u>

In August 1984, SHHA had a waiting list of 1400 and BHC of 1060. Squatters' plots were increasing at about 45 per month.

The Francistown Development Plan was prepared in 1984 by the Ministry of Local Government and Lands Department of Town and Regional Planning and the Francistown Town Council. The Plan assesses the estimated population growth implications over the next ten years for residential, commercial and industrial land, together with associated infrastructure services. Attention is also given to upgrading requirements of the town's squatter settlements. The Plan proposes specific Phase IV and V developments to address growth requirements between 1984 and 1989 and Phase VI alternatives to begin thereafter.

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Francistown Phase IV consists of development of commercial, public and residential areas on approximately 650 hectares of land. Major improvements to the town's sewerage system, expansion of road networks, water and electrical supply systems, construction of community facilities such as primary schools and a clinic, and provision of building materials loans to site and service ploholders are included. Approximately 3,820 plots will be provided in Phase IV, allocated as follows:

Upgrading	1,100
Unsewered site and service	1,000
Sewered site and service	575
Other private sector	575
Botswana Housing Corporation Rental	570

Housing requirements for the period 1984 to 1989 are estimated to range from 4200 to 6000 units. The startup for Phase V will be determined based on the actual growth rate experienced. When fully occupied, Phase IV will have a population of about 15,000.

AID Housing Guaranty funds will be provided for the Phase IV development of site and service and upgrading plots and the portion of infrastructure, public facilities and other costs that support residents of these areas. Most site and service plots and all upgrading plots will rely on public water standpipes and pit latrine. A smaller number will be developed with individual water and sewer hookup. One quarter to one-half of site and service plot holders build their own housing and sanitation superstructures (sanitation substructures are constructed under Town Council contracts). The remainder hire private contractors or labor to build the structures. AID funds will be provided for building loans, up to an amount affordable and adequate to construct a sanitation unit and one or more rooms depending on the purchaser's method of construction.

The Phase IV area is south of the present developed area of Francistown, bordered on the north by the Tati River, on the west by the main Gaborone-Francistown road, and on the south by the future Phase V area. The natural vegetation is open bush and ground slopes are about one percent, falling toward the generally dry streams that traverse the area. Apart from areas of black clay adjacent to the water courses, soils are typically sands, silts, and gravel overlying weathered bedrock. Francistown experiences a dry climate with an average rainfall of only 440 mm.

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II Examination of Nature, Scope and Magnitude of Adverse

Environmental Impacts

(relevant to attached Impact Identification and Evaluation Form)

The Phase IV development area, when fully occupied, will increase the population of Francistown by about 50 percent. This growth is already underway with extensive squatter settlements in the area. The Phase IV Development Plan will upgrade these existing squatter areas and ensure that future growth includes adequate provision of open spaces, commercial and industrial areas, and infrastructure services. Soil characteristics and river flood plains have been extensively investigated as part of the planning for Phase IV. Soils in all sections of the project area were found to have load-bearing and percolation properties suitable for the proposed construction. Settlement areas are sited outside the 50-year flood plain. Areas with soils suitable for agricultural purposes have been reserved for possible horticultural development. Except for open spaces and pedestrian walkways, the land will usually be cleared of the open bush now covering it. AID will provide some landscaping for open spaces and major walkways to control erosion and encourage more efficient use of these areas. The clearing will have little effect on soil erosion because of the sparse rainfall, slight ground slopes and existing lack of grass cover. The Francistown Development Plan acknowledges that the eventual Phase IV population will stretch the capacity of the current road network to its limit. The Plan includes additional road networks as part of Phase V.

Francistown has a developed water supply system capable of accommodating the estimated population growth over the next ten years or more. Phase IV development plans include infrastructure work to expand the reticulation system to fully service the Phase IV area. At present, sewage effluent from the sewage ponds flow through the Phase IV area. Remedial works have already started to eliminate this flow as a first step in a major expansion of Francistown's sewerage system included in Phase IV development.

In traditional villages, Batawana live in large compounds shared with extended family members and surrounded by other villagers of common tribal background. Site and service plots are smaller than is customary in rural areas, too small to support much more than a nuclear family. Allocation of plots are made with no attempt to group people from the same rural locations. However, most of Francistown's growth is expected.

to come from the northeast region where people have a common tribal background. The change from a traditional rural village life style has not created problems in other areas of Francistown or other cities in Botswana. Most allottees of Phase IV plots will have already been living in Francistown for several years.

Rural villages in Botswana are surrounded by farm lands within a day's walk of the home, which are in turn surrounded by cattle grazing lands. People moving into Francistown Phase IV will have abandoned, at least temporarily, the traditional agricultural economy that their system of land use supports, for employment in government or the commercial sector. Migration from rural villages to cities is not a new phenomenon in Botswana and is due more to economic opportunities than to the availability of developed land for housing. Phase IV development includes some relocation of residents from squatter settlements in town. The relocations are planned only where site conditions are unsuitable for housing and infrastructure development (e.g. the black cotton soil of the Masimanyenga area and the rock in the P.W.D. area are unsuitable).

Francistown's existing sewage ponds are severely overloaded. The maximum possible capacity of the pond system is less than 0.5 megalitres per day while flow is estimated to be in excess of 1.5 megalitres per day. The overloading causes a severe health risk for those residents around the ponds and around the water course through which the effluent from the ponds now flows. Remedial works have been initiated to eliminate the effluent flows through the Phase IV area and add treatment areas at the site of the proposed new sewage ponds. The complete development of the new sewage treatment system is included in Phase IV, including the elimination of the old ponds. A system to use treated sewage effluent for irrigation of horticultural lands is included in the system.

