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Divers,W.K.; Nagle,W.J.; Tepper,Harold

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9. ABSTRACT

Since 1971, the Office of Housing of AID has been conducting preinvestment surveys in countries where housing investment guaranty programs are anticipated in order to provide the background and framework for its intervention. These surveys are,in fact,increasingly sophisticated analyses of the shelter sector of each country. Each report is intended to provide the Office of Housing with the information necessary to enable it to answer three primary questions about a specific country:

- What is the country's capacity to undertake a large-scale housing program?
- What is the effective demand for housing at a given price level?
- What is the country's capacity to repay a foreign loan?

To paraphrase the introduction to the scope of work for a recent survey, its objectives are to determine the need for housing at all socio-economic levels of society, to determine the ability of each socio-economic group to pay for housing; to assess the capabilities of the Government to plan and manage large scale housing programs and projects; to analyze the impact of large scale foreign borrowing on the country's economy and its ability to repay; and to assess the ability of the country to absorb large sums of money into the shelter sector industries.

These objectives have been realized with varying degrees of success. Some of the more recent surveys, in particular, provide broad panaromas of the country housing sectors. Some of the earlier ones are more limited in scope and cover only a part of the sector.

These reports provide valuable orientation for anyone becoming involved in housing sector in one of these countries. They should also be useful for comparative studies of housing programs and policies on a regional or world-wide basis.

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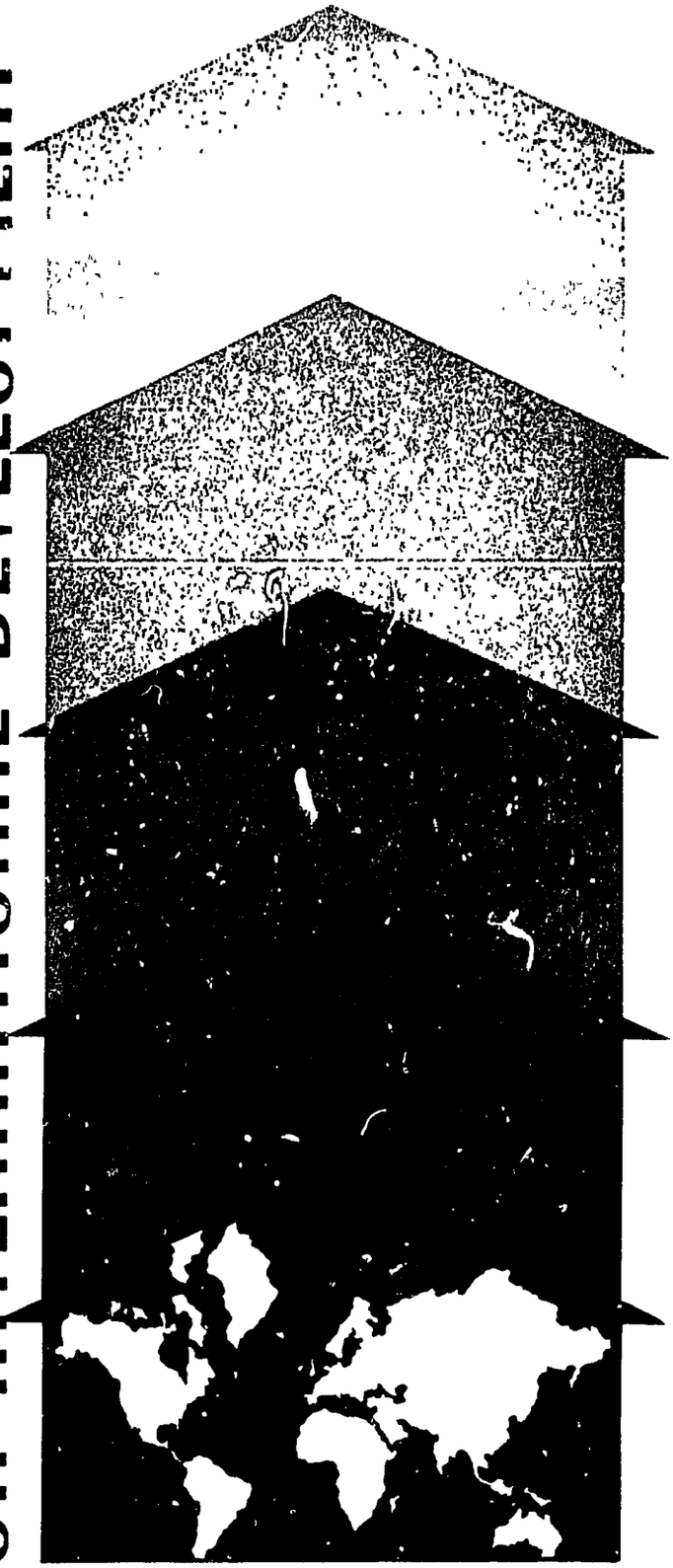

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PRE INVESTMENT SURVEY REPORT HOUSING GUARANTY PROGRAM LESOTHO, 1971

OFFICE OF HOUSING

Stanley Baruch, Director
Peter Kimm, Deputy Director

HOUSING GUARANTY PROGRAM

PRE-INVESTMENT SURVEY

FOR

LESOTHO

SER/H REFERENCE FILE

Prepared by:

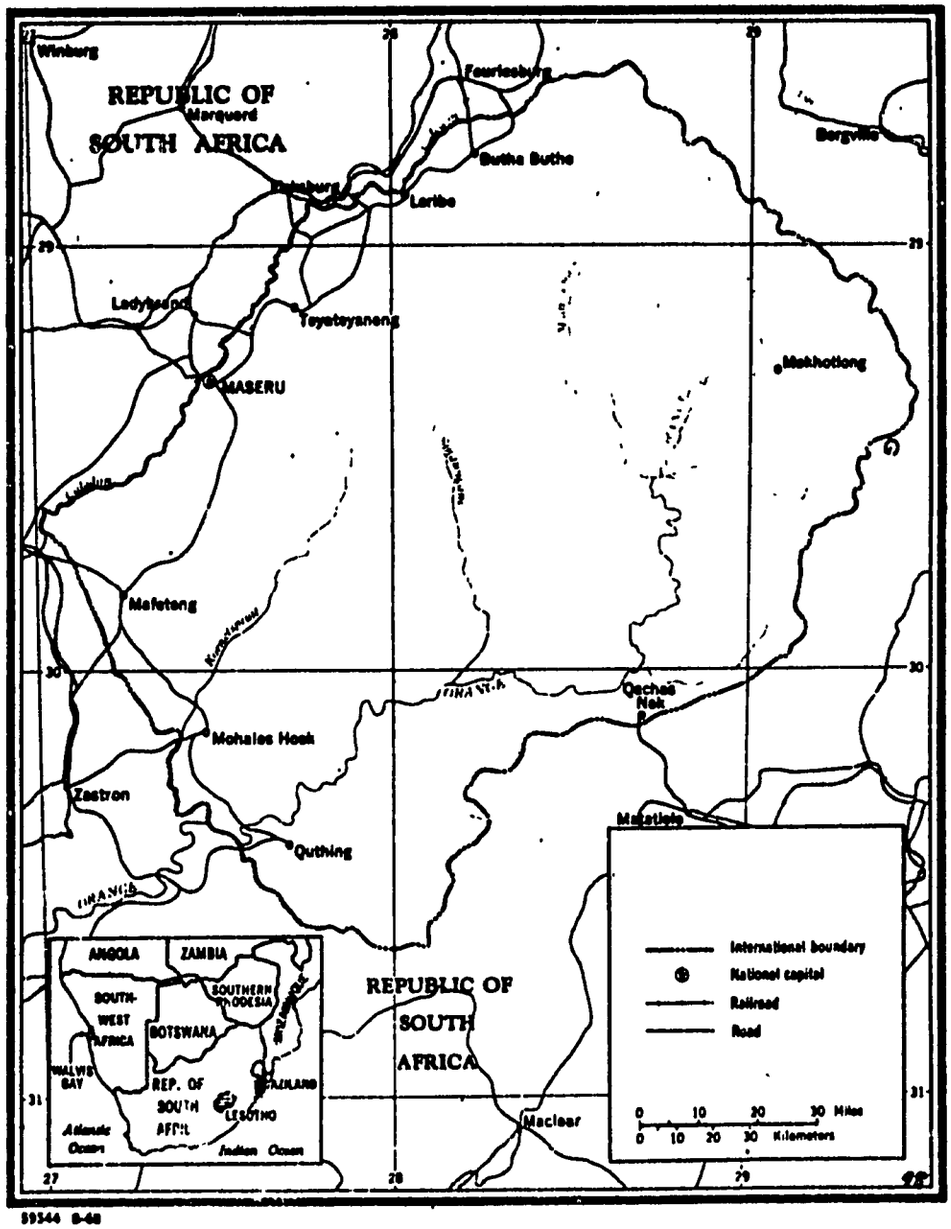
William K. Divers, Chairman
Executive Committee
Savings and Loan Foundation, Inc.

