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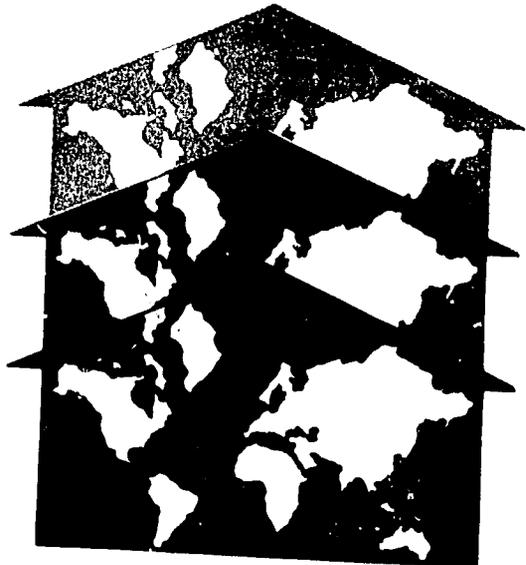
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Lesotho Shelter Sector Assessment

July 1978

AGENCY
FOR
INTERNATIONAL
DEVELOPMENT



OFFICE OF HOUSING

LESOTHO SHELTER SECTOR ASSESSMENT

OFFICE OF HOUSING

AGENCY FOR INTERNATIONAL DEVELOPMENT

JULY 1978

DEPARTMENT OF STATE
Agency For International Development
Washington, D.C. 20523

PREFACE

In 1976, a Shelter Sector Study was conducted by the Foundation for Cooperative Housing under the auspices of the Office of Housing of the Agency for International Development and through financing provided by this Office. The purpose of the study was to develop information and make recommendations relating to the shelter sector in Lesotho and was in response to a request from the Government of Lesotho.

In April and May of 1978, Robert S. DeVoy, President, DeVoy Collaborative, served as a Housing Consultant to the Government of Lesotho with financing provided by the Office of Housing. His primary task was to draft a Proposed National Housing Policy. In addition, he was requested to update the 1976 Shelter Sector Study. This report is the updated version of that study.

While the findings and recommendations of the report have been discussed with representatives of the Government of Lesotho, the report is not to be interpreted as an official position of either that Government or of the Agency for International Development.

We hope, however, that the Government of Lesotho will find the report and its recommendations useful as it formulates and implements its future shelter programs.



Peter M. Kimm
Director
Office of Housing

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OF
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I. SUMMARY OF CURRENT SITUATION

The rapid growth of urban areas in Lesotho, is part a result of the Second Five-Year Development Plan's emphasis on industrial development, is expected to further aggravate the current shortage of suitable housing in Maseru and secondary urban centers, such as Maputose. New urban housing units needed during the five-year plan period (1975-80) are estimated at 9,000 units, including over 6,000 for below median income households.

Median family monthly incomes are about R100-R120 (R1.00 = \$1.15 U.S.) in Maseru and an average of R50-R60 in other urban areas. Building, infrastructure and contracting costs are rather high relative to general income levels. Furthermore, there is a shortage of skilled labor because of the large number of workers who have left to work in South Africa. Because of the low incomes and relatively high infrastructure and building costs, affordable shelter solutions must largely be confined to sites and services and self-help housing which can be provided on a non-subsidized basis for the below median income group.

The GOL has a commitment to improve housing during the second five-year plan. Until 1975, Government housing efforts were directed almost entirely towards meeting the needs of civil servants and expatriate technicians. The intent of current GOL policy is to somewhat increase available resources in the lower income sectors. The proposed expenditures on housing by the GOL noted in the Second Five-Year Development

Plan (1975-80) are broken down as follows:^{1/}

<u>Type of Project</u>	<u>Funding</u> (000 Rand)	<u>No. Units</u>
Lesotho Housing Corp. (LHC)	700	200
LHC Sites and Services	400	500
Low Income Housing	1,000	700
Government Pool Housing	2,130	215
Chief's Executive Housing	120	15
Building Society (Working Capital)	500	
Infrastructural Services and Housing	740	
Technical Assistance	214	
Training	<u>124</u>	<u> </u>
Total Investment	R5,928	R1,630

A substantial portion of the R5.93 million will come from external resources. One factor which the GOL increasingly recognizes is the evident lack of donor interest in Government housing.

A draft National Housing Policy was prepared in April and May 1978 by the Ministry of Interior's Housing Section and an inter-agency committee with assistance of a Housing Consultant sponsored by US/AID. The GOL now is considering this proposed policy.

Historically speaking, two factors had restricted development of an effective housing and shelter sector within the economy. The first had been the absence of any financial vehicle to marshal resources for the

^{1/} Source: Second Five-Year Development Plan, 1975/76--1979/80, Central Planning and Development Office, Kingdom of Lesotho.

sector, and second was an inadequate legal structure to permit the transfer of interests in land. Preliminary steps have been taken to remedy both problems. Legislation to create a new financial institution for housing and shelter (Lesotho Building Finance Corporation--BFC) was enacted in 1976. The Lands Act of 1973 and Administration of Lands Act of 1973 have been enacted but have not become fully operative because of political concerns regarding the allocation of lands.

Three additional factors have restrained the development of a private housing market in Lesotho. These include: (1) a high level of Government intervention through the provision of heavily subsidized housing for civil servants and expatriate personnel; (2) the responsibility for housing is spread through at least seven Government and quasi-Government agencies; and (3), a severe shortage of trained Basotho management personnel and skilled labor restricts the housing supply capacity of the country.

Up until 1975 at least, weak institutional structures for the production of housing further constrained development of an effective housing program. Early in that year saw the creation of the Low Cost Housing Company (LEHCO-OP) attached to the Lesotho National Development Corporation (LNDC).

The Lesotho Housing Corporation, a dependency of the LNDC, had been essentially dormant from its creation in 1971 to 1976. It now has a small staff, good management and some projects underway. The Ministry of Interior started a Housing Section in early 1978, with the preparation of a draft National Housing Policy as the first major activity.

The GOL in May 1978 was considering the enactment of several important bills affecting housing, including: Town and Country Planning Act; Urban Government Act; Land Act (replacing 1973 acts); a land survey act; legislation combining LEHCO-OP and the Lesotho Housing Corporation; and an amendment to the Building Finance Corporation Act.

Economically Lesotho is growing at a satisfactory rate of 5% per year which is expected to increase over the Second Five-Year Development Plan. The economy is linked to South Africa in a customs and monetary union so foreign exchange and trade balances are not a significant consideration. The foreign assistance received is mostly grants or soft loans so that the public debt service burden is only 1.5% of total current public revenues. During the past three years, Lesotho has been able to increase government revenues from R28.9 million to \$48.9 million per year, with an end of 1977/78 budget surplus of R5.5 million. These factors indicate a sufficient capacity to service external loans at an appropriate level.

II. ROLE OF GOVERNMENT IN THE SHELTER SECTOR

A. Housing Policy

The Government of Lesotho had not developed a conscious, formal housing policy, before the Second Five-Year Development Plan was prepared in 1975/76. Previous Government activity in housing had been primarily limited to the provision of housing to civil servants and expatriates which will be described in more detail below.

In the Second Five-Year Development Plan the Government calls for an investment of R5.9 million in the housing sector by Government or parastatal agencies. The objectives in the sector are to create a comprehensive housing policy, establish a housing finance institution, implement the 1973 Administration of Lands Act, and undertake a number of housing projects. Specifically the projects envisioned are as shown in the following table. Funding for these projects is being requested from a number of foreign assistance agencies.

Several things can be implied about the nature of the de facto housing policy of the Government in 1975/76 by analysis of this proposed program. The largest single item is Government pool housing (R2.1 million). The allocations for LHC and the "Building Society" for institutional development as well as Government housing will absorb R3.4 million. Low cost housing and sites and services together account for R1.4 million or less than one-half

of the allocation for higher income groups. The large amount for technical assistance is part of the effort to improve and expand institutional capacity (expatriate manpower and training of Basotho).

ANNUAL PHASING BY PROJECT
(in thousands of rand)

TITLE	1975/76	1976/77	1977/78	1978/79	1979/80	TOTAL
Lesotho Housing Corporation (LHC)	50.0	350.0	300.0	-	-	700.0
Site and Service Housing	-	50.0	100.0	125.0	125.0	400.0
Low Cost Housing	150.0	250.0	250.0	200.0	150.0	1,000.0
Government Pool Housing	350.0	550.0	430.0	400.0	400.0	2,130.0
Chief's Executive Officers' Housing	-	20.0	30.0	30.0	40.0	120.0
Building Society (BFC)	-	400.0	100.0	-	-	500.0
Infrastructural Services	-	400.0	340.0	-	-	740.0
Non-Capital Project Technical Assistance in the Housing Sub-sector	52.0	59.0	66.0	75.0	86.0	338.0
Total	602.0	2,079.0	1,616.0	830.0	801.0	5,928.0
Of which Public Investment Programme	550.0	2,020.0	1,550.0	755.0	715.0	5,590.0

Source: Second Five-Year Development Plan, Vol. Two.