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IMPACT IDENTIFICATION AND EVALUATION FORM

Impact areas and sub-areas

Impact
Identification
and
Evaluation

A. LAND USE

- | | | |
|----|--|----------|
| 1. | Changing the character of the land through | |
| a. | Increasing the population | <u>M</u> |
| b. | Extracting natural resources | <u>N</u> |
| c. | Land Clearing | <u>L</u> |
| d. | Changing soil character | <u>L</u> |
| 2. | Altering natural defenses | <u>N</u> |
| 3. | Foreclosing important uses | <u>N</u> |
| 4. | Jeopardizing man or his works | <u>N</u> |
| 5. | Traffic access | <u>L</u> |
| 6. | Land use planning | <u>N</u> |
| 7. | Squatter, other development | <u>N</u> |

B. WATER QUALITY

- | | | |
|----|--------------------------------|----------|
| 1. | Physical state of water | <u>L</u> |
| 2. | Chemical and biological states | <u>L</u> |
| 3. | Ecological balance | <u>N</u> |

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C. ATMOSPHERE

- | | | |
|----|-----------------|----------|
| 1. | Air additives | <u>N</u> |
| 2. | Air pollution | <u>L</u> |
| 3. | Noise pollution | <u>N</u> |

D. NATURAL RESOURCES

- | | | |
|----|---------------------------------------|----------|
| 1. | Diversion, altered use of water | <u>N</u> |
| 2. | Irreversible, inefficient commitments | <u>N</u> |
| 3. | Wildfire | <u>N</u> |

E. CULTURAL

- | | | |
|----|---------------------------------|----------|
| 1. | Altering physical symbols | <u>N</u> |
| 2. | Dilution of cultural traditions | <u>L</u> |

F. SOCIOECONOMIC

- | | | |
|----|--|----------|
| 1. | Changes in economic/employment patterns | <u>L</u> |
| 2. | Changes in population | <u>M</u> |
| 3. | Changes in cultural patterns | <u>L</u> |
| 4. | Dislocation and relocation of area residents | <u>H</u> |
| 5. | Support facilities | <u>L</u> |

G. HEALTH

- | | | |
|----|----------------------------------|----------|
| 1. | Changing a natural environment | <u>N</u> |
| 2. | Eliminating an ecosystem element | <u>N</u> |
| 3. | New pathways for disease vectors | <u>N</u> |
| 4. | Safety provisions | <u>N</u> |

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H. GENERAL

1. International impacts
2. Controversial impacts
3. Larger program impacts
4. Aesthetics

N
N
N
N

N - No environmental impact
L - Little environmental impact
M - Moderate environmental impact
H - High environmental impact
U - Unknown environmental impact

**PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

Life of Project:
From FY 85 to FY 90
Total U.S. Funding \$14.2 million.
Date Prepared: 9/25/84

Project Title & Number: Francistown Housing Guaranty Project 633-HG-003

Revised: 1/18/85

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broad objective to which this project contributes: To improve shelter and urban services to low-income families.</p>	<p>Measures of Goal Achievement: Increase in the number of low-income households living in permanent, safe, and sanitary housing, with secure land tenure and access to community facilities and employment opportunities.</p>	<p>1. Household surveys. 2. Census data. 3. Reports of social service and public works agencies.</p>	<p>Assumptions for achieving goal targets: 1. Continued GOB commitment to the approved National Housing Policy. 2. Continued GOB and Francistown commitment to fair allocation procedures and regulations to prevent excessive speculation in low-cost housing.</p>
<p>Project Purpose: 1. To improve the institutional capacity of the Francistown municipality and SHHA. 2. To broaden housing options available to low-income families. 3. To involve the private sector in low-cost shelter finance nationwide.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status. 1. Infrastructure fully developed and substantial self-help house construction completed. 2. Community facilities finished. 3. Mortgages issued by the Botswana Building Society. 4. Reduction in Francistown reliance on GOB deficit financing. 5. Reduction of rates of arrearages and bad debts by 50% with the SHHA.</p>	<p>1. MLGL records. 2. SHHA records. 3. BBS records. 4. City treasury records. 5. Visual inspection.</p>	<p>Assumptions for achieving purpose: 1. GOB spends domestic funds budgeted for project area. 2. GOB policy and regulation of Botswana Building Society not substantially altered. 3. No interference by Francistown Town Councillors in development and implementation of more effective revenue collection from households.</p>
<p>Outputs: 1. Squatter upgrading and site and service plots. 2. Improved latrines for additional plots. 3. Building loans. 4. Private sector mortgage financing for plot purchase and construction. 5. Community facilities. 6. SHHA ward office and equipment. 7. Financial management T.A.</p>	<p>Magnitude of Outputs: 1. 1,125 serviced plots.(upgrade) 2. 2,325 site and service plots. 3. 1,700 - 2,000 building loans for SHHA plots. 4. 600 plots for market sale. 5. 600 BBS mortgages nationwide. 6. 6 primary Schools, 1 clinic, 1 community center. 7. 1 ward office, maint. equip. 8. 2-3 years T.A. and training.</p>	<p>1. MLGL records. 2. SHHA records. 3. BBS records. 4. Visual inspection.</p>	<p>Assumptions for achieving outputs: 1. Infrastructure costs do not escalate unexpectedly. 2. Building loans remain popular. 3. Francistown water supply remains adequate.</p>
<p>Inputs: 1. Housing Guaranty loan. 2. Housing the Urban Poor (HUP) grant funds. 3. Domestic funds, land, MLGL staff.</p>	<p>Implementation Target (Type and Quantity) 1. \$14 million HG. 2. \$200,000 grant funds. 3. \$19 million domestic funds. 4. 600 hectares of land. 5. About 8 years MLGL staff time.</p>	<p>1. Lender and borrower reports. 2. Technical assistance and training contracts. 3. GOB budget documents, land title documents, work records.</p>	<p>Assumptions for providing inputs: GOB goes forward with HG borrowing.</p>

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TELEPHONE

TELEGRAMS FINANCE

REFERENCE: FDP 95/2/28 (20)



MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

ANNEX D
page 1 of 1
DEVELOPMENT PLANNING

PRIVATE BAG 00

GABORONE

7th August, 1984

REPUBLIC OF BOTSWANA

Letter

DATE: *8/9*

INITIALS: *SB*

The Director
USAID
P. O. Box 90
Gaborone.

Dear Mr. Guedet,

USAID FUNDING FOR FRANCISTOWN PHASE IV

The Government of Botswana has analysed the housing situation in Francistown relative to the current need and the town's development plan. As a result it has been determined that there is an urgent need to proceed with Phase IV developments in Francistown. This would involve about 3500 site and service plots, mixed low, medium and high cost housing, community and multi-purpose plots and commercial plots. The development would also include an upgrading component for a squatter population that outpaced the previous developments.