William J. Nagle, President
Community Resources, Inc.

Harold Tepper, Deputy Director
International Operations
National League of Insured Savings
Associations

September 10, 1971

LESOTHO



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PRE-INVESTMENT SURVEY

FOR

LESOTHO

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PREFACE

A brief exploratory visit to Lesotho in March, 1971, by George Hazel, A/H Regional Housing Officer for Africa, resulted in plans to send a Pre-Investment Survey Team to Lesotho, to examine the feasibility of a Housing Guaranty program for the country.

Mr. William K. Divers, Chairman of the Executive Committee of the Savings and Loan Foundation, Inc., was selected to head the team. Other members were Mr. Harold Tepper, Deputy Director of International Programs of the National League of Insured Savings Associations, and Dr. William J. Nagle, President of Community Resources, Inc., a Washington management consulting firm. All three went under the auspices of the National League of Insured Savings Associations.

The team visited Lesotho from June 28 to July 5, 1971. This report draws heavily on the interviews conducted by the team. The material on financial institutions and land tenure is largely the product of Mr. Divers. Part II of the Report on questions of technical feasibility was the responsibility of Mr. Tepper. Dr. Nagle had responsibility for the remaining sections and general editorial responsibility for the report.

The team wishes to express its appreciation for the assistance offered by Mssrs. Norman Frisbie, U.S. Charge d'Affaires; Charles Campbell, USAID/OSARAC; James Alrutz, Director U.S. Peace Corps, Lesotho; to officials of the Government of Lesotho, and to the various private individuals contacted during its stay.

Part I: FINDINGS AND RECOMMENDATIONS

1. General Description

A mountainous country slightly larger than the State of Maryland, Lesotho is completely surrounded by the Republic of South Africa. Its population at a census in 1966 was 969,634. Of this figure, 852,361 were present in the country, and another 117,273 were absent. The latter figure is the estimate usually given for the number of Basotho working at a given time in South African mines, industries, and on farms.

Maseru is the most likely location for any significant project under the Housing Investment Guaranty. Housing was also reported to be needed to support ome of the larger agricultural enterprises located along the western border. The team concentrated its efforts in Maseru, as the most likely viable market for home ownership.

Maseru is situated on a mesa at about 5,000 feet elevation on the Caledon River. It is surrounded by the Drackensberg mountain range, and is the seat of government. It lies at the terminal point of the railroad, just a few miles across the border from South Africa. Although the official estimate of population is 15,000, the Minister of Planning and Development estimated the population of the Maseru area at about 23,000.

Maseru has a Town Council. Principal administrative officer is the Town Clerk. However, the administration of the town is almost completely performed by the national government.

Lesotho would be dependent upon the Republic of South Africa for technical services necessary to establish a housing construction and mortgage financing industry. Top operating officials in the government departments are generally British, or South African. Basotho government leaders at ministry level, however, expressed a

desire to minimize this dependence, but at the same time recognized the realities of their situation in relation to the Republic and dependency upon expatriates.

The climate is dry. Annual temperature range is moderate. Summer temperatures average 68°, winter 57°, with extremes ranging from a high of 93° to a low of 24°. As a result, a full 12-month construction period may be planned.

There are no records of seismic disturbances.

2. Housing Need

A projection of the 1966 census figures for Lesotho (i.e. an in-country population of approximately 860,000 plus 117,000 absentees), based on a median increase rate of 2.5% per annum (a figure commonly judged accurate in most African countries),shows the following population growth:

1971	-	1,074,800
1976	-	1,216,100
1986	-	1,556,700

A sample survey taken at random revealed an occupancy rate per room among rental properties of 3-4 persons. At the 1966 figure of in-country population of 860,000, an application of the sample survey figure would give some 215,000 room units. The UN estimates total houses in Lesotho at less than 71,666. A copy of the UN Report is on file as Exhibit A.

If one used the United Nations criteria on filling housing demand and replacing obsolescent stock, an annual house building rate of 10 houses per 1,000 persons would be required. In actuality, home building in Lesotho amounts to about two houses per 1,000 of population per year. If one assumes that three houses per 1,000 of population can be built annually, each accommodating five persons, then a figure of 4,300 houses need to be built each year throughout the country to take care of the increase in population based on the 2.5% per annum projected above.

This report deals primarily with the capital city of Maseru. A population projection for Maseru must take into account not only the natural increase but also the increase due to urbanization. If Maseru's expected growth is similar to that of other African urban centers, an annual growth rate of approximately 6.5% could reasonably be assumed. The UN estimated Maseru's needs for 1967 (a year after the census) on this basis:

1966 Population	15,000
Natural Increase (2.5%)	375
In-migration (4%)	600

On this basis it was estimated that an additional 975 persons needed to be housed in 1967- or about 195 houses increasing at a rate of 6.5% compounded annually. Assuming an overcrowding rate of 10% and replacement of obsolete stock at 10%, one can add another 240. The UN conclusion: Maseru needed 435 new houses in 1965 and an increasing number thereafter. The UN thus concluded that Maseru's population is expanding faster than its housing supply is increasing.

To meet this need there is virtually no private home building industry, with the exception of a small number of indigenous mason-builders. There are three expatriate construction firms but they are engaged primarily in public works and do not build for the housing market.