While this program clearly favors higher income groups in terms of absolute monetary levels, it should be noted that this is the first time the Government has taken the lead in providing housing for other than civil servants, and that this is clearly focused on low income groups. Furthermore, the money for the LHC and "Building Society" as well as the technical assistance will be used to develop institutions to serve all income groups. Therefore, this program seems reasonably well-balanced given the rather limited role the Government has traditionally played in the shelter sector.

The Central Planning and Development Office in February 1976 prepared a discussion paper, "Towards a National Housing Policy for Lesotho," which is comprehensive in scope and has provided a good basis for creating a formal housing policy. A major problem in developing a coherent housing policy, as the report states, is that the responsibility for housing and shelter is scattered among many agencies:

"At present housing is handled by a variety of departments and agencies - the Cabinet Office (Civil Servants housing provision and allocation); Ministry of Works (site servicing, house building and maintenance); Lands, Surveys and Physical Planning Department (site survey, layout); Town Office (site allocation); Lesotho Housing Corporation; Low-Income Housing Company; etc."

The housing policy discussion paper addresses a broad range of issues in addition to the multiplicity of agencies, including; the general housing shortages, the artificial shortage and inefficient use of developed residential land, inadequate physical planning in urban areas, problems of the construction industry, shortage and inefficient use of civil servant housing and housing funds because of current

heavy subsidies, the lack of a housing mortgage finance system, the inadequate capacity of the Housing Corporation and the need to better define its role and that of LEHCO-OP, the need to upgrade slum areas, and the lack of adequate rental accommodations for single working people and travelers.

The paper suggests that national housing policy should: (1) be realistically related to resources available, (2) ensure housing investments are both efficient and equitable, (3) be explicitly concerned with all groups in society, (4) increase the housing stock rather than destroy and replace substandard housing, (5) increase options rather than standardize shelter solutions, (6) maximize use of private capital and initiative especially through self-help and cooperatives, and (7) minimize subsidies and use them only in a deliberate way to minimize misallocation of resources.

Following the major recommendation of the paper, a committee was established including all relevant agencies to consider national housing policy and initiate drafting of a formal policy. The Ministry of Interior, which has formal responsibility for housing policy, established a Housing Section to act as the lead agency for developing and implementing housing policy. In January 1978 a Director of Housing was appointed to head the Housing Section.

At the request of the GOL, the US/AID Office of Housing provided the services of Robert S. DeVoy, Housing Consultant, for six weeks in April and May to work with the Housing Section and the inter-agency

committee in the preparation of a Proposed National Housing Policy. This Proposed Policy presently is being considered by the GOL.

The key proposed policies include but are not limited to the following, in highly summarized form:

1. Housing Institutions

A permanent National Housing Committee is to be established comprised of high-level officials from several pertinent agencies. A new Department of Housing and Town Planning within Interior is proposed with key responsibilities for housing policy and town planning.

A new strong Housing Corporation would be created, combining LEHCO-OP and the Lesotho Housing Corporation. This new statutory corporation is to be linked to the new Department of Housing and Town Planning in Interior. In fact, legislation being prepared in May would assign this new organization to the cabinet staff level on at least a temporary basis.

The Building Finance Corporation would function as presently established, with adequate capital and staff.

2. Government Houses

Most pool houses are to be systematically and expeditiously sold--some would be retained to house expatriates. Rents will be increased to market levels. The houses will be ceded to the new Housing Corporation for management and disposition. Proceeds from the sale of pool houses will

accrue to the Building Finance Corporation, which will provide financing for purchasers.

3. Town Planning and Urban Settlements

Policies relate to effective implementation of the Town and Country Planning Act of 1978, including comprehensive town plans, land use regulations, rational building code, special building code provisions for self-help housing, public capital improvement programming, and adequate funding and staffing.

Planning is to minimize urban sprawl and both public and private costs of development. On-site costs to be paid by developers. Building sites to be pre-serviced.

Settlement policies encourage people to stay in villages; growth centers to be fostered in each District rather than have urban growth concentrate in Maseru.

4. Infrastructure and Public Services

Basic services to be extended as broadly as possible rather than concentrate limited resources on highest quality services for relatively few people. Health, safety and access to be important determinants of public investments. Government to encourage use of cross-subsidies to the benefit of poorest households, although it is recognized that this potential is limited.

Since Government does not have the financial resources to subsidize the recurring costs of providing water, waste

disposal and electricity, each household needs to govern its consumption of these services according to its ability to pay for them.

5. Lower-Cost Housing

Government will provide adequate plots with basic services for self-help houses. Also, self-help housing will be facilitated by technical assistance, reasonable building regulations, financing, and help in obtaining building materials. However, substantial on-going Government subsidies are not affordable or envisioned.

Established housing areas will be upgraded by providing basic services, land surveys and titles, and housing repair and expansion assistance. Regulations will be enforced to preclude unsuitable housing areas.

6. Financing Housing

Policies are intended to strengthen Building Finance Corporation as well as to encourage banks, credit unions, insurance companies, and others to finance urban development and housing--at market interest rates. Financing of new low-cost housing and upgrading of existing housing to be provided. Also, financial capabilities of builders and suppliers to be fostered.

7. Financing Infrastructure

The full Government costs of major infrastructure construction, maintenance and operation to be recouped by user charges.

Property owners and developers are responsible for providing on-site infrastructure. Only Government subsidies will be to lowest income households to protect general health and welfare of the households, neighborhood and community.

8. Land Tenure

Land needed for housing will be made available in adequate amounts at suitable locations with secure, marketable titles.

9. Housing Construction

Policies foster capabilities of private builders and contractors; encourage use of local rather than imported materials; call for research and demonstrations regarding provision of efficient and inexpensive housing.

10. Rural Housing

All proposed policies are intended to apply to rural housing as well as urban, with some obvious exceptions and modifications.

B. Government Housing

In spite of the large investments made by the Government (before and after Independence) in housing for civil servants and expatriates, there is a rather fragmented and poorly coordinated system for financing, constructing, managing and maintaining the Government housing stock. All Government housing is highly subsidized so that overall rents charged are not even adequate to cover maintenance costs, much less amortize the cost of the buildings. The total stock of Government housing is estimated (no reliable statistics are available) to

be 2,000 units of which about 1,100 are pool houses (available for use by any Government office and allocated by the Cabinet Office for Personnel) and 900 are tied to specific jobs or ministries such as police, and border patrol housing. About 100 to 150 units of new housing are produced each year, which is not adequate to keep up with the increase in civil servants.

The various functional procedures for financing, constructing, allocating, managing and maintaining civil servant and expatriate housing are carried out within different parts of the Government. The breakdown of functional responsibilities is as follows:

1. Financing

Central Government funds are budgeted directly for new Government housing (requests also are made to obtain foreign assistance for this type of housing). Rental income on Government housing and loans are not directly used at present to finance new housing or maintenance of existing housing. There is no system of housing accounts.

2. Construction

Planning, design and construction supervision are provided by the Ministry of Works, which also lets contracts for the construction of new Government housing.

3. Allocation

The Cabinet Secretariat, Office for Personnel allocates pool housing based on a flexible system of priorities which considers official rank, family size, current housing situation

etc. Tied housing is allocated by the Ministry having jurisdiction over that housing or the job to which it is tied.

4. Management

There seems to be no specific assignment of responsibility for overall management of Government housing. Rents are collected directly by the Office of the Accountant General and are deposited in the central accounts of the Government.

5. Maintenance

The Ministry of Works is responsible for maintaining Government housing and receives a budget allocation for this purpose. This allocation is not directly related either to the rents from Government housing or the condition of Government housing. However, budget requests are based on projected needs for rehabilitation and routine maintenance. It is apparent that the maintenance and repair of Government housing has been grossly inadequate.

The issue of the level of subsidy in Government housing has serious political and economic ramifications and is currently being discussed among a number of Government agencies. The essence of the current policy is that every year the Government allocation for housing is consumed with no real return on what is stated to be a capital investment. The level of subsidies is currently estimated at 80% to 90% of economic cost. For example, senior civil servant housing costing R20,000 to build with an economic rent of R200/month is rented for about R30/month. This means that the actual rent is not

even adequate to cover maintenance in many cases. Furthermore, the high cost of the subsidy limits the Government's capacity to provide additional housing to civil servants and creates a very unequal distribution of benefits between those who do get Government housing and those who must rent housing in the private sector.

The negative effects of the high subsidy on Government housing are:

- 1) It costs the Government about a million Rand per year to subsidize the existing Government housing.
- 2) New housing is produced at a rate substantially below actual needs for civil servants.
- 3) The fortunate few (about 20%) civil servants who receive housing are consuming housing services far above their means to pay while those who do not are forced to reside in inferior housing, frequently one-room rental units, for nearly the same rent paid by those occupying complete Government housing units.
- 4) There is less incentive for civil servants to build or buy their own housing if there is any chance they can get Government housing.
- 5) There is a general misconception of the real economic cost of housing created among the populace and an expectation that Government sponsored housing is supposed to be much cheaper than private sector housing.