The total projected cost for Francistown Phase IV is in the region of P27million and I understand that USAID has already indicated an interest in funding a portion of this project. To this end, the Regional Housing and Urban Development Office (RHUDO) have advised us that they would be willing to prepare a Project Identification Document (PID). Any shortfall in funding will be covered by a combination of internal and other donor funding.

We therefore request USAID/Botswana to authorise RHUDO to conduct a PID in preparation of providing financing assistance for Francistown Phase IV.

Thank you.

Yours faithfully,

O. K. Matambo
FOR/PERMANENT SECRETARY.

cc. Permanent Secretary,

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THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

BOTSWANA

PROJECT NO. 633-HG-003

ANSWER YES OR NO PUT
PP PAGE REFERENCES
AND/OR EXPLANATIONS
WHERE APPROPRIATE

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project further one or more of the following policy goals?

- (1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;
- (2) is intended to assist in marshalling resources for low-cost housing;
- (3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national; and/or;
- (4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies?

YES

YES

YES

YES

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of \$1,903,100,000?

NO

Will the guaranty be issued prior to September 30, 1985?

YES

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Section 222(b)

Will the proposed guaranty result in activities which emphasize:

- (1) projects providing improved home sites to poor families on which to build shelter and related services; or
- (2) projects comprised of expandable core shelter units on serviced sites; or
- (3) slum upgrading projects designed to conserve and improve existing shelter; or
- (4) shelter projects for low-income people designed for demonstration or institution building; or
- (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?

YES

YES

YES

YES

YES

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

YES

Section 223(a)

Will the A.L.D. guaranty fee be in an amount authorized by A.L.D. in accordance with its delegated powers?

YES

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

YES

Section 223(h)

Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?

YES

Section 223(j)

- (1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country.

YES

(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?

YES

(3) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country?

YES

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year?

NO

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million?

NO

Section 238(c)

Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?

YES

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

1. Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?

YES

2. Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?

NO

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PROJECT EXPENDITURES BY CALENDAR YEAR (000 US\$)

	<u>SOURCE</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>TOTAL</u>
Architecture/Engineering	-HG	39	172	191	-	-	-	402
	-GOB	32	136	150	-	-	-	318
Upgrading	-HG	202	319	-	-	-	-	521
	-GOB	22	35	-	-	-	-	57
Primary Sewerage	-HG	-	-	-	-	-	-	-
	-GOB	630	1579	381	-	-	-	2590
Secondary Water	-HG	-	639	245	-	-	-	884
	-GOB	-	502	192	-	-	-	694
Site and Service Areas								
BLOCK 3	-HG	-	684	-	-	-	-	684
	-GOB	-	537	-	-	-	-	537
BLOCK 7	-HG	-	-	755	-	-	-	755
	-GOB	-	-	593	-	-	-	593
BLOCK 4	-HG	-	-	808	-	-	-	808
	-GOB	-	-	634	-	-	-	634
BLOCK 8	-HG	-	-	-	729	-	-	729
	-GOB	-	-	-	572	-	-	572
BLOCK 5	-HG	-	-	-	753	-	-	753
	-GOB	-	-	-	592	-	-	592
BLOCK 9&10	-HG	-	-	-	596	327	-	923
	-GOB	-	-	-	468	257	-	725
BLOCK 6	-HG	-	-	-	198	109	-	307
	-GOB	-	-	-	156	85	-	241
Satellite Area	-HG	-	-	-	198	777	-	975
	-GOB	-	-	-	156	611	-	767

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	SOURCE	1985	1986	1987	1988	1989	1990	TOTAL
Industrial Area	HG	-	-	-	-	-	-	-
	GOB	-	-	-	-	-	2,254	2254
Vehicles & Equip	HG	-	-	52	57	63	-	172
	GOB	-	-	41	45	49	-	135
SHHA Office & Equip.	HG	-	53	-	-	-	-	53
	GOB	-	5	-	-	-	-	5
Primary Schools (6)	HG	81	89	195	214	353	390	1322
	GOB	45	50	109	121	199	219	743
Health Clinic	HG	-	-	-	54	-	-	54
	GOB	-	-	-	31	-	-	31
Community Center	HG	-	-	-	47	-	-	47
	GOB	-	-	-	27	-	-	27
Building Mat. Loans	HG	-	1	214	640	492	621	1968
	GOB	-	-	24	70	56	68	218
Small Enterprise Plots-	HG	-	-	15	30	30	25	100
	GOB	-	-	-	-	-	-	-
Private Housing Fina.	HG	12	293	682	951	554	151	2543
	GOB	729	2844	2124	2238	1257	2541	11,733
TOTAL	HG	336	2150	3157	4467	2705	1187	14,000
	GOB	729	2844	2124	2238	1257	2541	11,733

NOTE: Costs are based on 1985 construction estimates, inflated by 10 percent per year thereafter.

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TECHNICAL ASSISTANCE COSTINGS (U.S.\$)

1985 TDY COSTS*

	<u>Regional Finance Advisor</u>		<u>Regional Technical Advisor</u>
	<u>1-Week TDY</u>	<u>2-Week TDY</u>	<u>2-Week TDY</u>
Salary*	1,500	2,900	1,400
Travel	800	800	800
Per Diem	300	700	700
	<u>2,500</u>	<u>4,400</u>	<u>2,900</u>

*Includes pro-rated housing costs in Nairobi.

EXPENDITURE SCHEDULE (see notes)

	<u>Finance Advisor</u>	<u>Technical Advisor</u>	<u>Finance Training</u>	<u>Contingency</u>
1985	2x2wks = 8,800	1x2wks = 2,900	3,000	-
1986	2x2wks 4x1wks = 20,900	1x2wks = 3,200	10,000	20,000
1987	2x2wks 4x1wks = 23,000	2x2wks = 7,000	20,000	30,000
1988	1x2wks 2x1wks = <u>12,700</u> <u>65,400</u>	1x2wks = <u>3,900</u> <u>17,000</u>	<u>10,000</u> <u>43,000</u>	<u>15,000</u> <u>75,000</u>

Notes: 1. Advisor costs are inflated at 10 percent per year.

2. Contingency would include shared cost of Gaborone SHHA Advisor, extension to urban development advisor's contract, or special short-term technical assistance for project implementation.