Nor is financing generally available for home building, although there is a very limited incipient program that has been undertaken by the Lesotho Cooperative Savings Society. As evidence of the lack of financing, government data shows that of 3,204 applications for home sites in the district of the capital city of Maseru during the last 12 years, only 1,270 were granted and, of these, only 25% were able actually to build, with financing coming from their own resources.

Despite this, the survey team was favorably impressed with the general quality and permanence of many of the homes and especially the newer homes in Maseru.

Actually seeing the houses that are being built--including those without known financial assistance or loans--had a positive effect on the team's attitude toward the potential prospects for developing housing in Maseru.

3. Recommendations

(a) A Housing Guaranty Program of $1 million should be negotiated with the Lesotho Cooperative Savings Society.

A loan to the Society will serve to strengthen a truly local institution and may be seen as the first step in a process that eventually may result in a full-scale housing institution development program that will help reverse the traditional pattern of institutional paternalism that seems to exist on the part of other credit institutions doing business in Lesotho. This loan will serve as seed capital for disbursement over a period of years:

(i) to provide needed mortgage financing to people who have already had sites allocated to them;

(ii) to strengthen a worthy but faltering local financial institution with a record of serious effort to serve the people of Lesotho and to provide a more sensitive response to the credit needs of Basotho wage-earners.

(iii) to act as a genuine test of the market that will provide a sound basis for developing future housing programs and strategies; and

(iv) to serve as a catalyst for the Government of Lesotho to organize its own housing endeavors and priorities, and to permit the internal lines of authority to be sorted out.

(b) In connection with the Feasibility Study of a negotiated program, AID should send a short term consultant, who would:

(i) Assess the Society's present management;

(ii) Examine the Society's bookkeeping practices;

(iii) Recommend the kind of continuing management assistance to the Society that might be needed.

The team believes that the Lesotho Cooperative Savings Society, with a strengthened management, will be an appropriate instrument through which mortgage money can be channelled in Lesotho.

(c) Taking into consideration the cost estimates outlined in the Technical Section of this report, the team recommends that the majority of the financing be considered for homes costing about $4,000 with $8,000 as the maximum home cost to be considered.

(d) AID also should investigate the possibility that a fresh approach to design and use of materials, design of expandable or "add-on" core units, design of economical multiple units, more economical use of land to reduce urbanization costs, construction of sewage plants in lieu of septic tanks, where practical, and consideration of several designs related to climatic conditions and traditional living patterns could result in further reduced costs and provide economic housing to a larger segment of the people.

(e) Sites and services development on a limited scale and possible upgrading of squatter developments also should be considered.

(f) AID should explore, at least tentatively, with the Peace Corps the possibility of providing to the Society a skilled person capable of helping the Society implement the recommendations of the short-term consultant.

Part II: THE HOUSING SECTOR: MARKET, INSTITUTIONS, AND LAND POLICY

1. General

Studies made available to the team gave Lesotho's gross national product (GNP) in 1968 at an estimated U.S. $70 million, and the per capita income at $75. The economy is based on subsistence agriculture, livestock, and the earnings of laborers employed in South Africa.

Eighty-seven percent of Lesotho's population is dependent on some form of agricultural activity. Yet, the total area of arable land is only about one million acres (1,000 square miles of the country's total area of 11,716 square miles), and there is virtually no further land available for cultivation. Therefore, Lesotho does not normally produce sufficient cereal crops to feed her population and must import cereal grains to feed its non-agricultural working population.

The country must export manpower; 43% of the labor force works outside the country, i.e., South African mines, and Lesotho is very dependent economically on South Africa.

2. Housing Market

a. The Bankers' Views of the Market--The views of bankers and others associated with financial institutions constitute an informed body of opinion regarding a housing market. The views outlined below, although informally given, undoubtedly represent an accurate reflection of the current situation in Lesotho.

Gillespie of the Standard Bank:

There is a definite desire by the people of Lesotho for home ownership. Sees a limited market for houses whose monthly mortgage payments would be about $42. Believes government employees would buy homes rather than stay in government-subsidized housing, which he considers poorly maintained.

Sees down-payments and monthly payments as problems. Suggests that monthly payments toward a down-payment be required. This practice would determine the ability of purchasers to make monthly payments. Purchasers will try to keep any home on which they have made a 15% down-payment. Too long a mortgage term should be avoided because government employees (the largest part of the potential market) are forced into early retirement at age 52. The sub-

stantial bonus an employee receives on retirement should be required to be applied to the balance due on any mortgage, since retirement allowances are very small. Probably 20 of Standard's 30 employees would be interested in housing. Also sees a demand for $14,000 to $19,600 homes with down-payments available.

Bambers at Barclay's Bank:

Less optimistic than Gillespie at Standard, he sees a very small demand for housing credit. Says there might be a small demand for two-bedroom houses of concrete block at $10,500 to $11,200. However, if a down-payment of 20% is required on a R7,500 ($10,500) house, the balance of R6,000 ($8,400) would require payments on a 9% mortgage of R54 ($65.60) per month. That is, Rand 9 per 1,000 per month for 21 years. Such payments would be out of reach of all but the top ranks of civil servants.

Loubser of Post Office Savings:

Believes there is a market for new houses if down-payments can be kept to $700 or less. Would like to see financing available for R2,500 ($3,500) houses. A down-payment of 20% would leave R2,000 to repay at R9.7539 per 1,000 per month, for 17 years, or monthly payments of R19.50.

A down-payment of R500, if 15% of purchase price of R3,333 would leave R2,833 to repay, or monthly payments of R27.62. A down-payment of R500, if 10% of purchase price of R5,000 would leave R4,500 to repay, or monthly payments of R44.

Liebetrau of United Building Society:

Thinks there is a market. Believes many of the people have substantial savings not in banks but in their tin boxes. Says many civil servants cannot manage their new-found affluence and live beyond their means. Believes a sub-

stantial down-payment will be assurance that the purchaser will repay his loan. Says many civil servants plan to return to their homes outside of Maseru when they retire; hence, these people would not be interested in buying homes except possibly as investments.

Ntebele of Lesotho Cooperative Savings Society:

Says he could make 20 home loans immediately if funds were available. Seems convinced of a market, as is the President of the Society, Mr. K. Rakhetla.

Van Graan of Lesotho National Development Corporation:

Contends there is a housing shortage, a desire for home ownership and a market. Beukes, newly named manager of the Lesotho Housing Corporation under LNDC, agreed on the need and the desire, but seemed less convinced than Van Graan on the market. Neither LNDC nor its Housing Corporation had yet made an analysis of Lesotho's housing market.

In sum, with the exception of Bambers at Barclay's Bank, the people interviewed associated with financial institutions all seemed convinced of a housing market in Maseru.

b. Statistical Indicators--The clearest proof obtained that there does exist in Maseru a market for owner-occupied houses appears in statistics provided by the Township Section of the Ministry of the Interior. They show that in the past 12 years in the Maseru district there have been 3,204 applications for site allocations. This means a potential home builder requests that a particular plot on surveyed land be "allocated" to him for purpose of building a house. Out of the 3,204 applications only 1,270 have been granted. More significantly, only 25% of the successful applicants have actually built houses. Most of those who did build handled their own finances. The presumption is that the other 75% did not have

money available and were unable to obtain mortgage financing.