In the 1978 Budget Message, the Minister of Finance announced that the Government will dispose of pool houses by ceding them to the Building Finance Corporation as a means of capitalizing that institution. It is expected that some of these 1,100 housing units will be kept for use by expatriates, with economic rents charged to the occupants or their program budgets. Most of the pool houses will be sold. The Proposed National Housing Policy, May 1978, proposes specific policies to implement this general policy. To this end, the Government needs to facilitate the provision of alternative housing capabilities, including but not limited to: capital for housing financing; suitable sites for housing construction; adequate land survey, registration and title mechanisms; more capable builders and skilled workers; increased incentives to private investors in housing; and increased capabilities to potential home purchasers (e.g., higher salaries for civil servants, tax incentives re interest payments on mortgages).

C. Land Policy and Urban Planning

Within the past several years there have been a number of changes in land policy and an increase in the capacity to plan and supervise land use regulations.

1. The Impact of the 1973 Land Act and Administration of Land Act

The main intended effects of the two Acts are: (a) create Land Advisory Committees to review and approve land allocations by local chiefs; (b) require registration of urban lands under the 1967 Registration of Lands Act; and (c) establish specific legal procedures for allocation, transfer and

repossession of urban lands.

Under the 1973 Act the traditional land allocation (essentially a right of use) is converted to a formal lease from the Government on a long-term basis. Such a lease provides secure tenure subject to the usual conditions of payment of land tax (also introduced under the Act) and some zoning restrictions in urban areas.

The full implementation of the Act would make land leased under it and the development of such land suitable collateral for mortgages, thus eliminating the main legal obstacle to providing long-term mortgage financing. The Act also provides for a reliable system for transfer of lease rights which will enable a market in land to develop in an open and perhaps predictable way, although technically only the improvements on the land can be sold while the land itself will simply be transferred at the request of the lease holder. Full implementation of the Act would require a substantial increase in staff in the Lands, Surveys and Physical Planning Department as well as local Land Registration Offices and Land Advisory Committees.

The Administration of Lands Act (principally applying to urban areas) has not been implemented because the chiefs were reluctant to relinquish their land allocation powers as specified in the Act. Also, the staff capability has not been adequate to handle the necessary land survey and registration activities.

Thus, while the 1973 Act remains on the books, land allocation and transfers continue under the traditional system with some stop-gap safeguards adapted by the financial institutions to protect their loans on real estate construction and sales.

In 1978 new legislation has been drafted which is intended to replace the two 1973 Acts with one new Lands Act. The key difference between the new Act and the old is that Principal and Ward Chiefs would retain their powers to grant new land titles, while all other land transactions and other dealings would be controlled by the Minister of the Interior. Reportedly, the Chiefs are willing to accept this new legislation. The bill was introduced in Parliament in late May 1978.

2. Town Planning and Urban Government Legislation

Two very important bills were being considered by the Cabinet and Parliament in May 1978 which would, when implemented, greatly change and strengthen the urban planning and development regulation powers of Government. These are the Town and Country Planning Act and the Urban Government Act--these are completely new, there have been no such acts in Lesotho previously.

Under the draft Town and Country Planning Act of 1978 (second draft, February 1978) the Planning Authority (not specified, but probably the Ministry of Interior) would prepare Land

Development Plans for all Lesotho which would include: "Making available and regulating the layout and development (including phasing) of land for housing, and "Regulating the layout of housing areas, including the density, spacing, grouping and orientation of housing in relation to roads, open spaces and other buildings."

Moreover, the Planning Authority would have important powers directly related to the location and provision of roads and utilities. Also, the Planning Authority could require that property developers provide utilities as a condition of land use regulatory approval by: "Prescribing the character and type of public utility services or other works which shall be undertaken and completed by an applicant for permission to subdivide as a condition of grant of such permission."

Other important powers of the Planning Authority would be: "Making any provision necessary for - adjusting and altering the boundaries of urban areas and any villages," and "Enabling the establishment of satellite and new towns and villages."

Town Councils would be created under the proposed Urban Government Act, 1978. Under this act, a Town Council would be able to provide roads and sewer and water services to lands within its municipality. The costs, of such improvements could be borne fully by the Town Council, levied against the benefiting property owners or shared between the council and property owners (specifics are in the Act). The principal

is established that major facilities (main roads, utility plants and major lines) should be paid fully by the Town Council. Councils would have the power to tax property, charge fees and receive funds from the Government.

3. Capacity for Land Use Regulation and Planning

The Lands, Surveys and Physical Planning Department currently has only a small fraction of its approved staff positions filled. As in most other institutions in Lesotho, the main obstacle to more rapid expansion of the Department's capacity is the lack of trained and skilled people in the country. There are a number of staff members currently being trained abroad, but much more recruitment and training has to be done. This office which has the function of planning, zoning, registering and regulating land for residential and other uses is a key to the success of any large scale shelter programs.

While raw land is available in sufficient quantities and legal procedures are being established for land development, use, mortgaging and sale, the actual delivery of planned, registered and developed land for large residential projects will continue to be held up by the shortage of staff and hence inadequate capacity of the Lands, Surveys and Physical Planning Department of the Ministry of Interior. Every effort should be made to recruit and train new staff to bring the department up to full staffing as soon as possible. Additional foreign technical assistance is needed in this area.

III. FINANCIAL INSTITUTIONS

A. Financial Conditions in General

The GOL is a member of the Rand Monetary Area, along with the Republic of South Africa and Swaziland, and uses the South African Rand as its currency. Accordingly, exchange rates are based upon those of the South African Reserve Bank. The Lesotho Government Registrar of Financial Institutions, within the Ministry of Finance, is the exchange control authority for the government and has designated Barkleys Bank International Ltd., the Standard Bank Ltd. and the Lesotho Bank as authorized dealers. The Reserve Bank makes available foreign exchange for transactions to Authorized Dealers.

The Minister of Finance announced in May 1978 that the Government has decided to create its own currency which will be on a par with the Rand. Both the new Malote and the Rand will be legal tender in Lesotho.

Interest rate structures are tied closely of course to rates in South Africa. In 1976, the two private banks paid 3-1/2% on regular savings accounts and from 4-1/2 to 7-1/2% on fixed deposits. The Lesotho Bank paid 5% on regular savings accounts. The prime rate was 10-1/2% and lending varied from 1% to 3% over prime.

While there is as yet no central bank, the Registrar of Financial Institutions is increasing its effective control over money and banking. Its activities have encouraged the commercial banks to increase the proportion of their deposits lent out in Lesotho. In 1977 the proportion had risen to 55% from 46% in 1976 and is expected to go higher to near its effective limit of 70 to 75% over the next few years, according to U.N. analyst D. W. Hill. Treasury Bills are now issued and there is a possibility that bond issues will be made for the Government in the future as part of the movement of funds into domestic investment. This trend is very important, since large amounts of development resources have been leaving the country (mainly to South Africa).

The Lesotho National Development Corporation (for tourism and industry), the Lesotho Building Finance Corporation (for housing) and the Lesotho Agricultural Development Bank are institutions created to assist the growth of the economy. A National Insurance Company has just been created.

Some commercial bank statistics for the period 1974 to 1976 are presented below. The commercial banks have managed to build up their foreign assets moderately between 1974 and 1976, but the Government has moved from a position of a net depositor to one of a net borrower. Its net deposits in the Commercial Bank fell from R6.14 million at December 1975 to R0.8 million at December 1975 and by December 1976 it was a net borrower of R1.47 million.

MONETARY SURVEY, 1974 TO 1976
(Figures in million Rand at end year)

<u>Commercial Banks</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Net foreign assets	14.13	17.53	18.36
Net claims on Government	-6.14	-0.81	1.47
Claims on official entities	1.57	1.40	2.34
Claims on private sector	9.21	8.99	11.92
Demand deposits	6.02	7.98	11.84
Savings and time deposits	14.92	18.82	23.97
Other items (net) ^{a/}	-0.50	1.51	0.98

Source: Kingdom of Lesotho: Annual Report of Registrar of Financial Institutions, 1976.

^{a/} Excludes bank reserves

In 1976 claims on the private sector and official entities rose from a total of R10.39 million to R14.26 million, an increase of 37%. Demand deposits and savings/time deposits both showed substantial increases in 1976 of 48% and 27% respectively. The money supply should include currency outside banks, but there is only a rough estimate of R12.5 million to R15 million for total currency in circulation.

Additional domestic savings are reflected in the expanding cooperative credit union movement. Together with the commercial banking sector, total private domestic savings amounted to approximately R19.3 million in December 1975.

LESOTHO DOMESTIC SAVINGS

Commercial Banks (Dec. 75) ^{1/}	18,820,000
Cooperative Credit Union (Members Savings-Dec. 75)	<u>498,000</u>
Total	<u><u>19,318,000</u></u> ^{2/}

^{1/} This includes the accounts of Post Office Savings scheme which was dissolved and transferred to the Lesotho Bank in 1973. It does not include demand deposits.

^{2/} This does not include the savings and non-credit union cooperative groups such as agricultural cooperatives, consumer cooperatives, etc.

The rate of accumulation of savings has thus been more than satisfactory, and in fact, has caused excess liquidity in the banking system. Despite this liquidity the banks have maintained a high differential between interest rates paid on savings and those on loans. If Lesotho's private development potential is to be realized, banks must pay attractive interest rates and make loans available on reasonable terms.