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PRELIMINARY LIST OF PROJECT MAINTENANCE EQUIPMENT

<u>ITEM</u>	<u>COST (US \$)</u>
3 Refuse Vehicles @ \$24,500	73,500
Vacuum Tanker For Pit Latrines	31,500
3000 Refuse Bins @ \$10.50	31,500
Cat 120G Grader	59,500
Water Bowser	17,500
2 Five-ton Tipper Trucks @ \$10,500	21,000
Front-end Loader	14,000
Bulldozer	21,000
2 1600 cc pick up truck @ \$4,200	8,400
2.5 ton tip truck	8,400
Loader Bucket	3,600
Generator	700
3" pump	400
1/2" pump	300
	<hr/>
TOTAL	219,300
HG Financed Total (56%):	\$163,100

*1985 cost figures.

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ESTIMATED NUMBER OF PAID EMPLOYEES IN FRANCISTOWN
BY ECONOMIC ACTIVITY (PRIVATE, PARASTATAL,
AND LOCAL GOVERNMENT) AUGUST, 1983

<u>Economic Activity</u>	<u>Paid Employees</u>	<u>Percent</u>
Agriculture	325	4.1
Mining and Quarrying	-	17.9
Manufacturing	1,423	
Electricity and Water	49	.6
Construction	1,089	13.7
Commerce	2,306	29.0
Transport and Communication	464	5.9
Finance and Business Services	475	6.0
Community and Social Services including Education and Local Government	1,814	22.8
TOTAL	<u>7,824</u>	<u>100%</u>

ESTIMATED NUMBER OF CITIZENS EMPLOYED BY BASIC MONTHLY EARNINGS (1) AND ECONOMIC ACTIVITY, AND AVERAGE MONTHLY CASH EARNINGS BY ECONOMIC ACTIVITY (2) - PARASTATAL, PRIVATE AND LOCAL GOVERNMENT (3), AUGUST 1983

SECTOR/ECONOMIC ACTIVITY	P1- P50	P51- P75	P76- P100	P101- P125	P126- P150	P151- P175	P176- P200	P201- P300	P301- P400	P401- P500	P501- P1000	P1001- +	Unknown (4)	Total	Average Mthly. Cash Income
Agriculture	3,166	419	275	147	56	29	21	89	28	13	30	23	196	4,476	74.49
Mining and Quarrying	1	29	75	347	1,084	1,013	806	1,516	989	414	456	57	-	6,737	302.27
Manufacturing	344	403	2,729	1,731	1,220	667	497	806	403	145	227	165	-	9,338	166.74
Electricity and Water	9	7	12	271	239	159	145	385	213	107	219	24	-	1,790	332.21
Construction	412	436	2,697	1,776	753	700	742	944	354	194	151	19	-	9,178	160.18
Commerce	1,306	1,195	3,040	2,883	1,495	822	804	1,114	472	324	516	94	-	14,866	160.49
Transport and communications	123	216	269	556	422	515	411	571	229	190	185	17	-	3,705	220.02
Finance and Business Services	375	150	371	714	406	339	372	969	656	410	547	98	-	5,487	279.33
Community and Social Services	161	205	598	589	258	206	168	466	195	132	179	32	2	3,188	211.08
Education	72	100	78	242	114	73	23	143	53	36	182	89	-	1,205	279.03
SUBTOTAL PRIVATE & PARASTATAL	5,969	3,160	10,944	9,256	6,128	4,523	3,989	6,992	3,592	1,971	2,692	618	198	60,020	195.74
LOCAL GOVT.	81	86	71	1,672	1,080	784	722	1,443	443	277	457	44	-	7,160	224.61
TOTAL (EXCL. CENTRAL GOVT.)	6,050	3,246	11,015	10,928	7,209	5,307	4,711	8,435	4,035	2,248	3,149	662	198	67,180	198.81

1. The distribution is according to the basic monthly rate excluding overtime and allowances which are not part of the basic regular wage or salary and also exclude the value of payments in kind.
2. Average monthly payments (including overtime) in cash paid employee. Excludes payment to employees who left before the end of August, 1983.
3. Excludes Central Government for which reliable citizenship date is not available.
4. Includes employees with no regular wage.

BOTSWANA BUILDING SOCIETY COMPARATIVE STATEMENT OF
INCOME AND EXPENDITURE 1981-1984

(AS OF MARCH 31)	1984	1983	1982	1981
<u>ASSETS</u>				
Advances on Mortgages	10,958,262	10,183,495	9,185,901	6,132,501
Real Property	2,415,517	767,215	211,660	37,039
Other Fixed Assets	121,190	86,275	42,088	43,509
Debtors and Staff Loans	44,776	29,541	23,412	10,158
Investments and Cash:	1,459,568	2,240,984	1,926,896	1,821,476
Government Stock	(140,000)			
Deposit with Bank	(1,015,000)			
Accrued interest thereon	(14,158)			
Cash	(290,410)			
TOTAL ASSETS	15,818,018	13,976,249	11,932,490	8,390,183

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**BOTSWANA BUILDING SOCIETY COMPARATIVE STATEMENT OF
INCOME AND EXPENDITURE 1981-1984**

(AS OF MARCH 31)	1984	1983	1982	1981
<u>INCOME</u>				
Interest received on:				
Mortgage loans	1,447,452	1,466,707	906,812	584,627
Loans against pledged shares, deposits	196,484	72,835	38,784	21,997
Investments (Government Stock) (Treasury Bills) (Deposit with Banks)	172,637 (10,500) (162,136)	166,004	112,004 (23,199)	80,492
Commission Received	8,930	10,585	7,811	5,995
Sundry Income	66,060	1,609	2,110	1
TOTAL INCOME	1,791,559	1,717,736	1,068,171	694,113
<u>EXPENDITURES</u>				
Interest paid or accrued:				
Fixed Deposits	155,756 (23,650)	184,164 (77,221)	90,034 (31,445)	105,706 -
Savings Deposits	(130,705)	(106,943)	(58,540)	
Management Expenses	391,935	265,954	217,634	156,574
Remuneration of Directors, Staff and Auditors	(268,432)	(165,950)	(132,370)	132,370
Office Rent	(31,322)	(22,466)	(11,549)	
Commission and Agency Expenses	(28,419)	(20,238)	(17,666)	
Advertising, Stationery, Printing, Telephones and Postage	(28,419)	(20,238)	(17,666)	
General charges	(49,936)	(39,039)	(39,223)	
Depreciation	41,734	26,450	22,023	21,671
TOTAL EXPENDITURE	589,425	476,567	329,692	283,950
EXCESS OF REVENUE OVER EXPENDITURE	1,202,135	1,241,169	738,479	410,163