Although these figures reflect a desire for home ownership, applications for site allocation must include a statement from a bank that the applicant has financial capability. (As explained by one government official, it is not uncommon for an applicant to borrow money from friends, deposit it just before the bank is to consider the application, and return it the day after the bank has certified his financial capability). Although no pre-use data were available, it can be presumed that the majority of the applications were from government employees now occupying government subsidized quarters.

c. Civil Servants--An attempt at an analysis of government salaries and housing practices is useful in judging the market. There are 4,320 government employees in the Maseru area. Their income breaks down as follows:

Income	Acceptable Range of Monthly Housing Payments i/	Number of Employees
Above R5,000 ($7,000)	$116+	62
Between R4,000 and R5,000 ($5,600 and $7,000)	$93-116	86
Between R2,500 and R4,000 ($3,500 and $5,600)	$58-93	303
Under R2,500 ($3,500)	Less than $58	3,869

i/ -- Calculated at a 20% ratio of housing expense to income

Using the Government's own breakdown between senior and junior staff, there are a total of 1,012 employees at the senior level (but of these the 315 lowest paid earn or y $1,091 - $1,521 annually).

The number of government employees in the Maseru area occupying government subsidized quarters is 1,138. However, of these 149 or 13% are expatriates.

Average monthly rent in government quarters is R15 ($21). Fifty-five

of the 62 top-ranking employees (R5,000 to R6,810 in annual salaries) occupy government subsidized housing. They pay on an average of R26 for a R11,000 to R12,000 house, or approximately five percent of their salaries. D. J. A. Briggs, Deputy to the Cabinet Secretary in the Office of the Prime Minister, estimated that truly, economic rents (or comparable monthly mortgage payments) would be R91 or about 20 percent of their income.

The obvious question arising from these statistics, and one frequently asked by the Survey Team, is why a government employee would want to own a home when subsidized housing is available so cheaply. One answer was that many civil servants are dissatisfied with the housing they have. There seems to be no systematic or completely fair way of allocating the houses. Some senior officials are in houses designed for juniors. Some families have outgrown the houses they occupy.

Another answer frequently given is that many government employees want to make sure they have a home when they retire from the Civil Service and must leave the government rentals. In Lesotho (as in Swaziland and Botswana) the government employees know that the days of subsidized housing -- a legacy of the colonial periods when administrators were predominantly expatriate -- will soon be over. The "writing on the wall" now finds itself more explicitly into such government policy documents as Lesotho's Development Plan which in stating the Government's housing policy, says:

> "In the long run to withdraw as far as is practicable from the field of public service housing. Civil Servants will be encouraged to buy their own houses.....Consideration is being given to the possible reduction and eventual elimination of the housing subsidy for Civil Servants....."

During the week the Survey Team was in Lesotho, a development occurred that reflected this concern and which can significantly affect the private housing market in Maseru. The team learned that the Civil Service Association Executive Committee met with the Prime Minister to request that the government guarantee loans for Civil Servants to purchase houses. (There is some precedent in government practice for this in that the government now advances loans for purchase of autos by officials.)

d. Teachers and Private Sector Employees--In terms of a market analysis, salary figures and attitudes on housing of private sector employees were more difficult to come by. Through the good offices of Mr. E. Waddington of the Ministry of Finance, the Income Tax Office provided the following information on non-European teachers and private sector employees in Maseru:

	Acceptable Range of Monthly Housing Payments i/	Number of Employees
Teachers		
(1) earning salaries of between R800 and R2,000 per annum ($1,120 - $2,800)	$19 - 47	70
(2) earning salaries of between R2,000 and R4,000 per annum ($2,800 - $5,600)	$47 - 93	20
(3) earning salaries over R4,000 per annum ($5,600)	$93+	2
Private Sector Employees		
(1) earning salaries of between R800 and R2,000 per annum ($1,120 - $2,000)	$19 - 47	180
(2) earning salaries of between R2,000 and R4,000 per annum ($2,800 - $5,600)	$47 - 93	40
(3) earning salaries of over R4,000 per annum ($5,600)	$93+	10
TOTAL		322

i/ Calculated at a 20% ratio of housing expense to income

Note that there are only 72 teachers and private sector employees earning more than R2,000 annually. This figure contrasts with 415 Civil Servants earning more than R2,500. Other than noting the relatively few teachers and private sector employees who could afford a house, nothing very conclusive can be said about their impact on a real or potential housing market.

e. Market Assessment--The 951 site allocations approved but on which no house construction has started remains the clearest proof of at least a limited housing market that is in need of the kind of mortgage money that might be provided under AID's Housing Guaranty programs. But note that this proven market poses the need, not for a project, but for money to be made available on an individual basis through some local instrumentality or financial institution.

3. Financial Institutions

a. General Comments--Lesotho, together with Botswana and Swaziland, is a member of a common customs union with South Africa. No tariffs exist on most goods moving between them. They also form a common currency and exchange control area and use the rand as currency. (One rand = $1.40). Fifty percent of Lesotho's annual revenues come from its share of customs union receipts. Given these monetary facts and other indicators of Lesotho's economy described in the first section of this report-- its lack of wage industries, its low per capita income, its economic dependence on South Africa, etc. -- it is not surprising that there is no central reserve bank in Lesotho, and there are no commercial banks owned and operated by the people of Lesotho. The only commercial bank offices in the country are branches of Barclay's, a London Bank, and Standard, a South African Bank. The latter acts as the depository for Government funds.

Deposit and loan figures on the two commercial banks for the past three quarters of 1970 are highly revealing:

Second Quarter:

Net increase in	Deposits:	R9,023,000
	Loans :	R2,057,000

Third Quarter:

Net increase in	Deposits:	R11,924,000
	Loans :	R 2,492,000

Fourth Quarter:

Net increase in	Deposits:	R10,169,000
	Loans :	R 2,683,000

Total	Deposits:	R31,116,000
	Loans :	R 7,232,000

What the figures show is that only 23% of the money deposited in the two banks in Lesotho during the last three quarters of 1970, remained in Lesotho for investment. Seventy-seven percent of the funds deposited went out of the country. The reaction of most of the Lesotho Government officials who commented on the issue was acute embarrassment. According to one of the officials, the two banks have been reluctant to give advances, (i.e., loans) to local people and when they do,they demand much more in the way of security than is required of expatriates. Local traders are in a disadvantaged position. In a move seen as a public relations gesture, the banks are currently giving advances to some top civil servants.

In examining the financial institutions operating in Lesotho,particular attention will be given them in terms of the supply or non-supply of housing credit.

b. Commercial Banks

Standard Bank--According to the Standard's Assistant Manager, Mr. Gillespie, the bank "makes no home loans." It does take mortgages on loans for commercial purposes, but its officers consider home loans to be the business of

the building societies. Standard had many savings accounts of local people. A recent survey revealed that the average balance of 85% of the bank's accounts is less than $5.60. Most of the Basotho depositors apparently use them as convenience accounts. They deposit their paychecks and then draw money out in small amounts during the month.