Generally speaking, the banks are not actively engaged in lending for housing. Forty-five to 55% of loans in recent years have gone into hotels, the wholesale and retail trades and restaurants. Loans for housing construction and purchases are made as personal (and commercial loans for only a few year to well qualified borrowers). (The role of the Building Finance Corporation is described below.)

It is noteworthy that most financing for shelter in the informal construction sector or popular construction derives from personal savings. A random survey of households in Maseru, Mafeteng, and Teyateyaneng shows that only 16 of 129 houses were financed with

loans. The rest came from private savings. The following chart will show the results of this survey.

SOURCES OF FUNDS FOR POPULAR CONSTRUCTION^{1/}

<u>Area</u>	<u>No. of Household</u>	<u>Sources of Funds</u>			
		<u>Banks Loans</u>	<u>Credit Union Loans</u>	<u>Other</u>	<u>Private Savings</u>
Teyateyaneng	32	-	2	1	29
Mafeteng	29	-	-	6	23
Maseru	<u>69</u>	<u>2</u>	<u>3</u>	<u>2</u>	<u>61</u>
Total	129	2	5	9	113

^{1/} Unpublished, Case Studies of Non-Conventional Financing of Low-Income Households in Upper Volta, Cameroon, Chad and Lesotho, August 1975.

The following sections will describe highlights of the various financial institutions presently operating in Lesotho.

B. Lesotho Bank

The Lesotho Bank was established by the Government in 1972, and began operations in 1973 as a means of avoiding total reliance on externally owned financial institutions for the country's banking services. Although originally conceived as a development bank, its functions have largely now become those of a commercial bank, with similar services offered to the public as Barclays and Standard. By December 1975 commercial activities exceeded its development work.

At the outset the Bank received the accounts of the 23,000 depositors of the postal savings system, and by the end of 1974 had over 32,000 accounts (including checking). The Bank has grown

rapidly and has continued to expand its facilities and outreach throughout the country.

Beginning in January 1976, the Bank became the depository for the so-called Deferred Payments by Basotho miners working in the Republic of South Africa. The Bank pays 5% on these trust funds and they are drawable only when the miner returns to the country, except under special circumstances. The demand nature of these deposits has constrained the Bank from using these resources for medium or longer term investments until they have more experience on the longer range stability of these deposits.

The Bank is also Trustee for the civil servant compulsory savings plan instituted in 1975 for higher paid Government employees which amounted to about R500,000 by the end of the calendar year. These deposits cannot be withdrawn for the first 5 years and earn 5%.

A large portion of loans are made to Government and statutory bodies at less than market interest rate (5% - 8%). Up to now the Bank has not made substantial conventional mortgage loans, but it has used its funds to construct 27 houses owned by the Bank. One program by the Bank to loan money for housing reportedly was abandoned before it ever became effectively organized and promoted.

C. Other Commercial Banks

1. Barclays Bank International, Ltd.

Barclays has its main office in Maseru with two branches in Leribe and Mohale's Hock, and two agencies in Mafeteng and Outhing. In addition it operates in two mobile units out of

Maseru. In 1976, savings deposits yielded 3-1/2% and with time deposits paying up to 7-1/2%. Rates for general lending are one to three points above prime. At present, Barclays has over 10,000 accounts.

Because of inaccessibility of data, the following observations should be treated with caution. The rate of savings growth is strong, perhaps 20% or more per year. It is also interesting to note that Barclays has been heavily committed to real estate lending; of their total individual loans it is estimated that as much as 75% is destined for residential construction. Loans are made for periods up to 3 years, and a "mortgage bond" is placed upon the property for security. Legal problems arise with respect to a lack of clarity in many of the title deeds which lack precise surveys. However, a "diagram deed" is now being frequently used to more accurately define lot locations and measurements. There are also problems regarding the Bank's ability to monitor the construction of the housing loans. Foreclosure can also present some difficulties, or better stated, delays, in view of the need to secure the consent of the chief when a property right is transferred. While the 1973 Administration of Lands Act was intended to facilitate such transfers, that Act has not been implemented.

What is significant to note is that despite the apparent legal constraint, lending for housing is taking place and is obviously profitable.

It can be concluded that the Bank presently has more savings than it can productively invest within the country and accordingly, substantial amounts of assets are invested in affiliated banks in the Republic.

2. The Standard Bank Ltd.

Standard is the oldest bank in the country having opened operations in 1901. They have three full branches in Leribe, Maputsoe, and Mohale's Hock; 9 agencies in smaller towns; and 1 mobile unit. The agencies provide the full range of banking services but operate on restricted time schedules.

Standard reports savings up 20% to 30% during both 1975 and 1976 with approximately 10,000 accounts. In the past Standard made considerable mortgage type loans but of late have shifted away from these. Interest rate structures and lending rates are essentially the same as those of Barclays.

The Bank made a substantial loan to the Lesotho National Development Corporation (LNDC) to construct a 27-unit rental apartment complex. The term is 20 years with a variable interest rate tied to prime.

D. Credit Cooperatives

The credit union movement has been developing at a steady rate over the past several years and of late has received the technical support of the U.S. credit union movement in consolidating its operations.

In December of 1975 the Lesotho Cooperative Credit Union League Ltd.

(LECUSA) reported 48 functioning primary cooperatives with a total membership of more than 20,000 members. Assuming an average family composition of 4.5 and a population of about 1.2 million, the credit union program is reaching almost 8% of total household units. While data not available, the program appears to be increasing.

To date the program has been strongly oriented toward the rural sector with the many loans going for farm equipment and more recently production credit. Total member savings amount to R498,000 with consolidated assets equal to R553,000. Loans are frequently made by primary societies for building and roofing materials for housing and it has been estimated that 1/4 of outstanding loans fall in this category.^{1/}

LECUSA has recently been given a grant from the U.N. Capital Development Fund for U.S. \$100,000 to enable it to accelerate its overall program. LECUSA also is the recipient of a R30,000 through the Low Cost Housing Company in accordance with an agreement between the U.N. Capital Development and the GOL. The purpose of this loan is to stimulate and improve housing in the rural areas.

Up to now the credit union movement has not received direct Government support although it is the intent of the GOL to stimulate and encourage the League's work. Much of the success of the credit union program can be laid to a strong emphasis of training local leadership. There would appear to be a strong potential demand for

^{1/} Unpublished Case Studies of Non-Conventional Financing of Low Income Households in Upper Volta, Cameroon, Chad and Lesotho, August 1975.

home improvement loans among the membership.

E. Lesotho Building Finance Corporation

The Second Five-Year Development Plan states that the major tenet of Government policy in the field of finance is to "maximize the mobilization of national savings and maximize the use of those savings productively within Lesotho."

Experience has demonstrated in many developing countries, where traditional savings and loan or building society type systems are instituted, that unless policy safeguards are set down which will require the institution to make an equitable distribution of its resources to the lower and middle income groups, most of the capital will be used for high-cost, low-risk housing loans. Experience has also demonstrated in many countries that small loans to the so-called "weaker" or poorer segments of society are remarkably good risks.

The Lesotho Building Finance Corporation (BFC) was created in 1976 as a statutory corporation attached to the Ministry of Finance. Its charter is broad and generally along the lines of a savings and loan association. It is the only institution Lesotho has specifically created to finance housing. It can finance land development and housing construction as well as provide housing mortgages. Legislation was introduced in the 1978 session of Parliament to enable BFC to offer higher interest rates to savers in order to more effectively compete with interest rates in South Africa.

To date this fledgling institution is untested. The manager is a very capable expatriate with less than one year remaining on a two-year contract and the Ministry of Finance has yet to provide his counterpart/replacement. Because adequate office space was unavailable until now, only a few people have been hired, savings have not been accepted and only 26 mortgage loans have been made. A construction loan to the Lesotho Housing Corporation also has been made.

While the BFC is empowered by statute to make loans to lower-income borrowers, the policies of the Board of Directors at this time seem to be quite conservative in these regards (e.g., minimum 20% down-payment, property rights must be clearly established, small loans for upgrading/expansion are not planned at this time). It is understandable that the BFC wants to establish prudent and attractive savings and lending practices and thus far its resources are limited. Nevertheless, it is very important to Lesotho that the BFC finance housing for lower-income households since it is the institution best able to do so.

BFC activities are expected to grow rapidly now that it has suitable accommodations to encourage savings and make loans as well as having the prospect of greatly increased capitalization from the Government budget and eventual proceeds from the sale of pool houses. A crucial factor is experienced high-level management capability.

IV. HOUSING DEVELOPMENT INSTITUTIONS

Most of the housing constructed in Lesotho is carried out by the so-called informal sector. Private construction of more expensive houses has been on a scattered site basis by individuals and small builders. The public housing developers are LEHCO-OP and the Lesotho Housing Corporation.

A. LEHCO-OP, The Low Cost Housing Company

This organization finds its roots as far back as 1969 when some of the organizers of the Lesotho Credit Union movement residing at the University instituted the Roma Valley Cooperative Housing Scheme and a revolving fund was established for the construction of 10 houses. A study, commissioned by the UNDP in November 1974, provided the basis for the cooperative self-help housing development program now being undertaken.