(AS OF MARCH 31)	1984	1983	1982	1981
Appropriations:				
Dividends paid or accrued	1,096,666	901,641	575,817	340,579
Transfer to statutory Reserve	120,400	126,000	77,000	47,000
Transfer to General Reserve	-	210,000	77,000	28,000
TOTAL APPROPRIATIONS	1,210,066	1,237,641	729,817	410,579
Shortfall after Appropriation	(7,932)	3,528		
Retained Profit at Beginning of Year	13,490	9,962	1,300	1,716
Retained Profit at End of Year	5,559	13,490	9,962	1,300
<u>LIABILITIES</u>				
Share Capital:	12,542,464	10,772,073	9,015,187	6,135,115
(Indefinite Period)	(10,750,276)			
(Fixed Period)	(1,050,000)			
(Subscription)	(742,188)			
Reserve:	776,959	664,490	324,962	162,300
(Retained Profits)	(5,559)			
(General Reserve)	(336,000)			
(Statutory Reserve)	(435,400)			
Deposits:	2,280,767	2,307,402	2,535,054	2,040,249
(Fixed)	(34,621)			
(Savings)	(2,246,147)			
Creditors, Provisions and Unclaimed Balances:	217,827	232,284	57,287	52,518
TOTAL FUNDS AVAILABLE	15,818,018	13,976,249	11,932,490	8,390,183

BOTSWANA GOVERNMENT DEBT OUTSTANDING AS AT 31ST MARCH 1984

(Pula Thousand)

	Balance 31-3-83	Drawdowns 1983/84	Repayments 1983/84	Expected Balance 31-3-84	Valuation Difference	Balan Balance 31/3/
IDA	16 661	-	146	16 515	650	17 161
USAID	27 622	-	445	27 177	5 795	32 971
IBRD	76 256	15 085	3 463	97 878	4 086	91 961
OPAP	5 853	-	-	5 853	375	6 221
BADEA	3 189	3 380	309	6 260	364	6 621
SAUT ^W FUND	5 479	3 118	-	8 597	370	8 967
KUWAIT FUND	4 867	3 417	-	8 284	559	8 843
UNDP HOUSING LOAN	345	-	24	321	-4	317
OPEC	3 808	593	234	4 167	1 418	5 585
FNBB (First Nat'l Bank of Boston)	32 517	-	8 535	23 982	1 969	25 951
FEDERAL FINANCING BANK	397	-	223	174	17	191
IFAD	-	44	-	44	2	46
ADB/ADF	15 053	3 524	286	18 291	1 322	19 613
DANISH STATE LOAN	3 779	22	-	3 801	- 126	3 675
EIB	1 736	-	-	1 736	26	1 762
CDC	24	69	-	93	2	95
RAND LOANS	1 649	-	-	1 649	1 697	1 552
TOTAL EXTERNAL LOANS	199 235	29 252	13 665	214 822	16 728	231 550
PULA LOANS						
POSB	50	-	16	34	-	34
GOVT. BGRD.	331	-4	-	327	0	327
	381	-4	16	361	-	361
GRAND TOTAL	199 616	29 248	13 681	215183	16 728	231 911

NOTES: Exchange rates used at 31st March 1984 are foreign currency units per pula.