Barclay's--Barclay's according to its local manager, Mr. Bambers, has in the past made no home loans. Barclay's has a large number of savings accounts, but, like depositors in the Standard Bank, the Basotho use them as convenience accounts, with frequent withdrawals and small balances. The larger savings accounts are mostly those of South Africans or other expatriates temporarily in the country.

The bank has made a few personal loans for houses to Basotho with good credit records. These loans were for short (two to three-year) periods and covered possibly one-third of the value of the house being constructed. The loans were made to complete houses already under construction. Barclay's, however, had just received permission from its home office to make home loans for 10 years at 9-½% interest up to two-thirds of the house's value.

c. Lesotho Cooperative Savings Society--According to J. M. Ntebele, Secretary, the Society has made about 50 housing loans since its organization in 1956. It was lending funds at 8% for 20 years with 20% down-payment. In 1969, after the partial withdrawal of government funds, the Society reduced the maximum loan from 20 to 10 years, and increased the required down-payments from 20 to 40%. This was done in an attempt to get the principal amount of the loan back faster and to ration available money.

The Society has made 25 loans on one-bedroom houses selling for about $2,500, with 9% mortgages on 20-year terms with 20% in down-payment. The Society

had also made 13 loans on larger houses priced between $7,000 and $14,000, with terms of 15 to 20 years and down-payments ranging from 20% to 40%.

The difference in the reported interest rates is probably explained by the fact that the Society's mortgages have a variable interest rate clause, and the Society has increased the rate charged to 9% after the loans were originally made at 8%.

The latest audited statement of the Society available is a Balance Sheet that is as of March 31, 1969. It does not show the average yield on the portfolio, nor does it reflect the number or the amount of delinquent loans.

The Society also makes small business loans to a very limited extent. Total loans, at March 31, 1969, amounted to R108,842, or approximately $152,500. This comes to about $4,000 per building loan, based on a portfolio for 40 loans.

The Society was organized in 1956 while Lesotho (then called Basutoland) was a British Protectorate. Its by-laws are similar to those of a U.S. Savings and Loan Association. The Society has 1,700 members with savings accounts. Assets total R150,000 ($210,000). It pays 4-½ to 7-½% on savings. Reserves and surplus are about $3,500. Savings amount to about $200,000 of which about 20% is money from Government pension funds and other Government sources. Average account for the ordinary depositor is about $100. The Society has increased its membership from 600 to 1,700 in the past three years.

The Society has a secretary-manager and two other employees in unattractive quarters outside Maseru's "financial district." Its quarters are shared by a purchasing organization for farmers; many savings accounts are from farmers. In the past loans have only been made to Basotho.

Savings accounts are solicited directly by the manager. Currently, the Society employs no advertising program or other promotion activity. (Note:

Since the Survey Team's return, William Divers has sent the Society advertising and promotion material which might be adapted to its use.)

The Society has no funds available for lending at the present time.

The President of the Society, Mr. Rakhetla, (who is also deputy director of the Government's National Planning Office) explained how the Society came to be in such a position: In 1965, the Society invested about R80,000 in housing on the promise of the then Colonial British Government that the money would be forthcoming from the Government. This greatly reduced the bank's liquid funds. Although the R80,000 figure appeared in proposed Government budgets for successive years, the R80,000 was never returned.

The Society has had trouble with delinquent accounts. According to Mr. Ntebele, the situation improved after the Society foreclosed on several properties and the word spread that borrowers would lose their properties if they failed to meet their loan obligations. Although he produced no figures on delinquencies, Mr. Ntebele claimed that loan delinquencies were not currently a problem.

An examination of a typical mortgage, including provision for a variable interest rate, showed their similarity to documents used in the United States. One difference is that pre-approval of occupancy is given by the Basotho chief before an officer qualified to take oaths.

d. The Post Office Savings Bank--An interview with E.J. Loubser, the Bank's senior accountant, revealed the following: The bank has 20,000 savings accounts, of which 15% are in Maseru. The average account is R33 or about $52. The bank is operated through 12 post offices; deposits or withdrawals up to $100 may be made at any office.

Mr. Loubser, a South African, has been in Lesoth for three and a

half years. His bank appears to be a viable, self-sustaining operation which has paid all its expenses and still shows a modest surplus. It now pays 4% on savings but intends to pay 5% in the next interest period.

The Bank does not make home loans or extend housing credit. Its latest annual report shows that 90% of its investments are loans to the Lesotho National Development Corporation (60%) and to the Government (30%). Remaining funds are in cash or Certificates of Deposit with the Standard Bank. Some of the loans to the LNDC constituted a financial involvement of LNDC with the new Holiday Inn and casino in Maseru. In earlier years most of the Bank's investments were in the commercial banks in Lesotho and South Africa.

e. The Building Societies--Although four South African building societies have agents in Maseru, only two of the societies are active. They have no branches in Lesotho and do not advertise nor promote savings. They just have agents who handle deposits and withdrawals for residents of Lesotho who wish to open savings accounts with them, for citizens of Lesotho who had accounts with such societies in South Africa, when working there, and for South Africans and other expatriates currently living in Lesotho.

According to Mr. Liebetrau, agent in Maseru for the United Building Society (South Africa's largest with assets of about $2 billion), the Republic of South Africa recently imposed a 10% tax on interest from savings accounts paid to all non-South Africans (people without a permanent address in South Africa). The tax has caused a substantial decrease in the Society's business in Lesotho.

The Registrar of Cooperatives in Pretoria has ruled that the South African building societies in Lesotho may not make mortgage loans because present land tenure practices made it impossible to obtain a clear title to the land.

f. Assessment: It must be concluded that no housing credit system exists in Lesotho. An analysis of the developmental potential of the existing institutions would indicate that the South African building societies cannot be relied on to provide the housing credit now urgently needed in Lesotho, nor do they offer the potential for indigenous institution building; neither do the commercial banks.

The Standard Bank has no intention of making home loans. The Barclay's Branch has received permission from its home office to make home loans for 10 years at 9-½% interest. It seems safe to assume, however, that the few loans it might make will go to expatriates and higher civil servants for relatively expensive houses.

The two indigenous financial institutions appear to offer the best prospects. Although the Post Office Savings Bank of Lesotho does not now make home loans, its senior accountant saw no great obstacle to the bank's conversion to a building society that would administer a home financing program as well as a savings program.

A much better alternative exists in the Lesotho Cooperative Savings Society, the only financial institution in Lesotho which by its record of home loans to Basotho and its current by-laws and structure, has the potential for institutional development. Participation by the LCSS will necessitate technical assistance, particularly in the Society's bookkeeping and financial records. The Society's President, Mr. Rakhetla, readily conceded the institution's need for management as well as financial assistance.

(In the fact that Lesotho currently lacks housing credit, the country resembles many Latin American countries where no housing credit was available until AID assisted such countries in setting up a system of financial institutions making mortgage loans).

4. Government Housing Institutions and Policy:

a. Government Organization--The existing responsibilities for housing, planning and programming within the government of Lesotho are divided between the Ministry of Works and the National Planning Office. Involved also is the Maseru Town Council acting through the Town Clerk's office. There appeared to be minimum coordination between the Ministry and Planning Office staffs.