LEHCO-OP is organized under the LNDC to act as a sponsoring and development organization for diverse low-cost cooperative housing projects. It is patterned after similar cooperative housing technical service organizations in both the developing and developed countries.

The current program was made possible by a U.S. \$240,000 grant for infrastructure costs plus an additional grant of \$525,000 to establish a revolving fund. All but \$30,000 of these amounts has been allocated to the first project in Maseru, with the \$30,000 being

for small rural home improvement loans administered by LECUSA. The GOL has added another \$75,000 for two years to help defer the initial start up cost of LEHCO-OP.

At present it is completing its first project of 210 units, to be expanded in phase two by 70 units. Heavy emphasis is placed upon self-help and mutual help efforts in its program. This is a dynamic organization and has an ability to effectively marshal human resources.

LEHCO-OP is also contemplating opening an internal saving and credit arrangement for members of its housing cooperatives. It currently carries out the following functions:

- Design and planning of housing projects;
- Development of projects including land acquisition, contracting and construction supervision;
- Organization and training of housing cooperatives members;
- Organization and training for self-help construction;
- Production of wooden building components and cement blocks;
- Management of cooperative housing organizations.

LEHCO-OP continues to benefit by very able management (both expatriate and Basotho). The staff of Basotho and expatriates is well organized and hard working. The self-help techniques being employed and the effort placed on education and training of the members--training not only in the construction trades, but in the organization of the cooperative itself--continue to be impressive.

LEHCO-OP is in financial difficulty because of delays in commencing the CIDA project and lack of funding from the GOL. This is most unfortunate since LEHCO-OP cannot continue to function effectively without adequate financing on a continuing basis. Certainly the worth of this organization and its approach to providing low-cost housing have been well proven. Only in the past few months has the GOL shown its interest in supporting LEHCO-OP with funding and a more effective organization (combined with the LHC).

B. The Lesotho Housing Corporation (LHC)

The LHC is a subsidiary of the Lesotho National Development Corporation (LNDC), and as such is wholly owned by the Government. It has yet to be adequately capitalized and has produced few houses since it was created seven years ago.

In 1976 a new manager was appointed, and he has provided the leadership which, with an adequate increase in staff, would give the organization an ability to plan, develop and manage several large-scale housing projects. The LHC is empowered to perform the following functions:

1. Planning and design of housing projects for civil servants, middle and upper-income groups;
2. Planning and design of sites and services projects for low and middle-income groups;
3. Development of housing and sites and services projects

including construction supervision and general contracting;

4. Marketing of housing and sites and service projects;
5. Management of Government and private housing projects;
6. Providing consulting services to Government and private enterprises;
7. Developing a more effective private housing sector;
8. Providing mortgage insurance and appraisal services.

LHC continues as a grossly under-staffed and under-funded organization. From 1971 to 1976 it produced only 15 houses. Since then it has been responsible for the Arrival Centre of 43 prefabricated houses for expatriates, 30 middle-income housing under construction on land purchased from LEHCO-OP and an upper-income project near the new Hilton Hotel. Also, it manages some blocks of flats and has other housing schemes in planning stages. LHC also is hampered by the delay in starting the CIDA project.

The proposal to merge LEHCO-OP and LHC into a new Housing Corporation could increase the prospects for both low-income and middle-income housing by bringing housing development closer to the Government decision-makers and minimizing the competition for and duplication of scarce technical and management resources. But most importantly, housing needs a strong, sustained financial commitment from the GOL.

V. CURRENT ECONOMIC SITUATION IN LESOTHO

The economy of Lesotho has several unusual characteristics because it is completely surrounded by South Africa and inextricably linked with the South African economy. In international trade and currency exchange it is a part of a customs and currency union with the Republic of South Africa, Botswana and Swaziland. About half of the male working force from Lesotho is employed in the Republic. Nearly all manufactured goods are either produced in South Africa or imported through South Africa. These close links to the South African economy are facts to be kept in mind when considering the economy of Lesotho.

A. Growth and Composition of Gross Domestic Product and Income

Lesotho Gross Domestic Product (GDP) increased from R62.2 million in 1972/73 to an estimated R126.0 million in 1977/78, a total of R63.8 million or 102% in five years. Remittances of income earned by Basotho in South Africa are not included in GDP. Estimated remittances grew from R20.7 million in 1972/73 to R120.1 million in 1977/78, a total of R99.4 million or 480%. Thus, total GDP and remittances increased from R87.4 million to R292.8 million, a total of R205.4 million or 235%.

The following table shows the estimated composition of Gross Domestic Product in 1977/78. This distribution was derived using the reported 1974/75 distribution by sector (the most recent available). Comparison of absolute amounts for 1974/75 and 1977/78 is not

recommended since the Ministry of Finance now estimates that GDP in 1974/75 was R94.7 million, not R71.2 million. Note that although 95% of the population of Lesotho live in rural areas, including many small villages, only 45% of GDP is contributed by agriculture and only 0.4% by local mining and quarrying.

As the table reveals, repatriated mining earnings are nearly equal to total GDP. The Ministry of Finance estimates that 72% of total migrant earnings were remitted in 1977/78.

ESTIMATES OF LESOTHO GROSS DOMESTIC PRODUCT
BY SECTORS AND REPATRIATED MINING EARNINGS, 1977/78

	<u>1974/75</u>		<u>1977/78</u>
	<u>Millions of Rands</u>	<u>Percent</u>	<u>Estimate Millions of Rands</u>
Agriculture	32.0	45.0	56.7
Mining and Quarrying	0.2	0.3	0.4
Manufacturing and Crafts	1.7	2.4	3.0
Electricity	0.2	0.3	0.4
Building and Construction	1.6	2.2	2.8
Commerce and Catering	9.7	13.6	17.1
Transport and Communications	1.1	1.5	1.9
Banking, Insurance, Etc.	0.9	1.3	1.6
Ownership of Dwellings	8.6	12.1	15.2
Government Services	13.6	19.1	24.1
Other Goods and Services	<u>1.6</u>	<u>2.2</u>	<u>2.8</u>
TOTAL GDP	71.2	100.0%	126.0
Repatriated Mining Earnings	<u>20.7</u>		<u>120.1</u>
TOTAL GDP and RME	91.9		246.1

Sources: 1974/75 GDP from Second Five-Year Development Plan; estimate of total GDP for 1977/78 from Ministry of Finance; 1977/78 GDP estimates by sectors based on 1974/75 percentage distribution, calculations by DeVoy Collaborative; repatriated mining earnings estimates by Ministry of Finance. (Note that in 1978, Ministry of Finance estimates that Gross Domestic Product in 1974/75 was R94.7 million rather than the R71.2 million estimate in the Second Five-Year Development Plan; sector estimates only available for R71.2 million estimate.)

The composition of GDP may have changed slightly since 1972 with the industrial and service sectors producing an even larger proportion of GDP.

The Second Five-Year Plan objectives are to: (1) increase economic growth, (2) improve social justice in the distribution of the benefits of economic growth, (3) accelerate employment creation, and (4) achieve greater economic independence. Specific quantitative targets are to achieve a further 40% growth in real GDP by 1980. Broken down by sector the targets are as follows:

1979/80 TARGET SECTORAL INCREASES IN GDP OVER 1974/75 (1 RAND = \$1.15 US)
(In Constant 1974/75 Prices)

<u>Sector</u>	<u>Amount in R millions</u>	<u>Percent of Total GDP Growth</u>
Agriculture	12.1	36
Mining & Quarrying	5.0	15
Manufacturing & Crafts	2.0	6
Electricity	0.3	1
Building & Construction	2.0	6
Commerce & Catering	3.9	12
Transport and Communication	0.5	2
Banking & Insurance	0.3	1
Ownership of Dwellings	0.5	2
Government Services	<u>6.3</u>	<u>19</u>
Total	32.9	100

Source: Calculated from material contained in the Second Five-Year Development Plan, Vol. I.

From these figures it is apparent that a major expansion of urban sector production and employment is envisioned. Therefore it is anticipated that urban populations, particularly in Maseru and the new industrial site, Maputsoe, will increase dramatically. The impact of the expected population growth on housing demand is examined in a separate section.

Per capita income and household income are difficult to define because there is little statistical data on the rural subsistence sector and earnings from miners and other workers in South Africa are a significant part of most families income. Combining 1977 Gross Domestic Product of R126 million to repatriated mining earnings of R120 million yields a Gross National Income estimate of R246 million. With an estimated population of 1.2 million (95% rural), the Gross National Income per capita is R295--at least three times what it was in 1972.

One rather unusual characteristic of the economy is that the general distribution of income is quite egalitarian, particularly in rural areas. The income distribution indicated below is probably a result of traditional rural systems of land allocation and cattle ownership which provides a rather even distribution of productive assets. The heavy participation of workers in mining and other jobs in South Africa also creates an equalizing effect on incomes throughout the country.

INCOME DISTRIBUTION

<u>Percentage of Population by Income Levels</u>	<u>% of Total Income (Excluding Expatriates)</u>
Lowest 5%	4%
Lowest 20%	16%
Lowest 40%	32%
Highest 40%	50%
Highest 20%	30%
Highest 5%	11%

Source: 1970 Agricultural Census and 1972/73 Urban Household Budget Survey as reported in Second Five-Year Development Plan, Vol. 1.