Pound Sterling : • 6023

Dollar : • 8670

AUA : • 8132

SDR : • 8132

EUA : • 9932

Danish Kr 8.1620

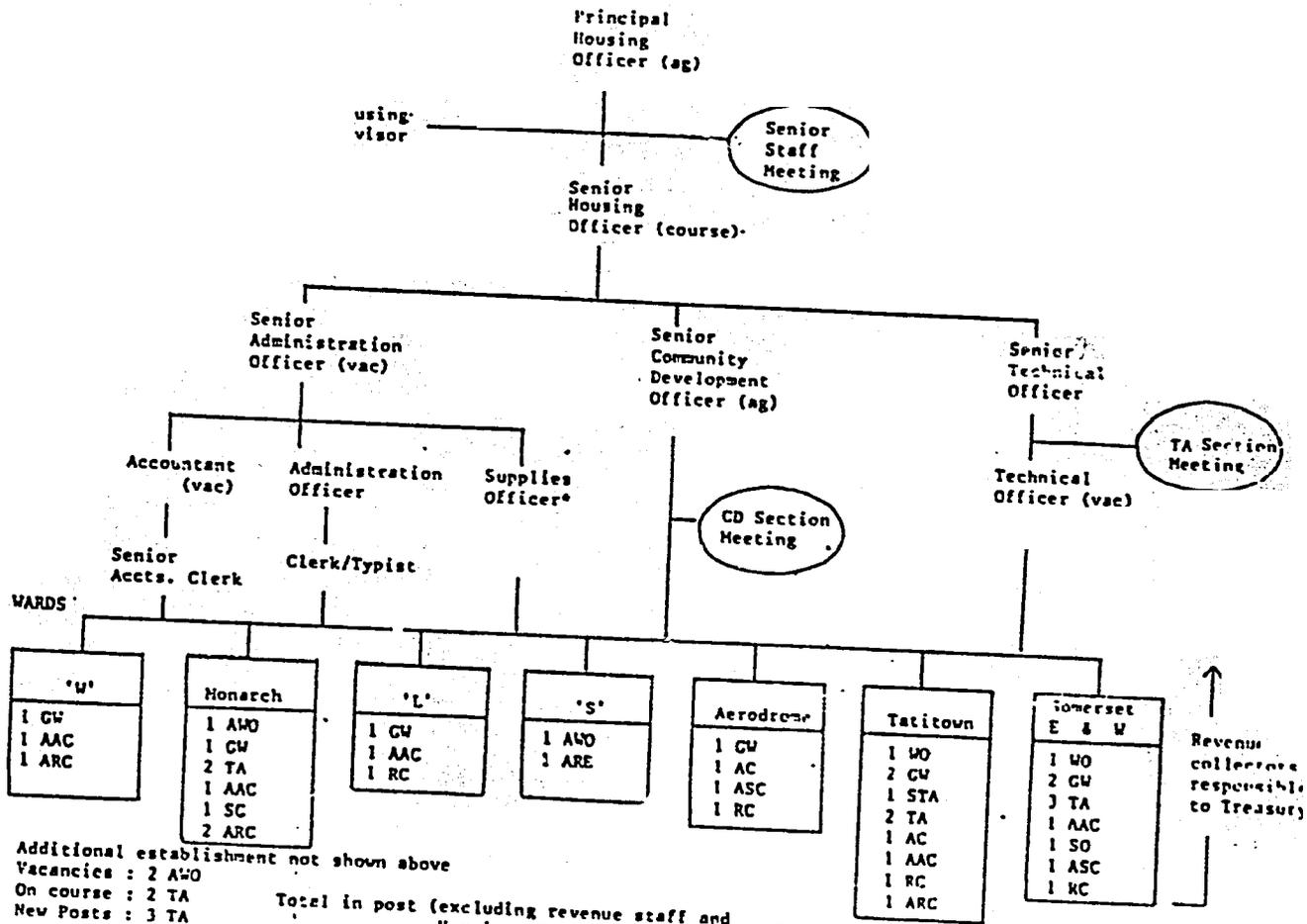
Rand : 1.0747

Saudi Riyals 3.0245

Kuwait Dinar .2525

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ORGANISATION AND STAFFING OF FRANCISTOWN SHIMA



Additional establishment not shown above

Vacancies : 2 AWO
On course : 2 TA
New Posts : 3 TA

Total in post (excluding revenue staff and Housing advisor): 37
Total Establishment: 48

* Stationed in Somerset W

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Ministry of Local Government & Lands

Proceedings from Housing Finance Workshop

Government Paper No. 2 of 1982 established the President's Commission on Housing Policy as Botswana's first comprehensive National Housing Policy. This policy set specific guidelines and recommendations on how to improve housing delivery specifically and the housing sector as a whole. For example, housing delivery systems, housing production goals, appropriate development standards, investment goals, allocation and use of subsidies, and housing finance were all major components of the policy.

Since 1982, this Ministry has been implementing the Housing Policy with the primary goal of improving access to housing and promoting home ownership. To this end, significant progress has been made in most areas of the Housing Policy. However, as the President's Commission on Land Tenure states, the creation of a viable Housing Finance System is essential to the effective implementation of the Housing Policy's goals. For example, the the embryonic middle-income and rural housing programmes will fail if beneficiaries do not have access to Housing Finance.

Currently, Housing Finance arrangements have been restricted to holders of Certificates of Rights and other urban dwellers, leaving rural dwellers with no access to housing finance. Also, the Botswana Building Society (BBS) does not lend to low-income groups. In fact, by 1981, BBS had lent money to only 3% of the urban population.

This situation is exacerbated by the present rates of rural-urban migration (fuelled by three years of drought), creating high levels of housing demand in the urban areas. Upgrading of both urban and rural sub-standard existing units (e.g., 90% of rural houses have no sanitation) is required as well. In response to this situation, the Housing Policy calls for the improvement of housing conditions in the rural areas, placing additional pressure on Government for a Housing Finance scheme.

Botswana is also witnessing a growing expectation that Government should provide all housing solutions, but this is contrary to the national principle of self-reliance and to the principles of the Housing Policy. Therefore, the Housing Policy determined that since mechanisms for mobilising internal resources for housing are weak, and since such resources do exist, these resources must be put to use.

In addition, the economic constraints of the NDP 6 period dictate that Government cannot meet the total financial requirements for the projected housing needs of 1985 - 1991. Consequently, Government's and BHC's housing programmes must be

augmented with a Housing Finance System to attract private sector investments and increase public access to housing finance.

In response to the Housing Policy and the above factors, MLGL requested the United Nations for Human Settlements (UNCHS) to assess the establishment of a Housing Finance institution. UNCHS completed the assignment and produced a report in early 1983. After study of this report, in the context of Housing Policy and Land Tenure Commission recommendations, it was decided to conduct a Housing Finance Seminar to update the report and to reach a consensus on how a Housing Finance System might be organised.

The Seminar was attended by 26 participants from twelve different institutions, primarily representing Botswana's finance community. First and foremost, the Seminar confirmed the need for increased access to Housing Finance and supported the creation of a Housing Finance System.

Basically, a Housing Finance system would involve the establishment of a Housing Finance Division within an existing institution (e.g., BHC, BBS, POSB). The Housing Finance Division would be a body corporate, able to borrow money and undertake operations in its own name. Ideally it would lend money to other institutions or bodies (BHC, Local Authorities, contractors, etc) for purchase of land, construction of housing units, and the provision of associated physical and social services. The Housing Finance Division would also lend money to individuals, with particular emphasis on the lower income groups in the urban and rural areas, on a long term basis on affordable terms.

Since the Housing Policy defines housing as a Basic Need, and since the role of housing in economic and social development has been well demonstrated, it is therefore natural that a Housing Finance mechanism be institutionalised and rationalised in the same way as Botswana's agricultural and commercial schemes (e.g., through the National Development Bank).

The Seminar discussed the following issues and made the respective recommendations:

1) The creation of an entirely new institution was rejected for economic and practical reasons. Although NDB was originally recommended as a vehicle for Housing Finance, several constraints exist (e.g., administrative capacity, manpower, and no housing experience) that make NDB a poor option. Although no existing institution is entirely equipped to assume a Housing Finance portfolio, a combination of two or three organisations may prove suitable; e.g., the Post Office Savings Bank has an excellent network of outlets, the Botswana Housing Corporation is empowered by its Act to participate in Housing Finance, and the Botswana Building Society has significant Housing Finance experience.

2) The Housing Finance System will require two basic sources of funds--primary and secondary. The primary source, seed money, will have to come from Government (possibly from Donor sources)

1/4

in the form of P20 million over a four to five year period phased with the establishment and growth of the Housing Finance System.

3) No single source of loan funding can meet Botswana's housing needs. Neither could one source, even if large enough, be expected to serve the whole range of financial needs (high income - low income, rural - urban) without undue risk. Consequently, the Housing Finance system must have several sources (Government and private) to replenish the primary funds. Therefore a balanced programme must be designed, determining the money available for Housing Finance from a range of options, and identifying what segments of demand these sources may best serve.