The Director of the Ministry of Works, Mr. Joseph Mapetla, is a Basotho. The Acting Permanent Secretary, Mr. Monroe is British. The Engineer in Chief, Mr. Widdow, and the Quantity Surveyor, Mr. Cressers, are also British as is the Acting Chief Architect, Mr. Jordan. It is understood that they are serving under direct contract to the Lesotho Government. The Chief Architect's staff consists of one draftsman who is a Basotho. Other departments are also understaffed. Although the Ministry of Interior is responsible for land distribution, the roads, streets, and technical services are provided by the Ministry of Works. The Town Clerk for Maseru who is responsible to the City Council functions under the Minister of Interior. The Ministry of Works provides technical services for the Town Clerk's office, including the issuance of building permits and building construction inspections. The Ministry of Health provides municipal trash, garbage, and night soil collection for the town. Mr. Clive R. Household, who maintains an office in Maseru for the firm of Stainbridge and Household of Johannesburg, provides architectural consultant services to the Lesotho Government.

Tim Thanane is Director and K. Rakhetla Deputy Director of the National Planning Office. Both have very close ties with the Lesotho Cooperative Savings Society, Rakhetla being its president and Thanane a board member. Thanane recently spent six months in the United States. The National Planning Office staff appears generally Basotho, and the office generally favors development of indigenous

institutions. It is however, a planning and not an operational agency.

b. Commonwealth Housing Corporation--The Commonwealth Housing Corporation, a subsidiary of the Commonwealth Development Corporation, a British Government Corporation, has been working with the Governments of Lesotho, Swaziland and Botswana in a common pattern. (See Memo, August 6, Subject "Botswana" attached as Annex 'O'.) CHC had short-term studies conducted for the three countries in 1967-68, which were generally an overview of the then current housing activities, responsibilities, and such planning as existed. The reports resulting from the studies contained recommendations on matters of policy and principle and did not go into great detail. Swaziland and Botswana responded in a positive manner to the CHC reports, but no response was received from Lesotho, and Lesotho's newly organized Housing Corporation is not necessarily tied to CHC recommendations.

c. Lesotho Housing Corporation--A new housing corporation is being organized, and its expatriate manager, J.J. Beukes, a former community development officer with the Government of South Africa, has arrived. The Housing Corporation is under the Lesotho National Development Corporation, which is responsible for commercial and business projects such as the recently opened Holiday Inn and Casino. Both corporations are almost exclusively expatriate staffed.

As yet there has been little opportunity for the Housing Corporation to work out priorities and programs. Beukes initial concern appeared to be for a cosmetic slum clearance project to eliminate unsightly buildings at the entrance to the capital.

d. Development Plans--Lesotho's current 5-year development plan refers to a policy to encourage the growth of the private sector in housing production. Although specific programs to implement this have not yet been undertaken, the general policy is reportedly to be oriented to removing the government from the

business of subsidy housing, and placing all government housing except the low-cost rental housing on an economic basis.

5. Land Tenure

The problem of land tenure looms large in the background of any consideration of private housing in Lesotho.

All land is vested in the King in trust for the people. Urban areas are defined as reserves. Allocations of sites within these reserves are made with the consent of the local chiefs and with the advice of the District Administrative Secretary. The land is allocated without payment from the occupier. No capital payment is called for, no premium is paid, and no annual rent is payable. There are presently no real estate taxes, but a move in that direction is being planned.

According to Mr. E. Waddington, Permanent Secretary of the Ministry of Finance, the security of tenure is not an issue. He said no one has ever been deprived of his occupancy. The tenure problem arises when the occupant attempts to sell or transfer. Although present custom requires permission of the local chief for a transfer or sale, no one contacted by the team could recall an instance when the permission had been withheld or unnecessarily delayed. It appears that permission to transfer possession involves at most the payment to the local chief of a token gift of small value, such as a bottle of wine.

Structures may be built on allocated land, and presently there is no tax on such buildings. Permission to occupy the land may be acknowledged before an officer authorized to take oaths. According to a London Lawyer named Poguzki who was then studying the land tenure situation in Lesotho, there exists no registration of titles, only of deeds. No check is made on the deeds.

Poguzki outlined some tentative techniques for clarifying the question of tenure, involving the creation of a government organization which would include an allocation board. The Government bureau--probably located in the Ministry of Interior--would deal with the whole administration of lands, including the recording of allocation, deeds, etc. The Chiefs who now have dominant influence in land allocation would probably be included on the allocation boards.

Under Poguzki's tentative scheme, all occupancy permits would be under the Government, since ownership is in the public domain. In effect, civil servants would replace Local Chiefs in handling occupancy permits. Leases would be granted for as long as 50 years, but no one would own property outright or in fee simple. The leases would provide for an annual rental in lieu of taxes. His proposed legislation would provide that "no reasonable request for transfer of occupancy could be refused." Poguzki contends that such legislation and long-term leases would provide acceptable bases for mortgage loans.

Further study is necessary of the question of land tenure and of what action, if any, GOL is prepared to take to establish a sound legal framework to encourage the flow of long-term private capital into its housing sector. However, security for the AID guarantied loan to an institution can be provided on a full faith and credit guaranty of the government, while the individual structures can be mortgaged on the basis of a long-term leasehold.

Part III: TECHNICAL REPORT

1. Building Construction Industry

There is no private construction industry in Lesotho. There are a small number of indigenous builders who function under the paternal management of the Ministry of Works, which provides design services, inspection, and certifies payouts to the builders against their own determination of work in place. This

system does not allow the normal exercise of initiative and development of contractor potential to perform as a "private contractor" as we know it. Indigenous contractors lack management ability, capital resources and credit. This same pattern applies to the few more expensive houses built with Bank or Building Society financing, except that an evaluator or architect for the lending institution or owners certified payouts to these contractors.

There are two construction firms managed by Portuguese -- the Porto Construction Company, and Genoa Construction Company --which are engaged in public works and construction of some capital improvements. The largest firm, however, is Roberts Construction Company of Johannesburg. These firms were reported to operate on a 30% profit margin. There are two suppliers for construction materials--Clifford Fourie and Frazers--who maintain small stocks of materials, which originate in South Africa.

The U.N. has programs which are directed toward training local builders in reading drawings, interpreting specifications, making quantity take-offs with technical standards and simple cost accounting for small construction projects. One young Englishman, a member of the Volunteer Overseas Corps (British) who holds a builder's degree from a British technical school was carrying out an excellent on-the-job program of this type with the indigenous builders in Swaziland. This type of program could be very productive in Lesotho, and is worthy of investigation to determine if this type of technical assistance could be provided under the Housing Guaranty Program or could be related to a Housing Guaranty loan through our Peace Corps. It is understood that our Peace Corps complement in Lesotho does include some engineers, architects and builders, and that the Corps was being expanded.

2. Availability of Land

Sites for projects are available near the airport in line of extension of existing water and sewage now in process and in other locations. Many plots for individual homes have been fenced and are generally scattered in and around the city. Smaller plots for groups of approximately 25 houses with services available can also be made available.

There are no physical limitations to available land. Practical limitations do exist in relation to cost of urbanization and soil conditions. Generally, the area is heavily eroded, there are rock outcroppings, and some expandable clays may be encountered.