Urban incomes, particularly in Maseru, do not reflect this general equality of income because of the concentration of expatriates, senior civil servants, and wealthy members of the private sector. In Maseru the lowest 5% receive 1% of total income while the highest 5% receive 26% of total income.

Another economic factor which is important to shelter and housing programs in Lesotho is the rate of inflation. Lesotho's inflation rate is closely tied to the rate of inflation in South Africa and cannot be controlled internally because of the common currency arrangement. Over the past several years inflation has been about 12% per year with the mid-1978 price index for Maseru being about 200 based on a 1972 price index of 100. Although this rate of inflation is not extraordinary in view of recent world-wide inflation, it means that some type of maintenance of value mechanism might well be considered in internal financing of a housing program.

B. International Trade and Foreign Assistance

Because Lesotho uses the South African Rand (R1.00 = \$1.15 U.S.) and is part of a currency and customs union with South Africa, its ability to obtain foreign exchange through trade is not a significant factor. The trade statistics may not be very reliable, but for 1976 imports were valued at R179.9 million while exports were valued at R10.0 million. Normally such a trade deficit would not be sustainable, but because of the large volume of remittances and savings brought in by workers from South Africa (estimated about R102.3 million in 1976) and substantial foreign assistance (R20 to R40 million per year) this gap is much smaller than it would appear.

Foreign assistance for the Second Five-Year Development Plan (1975/80) is expected to be R137 million of which R85 million was already committed in 1976. Outstanding Government loans from foreign sources include about \$14.5 million U.S. from the IDA with a 3/4% service charge, £ 750,000 from the United Kingdom at 5-1/2% to 7% interest, U.S. \$600,000 from the UNDP at 3-1/2% and R283,000 interest free from South Africa. Foreign assistance other than the loans noted above has been on a grant basis. The largest sources of committed foreign capital assistance for 1975/80 are indicated in the following table:

IDENTIFIED EXTERNAL FUNDING OF CAPITAL PROJECTS IN THE
SECOND NATIONAL DEVELOPMENT PLAN (1975/80) BY SELECTED SOURCES
(In Millions of Rand)

DeBeers/Anglo American	23.4 ^{1/}
United Kingdom	11.5
UN World Food Programme	11.1
Canada	7.3
I.D.A.	7.1
Catholic Relief Services	5.5
U.S.A.	3.8
African Development Fund	2.9
West Germany	2.4
Sweden	2.2
Denmark	2.0
UNDP	1.4
UN Capital Dev. Fund	.95

Source: Report on the 1975 Donor Conference

^{1/} Of this, R23 million is for a joint venture diamond mine.

C. Government Revenues, Expenditure and Debt Servicing

Government revenue rose dramatically during the First Five-Year Development Plan (R11.6 to R29.0 million) and resulted in the GOL being able to generate a surplus over recurrent expenditures which was one of the targets of the plan in seeking to achieve greater economic independence. As is indicated in the table below, this also generated a substantial surplus in the government budgets in 1974 and 1975. The These reserves are used partially to finance further capital development

projects, but a continuing reserve will be maintained to compensate for any unforeseen changes in revenue.

The following table, showing the anticipated budgetary situation for the Second Five-Year Development Plan, indicates that domestic revenue and foreign assistance are expected to continue to rise rapidly so that the development program can be increased substantially. The level of foreign assistance in Rand shown in this table was increased substantially by the currency devaluation, and additional assistance has already been committed. Therefore, the GOL revenue expectations have been substantially increased over the figures shown below for the period 1975-80.

OVERALL BUDGETARY SITUATION, FIRST PLAN
(In thousands of Rand)

	69/70	70/71	71/72	72/73	73/74	74/75	FIRST PLAN TOTAL
Domestic Revenue	11,644	11,409	12,410	12,931	21,356	23,953	87,059
Recurrent Expenditure	11,186	12,013	12,166	13,636	15,688	17,406	70,909
Less Debt Service	236	238	244	291	278	580	1,631
Recurrent Budget Surplus	222	- 842		- 996	+ 5,390	+ 10,967	14,519
Actual Development Expenditures on Capital Acct.	1,766	2,143	3,826	3,260	4,934	6,217	20,380
From Domestic Resources	-	-	-	-	1,252	1,007	2,259
From Other Sources	1,104	2,937	3,478	3,121	3,908	3,360	16,804
Surplus/Deficit Capital Account	- 662	+ 794	- 348	- 139	+ 226	- 1,850	- 1,317
Recurrent & Capital Account Balance	- 440	- 48	- 348	- 1,135	+ 5,616	+ 9,117	+ 13,202
Cumulative Reserve	N/A	N/A	N/A	- 1,135	+ 4,481	+ 13,598	+ 13,598

Source: Second Five-Year Development Plan, 1975-1980, Central Planning and Development Office.

OVERALL BUDGETARY SITUATION, SECOND PLAN
(In thousands of Rand)

	75/76	76/77	77/78	78/79	79/80	SECOND PLAN TOTAL
Domestic Revenue	25,000	31,000	36,000	37,800	40,100	169,900
Recurrent Expenditure	26,000	27,000	29,000	31,900	35,850	149,350
Debt Service	400	500	700	1,000	1,100	3,700
Recurrent Budget Surplus	- 1,000	+ 3,500	+ 6,300	+ 4,900	+ 3,150	+ 16,650
Planned Development Programme	12,500	16,000	16,000	17,000	18,500	80,000
Financed by Recurrent Appropriation	4,500	4,500	4,500	4,500	4,500	22,500
Financed From Other Domestic Sources	-	2,500	2,500	-	-	5,000
Financed From Other Sources	8,000	9,000	9,000	12,500	14,000	52,500
Recurrent & Capital Account Balance	- 5,500	- 1,000	+ 1,800	+ 200	- 1,350	- 5,850

Source: Second Five-Year Development Plan

The following table showing the sectoral breakdown provides an insight into Government development priorities. Note that Industry, Commerce, and Tourism and Economic infrastructure receive the largest increases in capital investment between 1975 and 1980, nearly 300% and 250% increases respectively. Greatly increased industrial development along with a rather rapid growth in the Government sector are causing a rapid rate of urban development.

SECTORAL ANALYSIS OF EXPENDITURE
(in thousands of Rand)

		<u>1969/70</u>	<u>1974/75</u>	<u>1979/80</u>
Agriculture and Rural Development	Recurrent	1,091	1,932	5,461
	Capital	651	3,927	7,000
	Total	<u>1,742</u>	<u>5,859</u>	<u>12,461</u>
Industry, Commerce and Tourism	Recurrent	108	430	1,064
	Capital	42	728	2,860
	Total	<u>150</u>	<u>1,158</u>	<u>3,924</u>
Natural Resources	Recurrent	51	132	355
	Capital	52	174	20
	Total	<u>103</u>	<u>306</u>	<u>375</u>
Economic Infrastructure	Recurrent	855	1,225	3,387
	Capital	512	1,071	3,800
	Total	<u>1,367</u>	<u>2,296</u>	<u>7,187</u>
Education	Recurrent	2,244	4,916	9,722
	Capital	110	1,206	1,800
	Total	<u>2,354</u>	<u>6,122</u>	<u>11,522</u>
Other Social Infrastructure	Recurrent	1,331	1,571	3,750
	Capital	286	1,098	2,120
	Total	<u>1,617</u>	<u>2,669</u>	<u>5,870</u>
Government Services	Recurrent	4,581	6,378	11,079
	Capital	113	676	900
	Total	<u>4,696</u>	<u>7,054</u>	<u>11,979</u>
Other Expenditures Including Debt Service	Recurrent	925	1,402	2,114
	Capital	-	-	-
	Total	<u>925</u>	<u>1,402</u>	<u>2,114</u>
Total All Sectors	Recurrent	11,186	17,986	36,950
	Capital	1,766	8,880	18,500
	Total	<u>12,952</u>	<u>26,866</u>	<u>55,450</u>

Note: Expenditure figures for 1969/70 and 1974/75 are actuals. Those for 1979/80 are estimated in 1974/75 prices and allow for slippage in the capital expenditure program.

Source: Second Five-Year Development Plan

Current debt servicing for 1977/78 is R730,000 which is only 1.5% of recurrent revenues. The total public debt outstanding in March 1977 was R21.3 million. As can be seen in the budget for the Second Five-Year Development Plan, it is expected that debt servicing will rise to about R1.1 million by 1980, but this will still be only about 2.5% of total domestic revenues.

The remainder of this discussion on Government revenues, expenditures and debt service is excerpted from "Lesotho Survey of Recent Economic Development Prospects and Major Policy Issues," 1977, by D. W. Hill, ECA Regional Advisor, United Nations.

The Lesotho Government continues to adhere to a policy of maintaining a balanced budget and of building up adequate reserves in compliance with the Finance Amendment Act of 1975. However, in 1977 it had become obvious that imported inflation had reduced the purchasing power of the existing reserves as well as increasing the monetary cost of commitments under the capital development programme. At the same time a serious crisis had arisen over the level of salaries of Government servants which had particular ramifications on the technical and professional personnel required to plan and implement development projects including those accountants whose work was essential for the continued receipt of project aid for on-going projects.