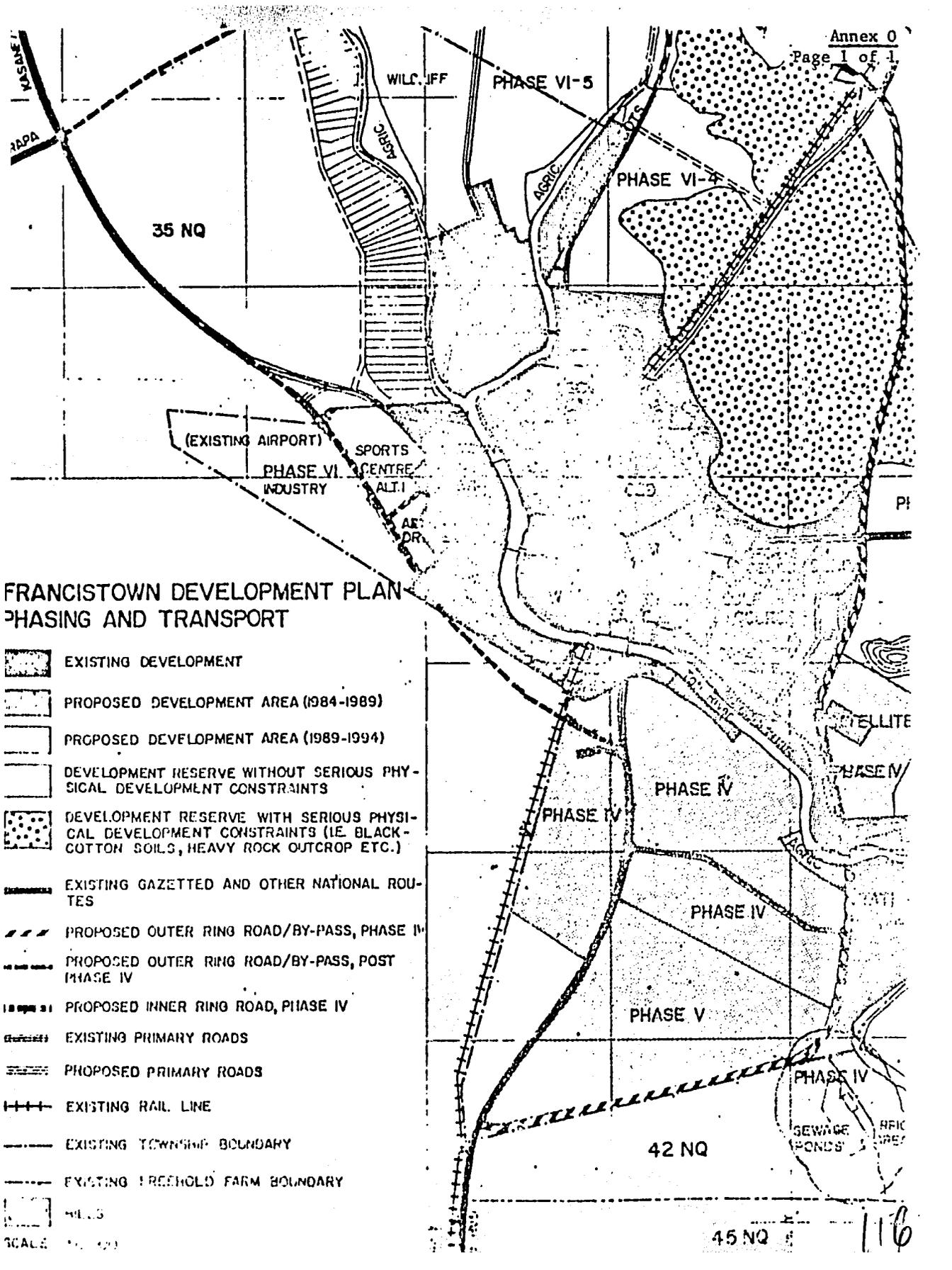
4) The Housing Cess system was discussed, but is a compulsory savings scheme primarily involving contributions from the formally employed. In addition, the Cess system would generate little loanable money.

5) Other secondary sources of funds include a State Pension Fund (the best option for obtaining long term housing finance), enactment of legislation to require Insurance Companies to invest a percentage of their profits into housing (another good source of long term funds), a Premium Bond system (similar to a lottery but participants' deposit funds into a no-interest account that pays cash prizes once a month), a Deposit Mobilisation Scheme to promote personal savings, and solicitation of deposits from private contractors.

6) Excess liquidity exists mainly as short term money, and may not always exist; yet, creation of a mechanism to convert short term money into long term funds for housing investment is a viable option. For example, deposits could be encouraged for a Housing Finance account that could create a float of funds for long term investment; thus, some excess liquidity and short term private funds could be used for housing.

Conclusion:

This Ministry endorses the Seminar's recommendations in principal, particularly since the need for a Housing Finance System is already essential and becoming more imperative as Government cannot cater for all housing needs. In the final analysis, the need for Housing Finance compounds daily, making the search for adequate solutions more urgent to prevent the problem getting out of control. Although a Housing Finance System is not a panacea, a strong Housing Finance System will help resolve current housing shortages. Therefore, we recommend immediate action toward creation of a Housing Finance mechanism.



35 NQ

WILC. JFF

PHASE VI-5

PHASE VI-4

(EXISTING AIRPORT)

SPORTS CENTRE
INDUSTRY

ALT. I

AE
DR

C23

PH

FRANCISTOWN DEVELOPMENT PLAN PHASING AND TRANSPORT

-  EXISTING DEVELOPMENT
-  PROPOSED DEVELOPMENT AREA (1984-1989)
-  PROPOSED DEVELOPMENT AREA (1989-1994)
-  DEVELOPMENT RESERVE WITHOUT SERIOUS PHYSICAL DEVELOPMENT CONSTRAINTS
-  DEVELOPMENT RESERVE WITH SERIOUS PHYSICAL DEVELOPMENT CONSTRAINTS (IE BLACK-COTTON SOILS, HEAVY ROCK OUTCROP ETC.)
-  EXISTING GAZETTED AND OTHER NATIONAL ROUTES
-  PROPOSED OUTER RING ROAD/BY-PASS, PHASE IV
-  PROPOSED OUTER RING ROAD/BY-PASS, POST PHASE IV
-  PROPOSED INNER RING ROAD, PHASE IV
-  EXISTING PRIMARY ROADS
-  PROPOSED PRIMARY ROADS
-  EXISTING RAIL LINE
-  EXISTING TOWNSHIP BOUNDARY
-  EXISTING FREEHOLD FARM BOUNDARY