There is no "urban clutter" in Maseru. It is the national center of commercial and government activity. Land is available to Basotho by grants issued by the Crown at no cost.

Plot sizes for individual houses are generous by U.S. standards, and it is customary to size housing lots to accommodate a subsistence garden, chickens, and a rough shelter and manger for a milk cow. This results in 1/3 to 1/2 acre lots, with 80-100 feet frontage, even for junior civil servants. Such precedents could pose problems in the acceptability of a project with smaller lots.

Squatter developments exist on the fringes of the town on Crown lands, without sewage disposal and electricity and with only a single water source. These do not appear thus far to have resulted in the miserable extremes of squatter developments found in the large urban centers of other African countries.

Although there is no free land market as such, land once granted can be transferred if approval of the local Chief is obtained. Costs of improvements on the land may be sold to the new holder of the grant.

Land surveys of Crown lands available for grants and records of land grants against surveyed lands are maintained in Pretoria, the capital city of the Republic of South Africa, for the Government of Lesotho. There is no official land records office in Lesotho, but the Ministry of Interior has working records of surveys and land grants. There is a study commission which has been working for some time to examine the official records kept in Pretoria and to transfer them to a proposed Basotho land records office, but no one with whom the team talked expected this to happen in the near future.

3. House Types

A typical house provided for civil servants is built of concrete block made on the site on a concrete slab, with corrugated pitched metal roofing on a light wood frame, steel window and door frames, which are fabricated in Maseru, plastered interior walls, painted exterior, vinyl floor and chipboard ceiling. More expensive constructions may have plaster and painted exteriors. Most are single units, but some uneconomically planned duplexes are being provided for junior civil servants, and one block of 31 flats is being built for U.N. personnel. Lots are generally fenced with five wire strands on standards spaced 8 to 10 ft. apart. Central heating is not provided for single units and duplexes. Coal or wood burning space heaters are generally used, and a fireplace in the living area may be provided in more expensive construction. A combination cooking stove and hot water heater is generally located in the kitchen. Coal is plentiful. Construction methods and finished work are generally good. Typical layout of junior civil servant housing is generally poor and not economical.

Designs of civil service housing are still reminiscent of the British colonial type, circa 1910. While limited improvements have been made to employ

fabricated materials (metal window and door frames, hollow core doors), the standard plans have been changed little, and economies in planning and use of materials could achieve reduction of perhaps 10% of current material costs.

4. Availability of Construction Materials

The source of construction materials, except sand, cement, some fired brick, and building block which are produced locally, is the Republic of South Africa.

5. Availability of Construction Labor

There is sufficient labor manpower for construction in Maseru, and the quality of work, when performed under proper supervision is high. Shortages may be experienced in qualified electricians and plumbers, but generally, this has not been a serious problem. Manpower, rather than mechanized equipment, is used for trenching, ditching and finished grading in normal construction, and would probably be used even on a large housing project. However, there is a good supply of earth-moving equipment available on a rental basis from a private firm, which rents equipment to the Ministry of Works and others.

There is a self-help housing project in Maseru. Construction was completed some time ago. The project was carried out under the direction of the Ministry of Works, which provided standard plans, purchased materials and provided technical training and assistance to the participants. It is a successful project.

6. Customary Utilities

There is a water supply system with ample supply of water from the Caledon River. The existing distribution system is being expanded. Power is provided from the South African Power Grid by the Lesotho Electrical Commission,

and the original power station located on the river is maintained for emergencies. The existing water supply system is being expanded and will have a capacity to serve a population of 20,000.

There is a sewage treatment works and maturation pond which serves about half of the city. New construction in the city is connected with the sewage system or has septic tanks approved by the Ministry of Health.

The Ministry of Health collects trash and garbage and is responsible for buck collection of night soil where sewage disposal facilities are not available.

7. Community Services

The Government makes some small grants for education to support mission-type schools. However, there is no public education system for elementary and secondary students as such. There is a University in Roma supported by Lesotho, Swaziland, and Botswana, with help from the United Nations, the Republic of South Africa and others. There is a well organized public produce and textile market. There is no local experience with the shopping center concept. Personal and commercial shopping needs are met by the small shop owners located on the main street in Maseru. The Town Council had only recently set up a central store and purchasing operation to meet town needs. Each school has a playground. There is no clear responsibility in the government for parks and public playgrounds.

8. Local Regulations

Neither the town of Maseru nor the national government has approved technical standards for urbanization, and there are no approved building codes or regulations. South African standards are generally followed. Building permits are required, for which a fee is charged, and plans must be approved by the Town Clerk acting for the Town Council. The Ministry of Works reviews and

approves plans and specifications for the Town Council and inspects the work when housing construction is completed. The Town Council (and the Town Clerk's office) have only been recently established, and many of the functions of the city government are still in the hands of the various national ministries.

Staff required for professional and administrative direction, and for planning and development are, with very few exceptions, either British or South African.

9. Housing Costs

a. Land

Because there is no free market in land, and land is allocated to Basotho applicants by the Crown at no cost, there is no basis for placing an economic value on land. There is no experience in Lesotho land development.

b. Urbanization

Utilities connection charges for a single unit are $7.00 (R5) to existing sewer, $35.00 (R25) to existing water including meter and $28.00 (R20) to existing electrical services. Where electrical service is not available, the estimated cost per housing unit $168.00 (R120) which includes cost of extension of service as a capital outlay.

Streets in residential areas are generally built to "gravel standards," without a sealed surface. Main roads and some few streets are black top. Curbs and finished gutters are provided on the main streets only.

c. Construction Costs

On file, as Exhibit "L" is the "S. A. Builders Pricing Manual and Specifications" for 1971, which is used by the Ministry of Works in Lesotho, and by the two private architects in Maseru for pricing construction materials. It also shows allowable professional fees. To the prices shown, add 10% for cost

transportation of materials and equipment from the Republic of South Africa. (Rail transportation costs are $4.20 (R3) per 200 pounds for an average 250 miles from suppliers. Suppliers for most materials are located in Bloemfontein and Johannesburg. Road transportation is $.42 cents (R.30) per mile for a seven-ton load.

The table attached as Annex III - "Lesotho Pre-Investment Survey, Estimate Housing Costs - Maseru" as of July, 1971 - identifies costs for several house types generally provided for civil servants.

Home construction costs were reported to have increased about 40% during the period 1963 - 1971. About half of this increase or 20% occurred over the last twelve months. The increase represents increased costs of materials and equipment. The increase in labor costs has been small.

Labor costs in Lesotho range from $.84 (R.60) per day for common labor to about $5.00 (R3.6) per day for artisans, which is considerably lower than wages listed for South Africa in Annex "L".

10. Conclusion

Economic housing meeting HIG Program project standards can be constructed at an estimated cost ranging from $7.00 per sq. ft. for small two-bedroom duplex units of about 450 sq. ft. to $8.25 per sq. ft. for a three-bedroom detached unit of about 950 sq. ft., resulting in estimated construction costs ranging from $3,150 to $7,840. If a figure of about 10% is added to cover urbanization costs for undeveloped land to meet HIG program standards, costs estimated per unit range from $3,465 to $8,624 assuming land costs are not charged to the project. Where project land is available, which does not require capital outlay for urbanization, urbanization will be less than 10%.