A sum of R5.8 million was included in the recurrent expenditure estimates for 1977/78 for contingencies including essential salary increases.

The total recurrent expenditure estimates in 1977/78 were R48.9 million, a rise of 21% over the 1976/77 revised figures of R40.3 million. Excluding allocations for the capital account, recurrent expenditure was R32.6 million in 1976/77 and R43.4 million in 1977/78, the increase being 33%.

There is a large projected increase in recurrent revenue from a revised figure of R30.3 million in 1976/77 to R48.9 million in 1977/78 with virtually all the increase due to a doubling of customs and excise revenue from R16.5 million to R32.8 million. A high proportion of this customs and excise revenue arises from the working of the Customs Union Agreement.

The capital account has already been referred to briefly above. The total of recurrent and capital expenditure excluding appropriations to the capital account rises from R62.2 million in 1976/77 to R80.1 million in 1977/78. If directly funded donor projects are added the total in 1977/78 becomes R99.4 million compared with about R74 million in 1976/77.

SUMMARY OF GOVERNMENT REVENUE AND EXPENDITURE,
1975/76 TO 1977/78
(in million Rand)

<u>Estimates or Revised Estimates</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>
Recurrent revenue	28.89	30.26	48.91
Recurrent expenditure ^{a/}	<u>28.47</u>	<u>32.64</u>	<u>43.37</u>
Surplus or deficit	+0.42	-2.38	+5.54
Capital expenditure ^{b/}	16.48	29.58	36.75
Financed domestically	6.88	10.56	8.54
Financed externally	9.60	19.02	28.23

Source: Revenue and Development Accounts Estimates of the Kingdom of Lesotho, 1975/76, 1976/77, 1977/78.

a/ Excludes appropriations to the capital account

b/ Excludes capital expenditure directly funded by foreign donors

The proportion of capital expenditure financed externally has increased at a fast rate since 1975/76. In 1977/78 this proportion will be as high as 84% when directly-funded projects are included.

VI. HOUSING MARKET

A. Need for Housing in Urban Areas

The major factors which determine the need for housing are population growth, housing condition and replacement rate for the existing housing stock, and overcrowding in the existing housing stock.

1. Housing Needed for Population Growth

The results of the 1966 Census and the 1972/73 Urban Household Budget Survey were compared to derive approximate annual growth rates for selected urban areas. Further, consideration was given to potential increases in urban population resulting from increased employment opportunities. For example, urban employment in "modern sector" categories in Lesotho (i.e., manufacturing, construction, government, tourism, other services, and labor intensive works) was projected to increase from 27,500 in 1975 to 46,000 in 1980, or about 12% per year compounded (estimates from Second Five-Year Development Plan). Manufacturing employment was projected to increase from 2,000 to 6,500, or 25% a year compounded, while Government employment was projected to increase from 9,200 to 12,300, or 6% per year compounded.

Based on these considerations, the same growth rates are used in this update as were used in the 1976 Lesotho Shelter Sector Analysis.

ESTIMATED 1978 POPULATION FOR SELECTED URBAN AREAS

<u>Name of Area*</u>	<u>Growth Rate</u>	<u>1978 Population</u>
Maseru	12%	43,000
Teyateyaneng	7%	9,000
Maputsoe	10%	6,000
Mafeteng	5%	3,500
Other Urban	3%	<u>8,500</u>
TOTAL		70,000

*Area includes official jurisdiction and adjoining developed areas.

Given the past urban population growth characteristics and the additional incentives provided by planned economic developments, the above estimated growth rates should be appropriate for the next several years. Given the household sizes indicated in the Urban Household Budget Survey for the major urban areas, housing needs for new households is estimated to be as follows:

ANNUAL HOUSING NEEDED FOR POPULATION GROWTH

	<u>Current Population</u>	<u>Estimated Current Number of Housing Units</u>	<u>Growth Rate</u>	<u>Avg. Size Household</u>	<u>Number of Units Needed</u>
Maseru	43,000	9,900	12%	4.34	1,190
Teyateyaneng	9,000	1,900	7%	4.65	135
Maputsoe	6,000	1,400	10%	4.34	140
Mafeteng	3,500	900	5%	4.08	45
Other Urban	<u>8,500</u>	<u>2,000</u>	3%	4.34	<u>60</u>
TOTAL	70,000	16,100			1,570

2. Housing Needed for Replacement of Existing Stock

It was not possible to get an accurate census of the existing housing stock in Maseru or other urban areas. However, the Maseru Housing Survey carried out in April 1973 does provide a good indication of various aspects of the condition of the housing stock. There is also a large amount of Government housing, about 2,000 units including pool and tied housing of which about 1,500 are located in Maseru. This housing is built and maintained by the Government and is rented on a heavily subsidized basis to civil servants. There are no precise statistics available on Government housing since some units are no longer officially maintained or rented by the Government but this clearly constitutes the largest portion of housing produced by the "formal" sector in urban areas. Because of inadequate maintenance and repairs over many years, most Government houses have serious problems which will be expensive to correct.

In general, the housing types in Maseru--based on direct observation, Government housing stock estimates and the Maseru Housing Survey--can be classed as follows:

APPROXIMATE COMPOSITION OF MASERU HOUSING STOCK

<u>Type of Unit</u>	<u>Description</u>	<u>Percent of Total Housing Stock</u>	<u>Est. Current Construction Or Rental Cost</u>
Luxury-Expatriates, Senior Civil Servants	100 - 150m ² 2 or 3 bedroom Modern full Services	+ 5%	R15,000-35,000
Standard Medium-Cost, Middle & Junior Civil Servants	25 - 35m ² , full services, contractor built	+ 15%	R8,000-12,000
Permanent Owned	25 - 35m ² , Single family, no piped sewage or electricity, Masonry construction Hired labor or self- help	+ 15%	R2,000-3,500
Permanent Rental	One-Room units sharing common services, masonry, hired labor construction	+ 25%	R10 - 30/mo. (Rent)
Temporary Owned	20 - 30m ² traditional mud construction, no private services, 2 or 3 rooms, self-help built	+ 20%	R500-800
Temporary Rental	One-Room units sharing common public services, traditional mud con- struction	+ 20%	R8 - 12/mo. (Rent)

Some of the relevant statistics from the housing survey on which the above table is based are that 61% of all houses are built of brick or stone, 60% have mud floors, 93% have tin roofs, 23% have piped sewage, 50% have private water taps, and 7% have electricity.

From these statistics, it appears that about 50% of the housing units in Maseru should be replaced or substantially

upgraded during the next 10 years. Thus, the replacement rate for the total housing stock would be about 5%. For other urban areas, there are no statistics on the condition of the housing stock, but apparently there is an even lower percentage of permanent housing. Therefore, a replacement rate of 5% per year is a reasonable and conservative figure.

3. Overcrowding

The average persons per room ratio for Maseru is 1.9 but rises to 2.8 for the lowest income group. This indicates that many low income families live in a single room. It was observed that this is the case for nearly all low income renters. These facts seem to indicate that there is overcrowded living conditions for a large portion of the urban population.

How much overcrowding there is will depend on the definition of the term. If the U.N. standard of 1.5 persons per room is used, then a majority of households are living in overcrowded conditions. If a more moderate standard of 2 persons per room is used, 30% to 40% of Maseru households would be overcrowded. However, because the concept of overcrowding is culturally defined, it is felt that no specific figure is appropriate and that to a large extent overcrowding will be eased by providing sufficient housing for population growth and replacement of upgrading of temporary housing units over the next 10 years.

Another important factor is that a large number of people who work in Maseru live there during the week and return to their villages most every weekend. Thus, there are many households comprised of unrelated individuals whose families remain in the villages.

ESTIMATE OF ANNUAL URBAN HOUSING NEED

<u>Name of City</u>	<u>1978 Popu- lation</u>	<u>Population Growth Rate</u>	<u>Existing Housing Units</u>	<u>Annual need for Replace- ment</u>	<u>Need for Popula- tion Growth</u>	<u>Total Need</u>
Maseru	43,000	12%	9,900	495	1,190	1,685
Teyateyaneng	9,000	7%	1,900	95	135	230
Maputsoe	6,000	10%	1,400	70	140	210
Mafeteng	3,500	5%	900	45	45	90
Other Urban	<u>8,500</u>	3%	<u>2,000</u>	<u>100</u>	<u>60</u>	<u>160</u>
TOTAL	70,000		16,100	805	1,570	2,375

B. Capacity to Pay for Housing

Most of the urban population of Lesotho cannot afford modern standard housing. This fact has emerged from the following analysis of income levels and distributions, estimates of savings accumulation and percentage of income spent on housing. The inescapable conclusion of this analysis is that the lower income half of the urban population must rely on self-help techniques to afford even the most modest accommodation with adequate water supply and sewage disposal.

1. Household Income Levels and Distribution

Information on household incomes in Lesotho is obsolete

and fragmented at best. More research needs to be done on this important subject on an ongoing basis.

The income distribution data from the 1972/73 Urban Household Budget Survey seems to be the best available, but major changes have taken place in six years which make it unreasonable to use these data as they are; also, adequate indices are not available to update the survey data accurately.