42 NQ

45 NQ

SCALE 1:5000

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METHODS FOR IMPROVING SHHA DEBT MANAGEMENT
SUMMARY OF RECOMMENDATIONS

The following recommendations are divided into five categories representing the five major areas of the study. Within each area, the recommendations are further classified as short-term or long-term. Short-term recommendations are defined as those that can be implemented in 4-6 months; long-term recommendations, those requiring more extensive analysis and, therefore, a longer timeframe. Although all of the short-term recommendations listed below have the potential for implementation within 4-6 months, it will not be possible to effect all of them together given the limited amount of time and staff resources available.

ADMINISTRATIVE REMEDIES

A. Communications with Plottolders

Short term:

1. Conduct one or more seminars with plottolders to explain the program, what the Town Council is trying to accomplish, and the importance of paying the service levy.
2. Use tribal chiefs to advise plottolders and encourage them to pay.
3. Make effective and frequent use of Village Development Council.
4. Solicit the participation of plottolders or their selected representatives in decisions affecting SHHA areas and plottolders.

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B. Improved Collection and Management Procedures

Short term:

1. Use a more systematic but aggressive process for dealing with delinquent plotholders including: use of three successively stronger letters, more extensive use of repayment agreements, imposition of late charges, designation of a staff person in each ward office to assist in dealing with defaulters, use and updating of work cards, special collection efforts undertaken during the two-week period when plotholders are paid, more efficient and extensive use of revenue collectors, development of a strategy for resolving the large number of 90+ day delinquencies.
2. Develop better program management for short-term, day-to-day operations and of the SHHA as a whole including:
 - o update and revision of established procedures
 - o compilation of a set of policies governing debt management
 - o use of monthly meetings to discuss activities, successes, failures, set goals for the month, etc.
 - o institution of management techniques such as quotas; performance standards. time management and goal setting
 - o use of methods to motivate staff.

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C. TECHNIQUES FOR DEALING WITH CHRONIC DEFAULTERS

Short term:

1. Make use of legal remedies available to the Town Council through the Customary Courts and SLA. Specifically:
 - o use the Customary Courts to impose such traditional sanctions or penalties as the imposition of fines, attachment of movable property, forced payroll deductions, and collection of rents
 - o resolve problems related to implementation of the existing SLA, and request a new position with responsibility for conduct of SLA activities
 - o develop a clear implementation strategy comprised of a set of procedures, assignment of tasks/roles, allocation of time, performance standards, and a system for tracking cases through the legal process.

Long term:

Amend the SLA regulations to provide for the following:

- include the entire unpaid principal balance of the MML in calculating the outstanding debt for processing under the SLA
- rather than seizing and auctioning movable property, proceed immediately with repossession
- do not reimburse the original owner of a repossessed plot until it is resold

consider disposing of plots through public auction as an alternative to direct sale streamline case processing and reduce the number of forms involved.

Short term:

2. A number of special collection techniques or efforts should be initially tried on a demonstration basis. However, individual techniques may be controversial or politically unacceptable.
 - o as the most effective means of control; implement a stop order or automatic payroll deduction arrangement
 - o consider undertaking collections at plotholder's place of employment in cooperation with selected employers
 - o use adverse publicity, such as posting names of chronic defaulters and those whose plots have been repossessed for nonpayment
 - o employ financial incentives, such as a bonus system for ward employees to increase collections, and a percentage reduction to plotholders for early repayment of building materials loans.

Long term:

- o consider very limited use of private collection agencies.

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ORIENTATION AND EDUCATION OF NEW PLOTHOLDERS

Short term:

1. Require mandatory attendance at orientation sessions prior to plot allocation; limit orientation sessions to 50 plotholders.
2. Make greater use of visual aids.
3. Ensure that plotholders thoroughly understand the key points made in the presentation by asking group members to explain them in their own words, holding question-and-answer sessions immediately following each portion, and identifying the most frequently asked questions and addressing them in the presentation.
4. Make written information about the program available for plotholders to read while waiting for the orientation session to begin, and design additional handouts for future reference.
5. Emphasize how serious the Town Council is about requirements for being a plotholder.
6. Develop a one-page evaluation questionnaire for plotholders to complete at the end of the session.
7. Hold follow-up sessions for groups in response to special problems that arise or to offer technical assistance.

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ACCOUNTING AND RECORDKEEPING

Short term:

1. Conduct periodic reviews of all service levy and BML ledger cards to assess the extent errors exist and to eliminate future errors.
2. Hold a series of meetings with the Town Treasurer to establish a comprehensive monitoring/auditing approach that details specific monitoring tasks and assigns task responsibility.
3. Revise the monthly statistical report to separate plotholder data into distinct delinquency categories.
4. Reclassify all plotholders who have entered into repayment agreements as "current" as long as they continue making payments as agreed, using a special code to easily identify this group.
5. Reintroduce requirements for a written narrative report to be prepared by the PHO.
6. Make inquiries into the potential for purchase of "used" Audit 4 machines.

Long term:

7. Move the payment due date to the 10th or 15th day of the month to ensure that payments collected at the end of the month are properly credited and reported.

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ASSESSING STAFF SKILL LEVELS

Long term:

1. Implement the training recommended in the In-Service Training Study, particularly for Group Workers and Assistant Ward Officer positions, with emphasis on communication skill building, financial analysis, and expanding their program knowledge of the SHHA program for the former, and improved management skills for the latter.

WRITE-OFF OF CHRONIC DEBTS

Short term:

1. The Ministry should immediately investigate the legalities of a write-off and apprise the Council accordingly.
2. Review plottolders' accounts to identify and process for write-off those debts that meet the appropriate criteria.

ADDITIONAL COMMENTS

Long term:

1. Consider as a long-term recommendation the eventual use of private-sector or parastatal agencies to collect service levy and BML debt, or possibly a split of responsibilities between the private sector and the Town Treasury, with the former performing normal collection activities and the latter handling serious delinquencies.

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