In order to relate to the market indicators discussed earlier in this report, housing priced to reach the lowest salaried workers (approximately $1,500 annually) has been considered. For this group, mortgage payments should not exceed about $35.00 each month. At an estimated mortgage repayment of $10.00 per $1,000.00 per month, the mortgage could be about $3,500.00. Assuming a 10% downpayment of $350.00 construction costs, including 10% for urbanization, of $3,850.00 are indicated. At an estimated unit cost of $7.00 per sq. ft. without urbanization costs added, this would provide a duplex unit of about 500 sq. ft. having a living-room, kitchen, two bedrooms, and bath. If urbanization costs are added, the size of the unit would be reduced to about 450 sq. ft.

If the market below $1,500.00 annual income is to be met, the phased development of core housing can be considered.

ANNEX I

PERSONS CONTACTED

U.S. Officials:

Norman Frisbie, U.S. Charge D'Affaires, Maseru

Charles Campbell, U.S. AID, OSARAC

James Alrutz, Director, U.S. Peace Corps in Lesotho

Government of Lesotho Officials:

T.T. Thahane, Director, National Planning Office

K. Rakhetla, Deputy Director, National Planning Office

W. Van Graan, Director, Lesotho National Development Corporation

J.J. Beukes, Manager, Lesotho Housing Corporation

E. Waddington, Permanent Secretary, Ministry of Finance

Abraham Mapetla, Ministry of the Interior

J. Mapetla, Secretary to the Cabinet, Office of the Prime Minister

D.J.A. Briggs, Deputy Cabinet Secretary, Office of the Prime Minister

Mrs. A.V.B. Clarke, Assistant to Mr. Briggs, Office of the P.M.

L.B. Monyake, Director, Bureau of Statistics

Joas Mapetla, Ministry of Works

Mr. Monroe, Acting Permanent Sec., Ministry of Works

Mr. Widdows, Engineer-in-Chief, Ministry of Works

Mr. Cressers, Quantity Surveyor, Ministry of Works

Mr. Jordan, Acting Chief Architect, Ministry of Works

B.M. Mokotha, Assistant Architect, Ministry of Works

Others:

Jack Burgess, Managing Director, Commonwealth Housing Corporation, London

F.G. Weaver, Commonwealth Housing Corporation, London

PERSONS CONTACTED - Continued

Mr. Admason, Ministry of Overseas Development, Foreign Office, London

Mr. Whitelegg, Ministry of Overseas Development, Foreign Office, London

D.H. Taylor, UNDP, Maseru

Clyde Househam, Architect, Maseru

J.A. Bambers, Barclay's Bank, Maseru

Mr. Gillespie, Standard Bank, Maseru

J.M. Ntebele, Secretary, Lesotho Cooperative Savings Society

J. Lane, Quantity Surveyor, Johannesburg

E.J. Loubser, Senior Accountant, Post Office Savings Bank

Mr. Liebetrau, Agent for United Building Society, Maseru

Mr. Poguzki, Consultant to Ministry of Interior on Land Tenure

ANNEX II

LIST OF EXHIBITS

A. "Report on a Mission to the Ministry of Interior, Government of Lesotho on Housing Policy and Programming and Legal and Administrative Arrangements," by R. E. Fitchett, Regional Advisor in Housing, UNECA, Addis Ababa. February 29, 1968.

B. "Housing in Lesotho", Consultant's Report by the Managing Director, Commonwealth Housing Corporation.

C. Lesotho: First Five-Year Development Plan 1970 - 71 - 1974 - 75.

D. Population Census Report, 1966.

E. The Establishment List, 1971 - 72, April, 1971.

F. National Accounts, 1967/68.

G. Annual Statistical Bulletin, 1969.

H. Back-up Material on Financial Institutions

1. Letter, E. Waddington to W. Nagle on non-government income tax payers.
2. Salary Information, Barclay's Bank
3. Income Tax Rates
4. Analysis of Senior Service Staff
5. Savingram from Ministry of Interior on a random survey of rented housing in Maseru.
6. Private Sector Wage Rates.

I. Back-up Material on Market.

J. Miscellaneous Material on Lesotho

1. Lesotho - An Economic Survey
2. Lesotho - Facts and Figures
3. Post Report
4. Background Notes

K. Letter, John Stanbridge & Houseman to H. Tepper on weather conditions in Lesotho.

L. The South African Builders Pricing Manual and Specifications

M. Plan Reference for Standard Houses

N. Standard Form Bill of Quantities and Specifications

O. Copies of Tepper and Nagle Memoranda on Botswana and the Commonwealth Housing Corporation.

P. Map of Maseru Showing Structures

LESOTHO - PRE-INVESTMENT SURVEY
AID HOUSING INVESTMENT GUARANTEE PROGRAM
ESTIMATED HOUSING COSTS - MASERU

TYPE	SQ. FT/UNIT	CONSTRUCTION COSTS R1 = US$1.40 SQ. FT. COST PER UNIT		TOTAL	
		RAND	DOLLARS (US)	RAND	DOLLARS (US)
1 BR Duplex w/Store Room	490	R4.95	$6.93	R2,425	$3,395
COMB. LR-BR Bath 8 Unit, Two Floor Block	385	R7.00	$9.81	R2,700	$3,780
Detached 2 BR	580	R6.64	$9.30	R3,850	$5,390
Detached 2 BR	655 Plus 90 sq. ft. Verandah	R6.10	$8.54	R4,000	$5,600
Detached 3 BR	950	R6.00	$8.40	R5,660	$7,925
Carport w/Servants Quarters				R1,800	$2,520
Detached 3 BR	1350 w/STOEP	R6.50	$9.10	R8,775	$12,285
Garage w/Servants Quarters	530	R4.10	$5.75	R2,173	$3,050

LESOTHO - PRE-INVESTMENT SURVEY
AID HOUSING INVESTMENT GUARANTEE PROGRAM
ESTIMATED HOUSING COSTS - MASERU

JULY 1971

CONSTRUCTION COSTS R1 = US$1.40 COST PER UNIT		TOTAL	PLAN REFERENCE	REMARKS
DOLLARS (US)	RAND	DOLLARS (US)		
$6.93	R2,425	$3,395	BSD No. 69/52 DRG No. A/524/3E	Jr. Staff (Police) Quarters Lavatory Not Provided STD House Type 1 and 1A
$9.81	R2,700	$3,780	DRG No. 280/2	Police Officers Quarters No Kitchen
$9.30	R3,850	$5,390	DRG No. DO/310/F BSD No. 68/124	Morija Type (Improved Jr. Staff)
$8.54	R4,000	$5,600	DRG No. DO278 BSD No. 67/90	Jr. Staff Construction Costs Include 90 Sq. Ft. Verandah
$8.40	R5,660 R1,800	$7,925 $2,520	DRG No. A621 BSD A/621	Senior Staff (Small)
$9.10 $5.75	R8,775 R2,173	$12,285 $3,050	TYPE 15 REVISED With Bid (Tenders) Documents general conditions and specifications.	Senior Staff (Large) Add R170 Each For Refrigerator and Stove