For purposes of this study, pieces of available income data have been combined to provide a very general picture of current household incomes. Information on incomes of Government workers, the formal private sector and migrant miners is described below. General household income patterns are derived from these data.

Government employment in Lesotho amounts to nearly 11,000 of the 33,000 workers in the modern sector. Since 1972, there have been two general salary increases--one averaging 5% and the other 23%. In addition workers received nominal in-grade increases and some workers were promoted to better paying jobs. Therefore, Government salaries probably increased at least 30% since 1972. Since inflation has been 100% for this period, Government workers appear to have lost considerable buying power. The median Government salary is estimated at R1,800 per year or R150 per month. While the Government copy typist

is paid R95 per month, most professionals earn less than R300 and even permanent secretaries and ministers are paid only R500 or so per month plus other valuable fringe benefits.

The Bureau of Statistics, Ministry of Finance, reported that private sector average monthly earnings were R85 in June 1977--average incomes ranged from R54 for manufacturing to R255 for financial and business services. These estimates cover 12,500 workers, or 38% of modern sector employment including Government. It is estimated that earnings in the private sector have increased at least 12% in the past year, thus the median probably is R95 or more.

These income estimates for the private sector are supported by the findings of a market survey of private sector employment carried out by the Low-Income Housing Company (LEHCO-OP) in October 1975. This survey shows that regular income earners have wages as follows:

DISTRIBUTION OF WAGE EARNINGS IN PRIVATE SECTOR OF MASERU

Monthly Wage Category		No. of Employees	Percentage
<u>1975</u>	<u>1978 Estimate*</u>		
R50 or less	R70 or less	916	54%
R50 - R67	R70 - R94	200	12%
R67 - R75	R94 - R105	374	22%
R75 and over	R105 and over	<u>210</u>	<u>12%</u>
TOTAL		1,710	100%

*Range increased 40% to account for estimated three-year increase in price index.

If, as is indicated in the Household Budget Survey, there are 1.3 income earners per household this means that about 46% of the households earning income from the private sector may be above R91 per month ($R70 \times 1.3$).

Thus, with Government workers earning a median monthly income of R150 and accounting for 33% of the urban modern sector work force and the estimated private sector median income of R95 for 38% of the modern sector work force the overall median could be as much as R120. Considering there are 1.3 workers per household, the household median may be as much as R156. However, the opinions of several informed persons in Lesotho are that the median household income probably is not this high.

The total cash earnings of the 129,600 Basotho working in the mines in South Africa in fiscal year 1977/78 was R166.8 million, or R1,287 per miner. These workers comprised 60% of the male labor force between 18-60 years of age in 1976. While many of these miners are from rural areas, a large share come from the urban areas as well; for example, in 1975, 31,000 came from Maseru District, 20,000 from Mafeteng and 14,000 from Teyateyaneng.

The length of migrants careers average 25 years for workers from the lowlands (including larger urban areas) and 20 years for those from the mountains.

(The above data are contained in the book Migratory Wage

Labour, Its Role in the Economy of Lesotho, A.C.A. van der Wiel, 1977 except for the 1977/78 data which comes from the Ministry of Finance.)

According to the Earning and Expenditure Survey, in 1975 the average Mosotho miner repatriated 72% of his remuneration. Applied to the average cash earnings of R1,287 in 1977/78, that is R927 per miner for the year. These remittances represent 49% of Gross National Income--and perhaps three-quarters of total household income. While in 1972/73 the average earnings for the 101,700 miners was R248, by 1977/78 average earnings for the 129,600 miners had leaped to R1,287--a per worker increase of more than 400% in only five years. Matching the importance of these earnings to Lesotho is the uncertainty of their continuing, given the political and economic factors affecting southern Africa.

The average of R927 remitted by miners in 1977/78 is R77 per month. Data do not show how many of these remittances would accrue to urban households, but it appears to be a significant number. Thus, total household incomes in urban areas probably are much greater than earnings of workers in Lesotho would indicate--especially considering that the migrant workers are five times the number working in the modern urban sector.

The only available household income distribution comes from the 1972/73 Urban Household Budget Survey Report. While

miner remittances were included in those income data, they appear to be grossly underestimated based on studies cited in Migration Wage Labour. Nevertheless, updating that income distribution for several urban areas enables a better understanding of the housing price capabilities of the Basotho.

Two basic assumptions are made: (1) The distribution of the population has remained fairly stable since 1972; and (2) Overall incomes have increased 100%. This second assumption is based on the estimates that inflation (i.e., the price index) increased 100%; Government salaries and wages increased at least 30%; miner wages increased more than 400%; and that private sector income probably kept pace with inflation--especially considering the enactment of a minimum wage law. The following table shows the results of updating the 1972 household income estimates using these assumptions.

UPDATED DISTRIBUTION OF HOUSEHOLD INCOMES IN
SELECTED URBAN AREAS (R1.00 = \$1.15)

<u>1972 Annual Household Income Range</u>	<u>1978 Annual Household Income Range</u>	<u>1978 Monthly Household Income Range</u>	<u>Percent of Households in Income Ranges</u>			
			<u>Maseru</u>	<u>Teyateyaneng</u>	<u>Mafeteng</u>	<u>Other Urban</u>
R0 - R199	R0 - R399	R0 - R33	22%	47%	40%	34%
R200 - R499	R400 - R999	R33 - R83	33%	29%	32%	36%
R500 - R999	R1000-R1999	R83 - R167	23%	15%	19%	18%
R1000 & over	R2000 & over	R167 & over	<u>22%</u>	<u>8%</u>	<u>9%</u>	<u>12%</u>
			100%	100%	100%	100%
Approximate Median Household Income 1978:			R80	R35	R46	R50

Source: Based on the 1972/73 Urban Household Budget Survey Report. 1978 incomes assumed to be 100% more than 1972.

From the above information, only a vague picture of household incomes emerges. For the modern sector work force the median could be as much as R156 per month. Workers in the modern sector apparently account for 70-80% of the urban labor force, with most of the remainder engaged in informal activities--relatively few are not working at all. Thus, the overall urban median would seem to be something less than R156 but significantly more than R100 per month. However, updating the Urban Household Budget Survey yields a median of only R80 for Maseru and much less for other larger urban areas. As was pointed out above, it is probable that there was substantial under-reporting of income in the 1972/73 Survey.

It is the conclusion of the housing consultant that the mid-1978 median household income is at least R100 per month for Maseru and probably as much as R120 for family households. For unrelated individuals sharing a housing unit, incomes tend to be much higher. For other urban areas, the household incomes appear to be only 50-60% of what they are in Maseru.

2. Expenditures on Housing

According to the Household Budget Survey, households in various income categories were spending about the following percentages of their income on housing:

PERCENTAGE OF INCOME SPENT ON HOUSING IN SELECTED URBAN AREAS

<u>Urban Area</u>	<u>Income Category</u>				
	<u>Low</u>	<u>Low-Middle</u>	<u>Middle</u>	<u>High</u>	<u>All</u>
Maseru	18%	17%	20%	17%	18%
Teyateyaneng	12%	12%	20%	18%	16%
Mafeteng	18%	17%	19%	18%	19%
All Towns	16%	16%	18%	16%	17%

These figures include renters, owners as well as Government employees who have highly subsidized rents. These figures are somewhat conservative since they do not compensate for either initial capital investment of home owners or the high subsidies for civil servant housing. Therefore, it is likely that most households would pay at least 25% or more of their income to have the opportunity to become homeowners of a standard, permanent house. This is borne out by the response of participants in the low-cost housing project sponsored by LEHCO-OP.

3. Accumulated Capital

There is a general belief that the proportion of income saved and hence the capital accumulation is fairly high in Lesotho. There are several factors which seem to support this. More than one-half of the male working force (including the large rural population) are working for cash wages in South Africa, mostly in the mines. These people earned about R167 million in 1975 of which about R120 million is returned to Lesotho in remittances, voluntary deferred pay or cash. These "savings"

average R923 per migrant worker. How long this money is saved varies greatly, of course.

Another factor which supports the contention of fairly high rates of saving and capital accumulation are that the commercial banks are reported to have roughly 30 thousand individual accounts and over R36 million in savings and demand deposits not including the miners trust fund.

The Household Budget Survey also revealed that average household savings rates are, as a percent of income, 6% for the lowest income group, 11% for the low to middle-income group and 30% for the high-income group. This would indicate a substantial capital reserve in relation to current income. Thus for an average household earning and saving over five years they would have accumulated 30% of annual income for the lowest income group, 55% of annual income for the low to middle-income group and 150% of annual income for the high-income group.

Given these statistics, which are supported by willingness to invest in the low-cost housing scheme now underway, it seems that even the lowest income groups could make at least a 10% down payment on a house or lot and those approaching the median income could pay as much as 25% down.

C. Effective Demand for Housing in Urban Areas

Given the facts noted above and matching housing needs to income distributions the following table shows a breakdown of housing need

by urban area and income category. Assumptions are that nearly all replacement of substandard, temporary housing will be in the two lowest income categories, and that population growth will be evenly distributed among income categories.

The actual market for housing or serviced sites produced for sale would not be the same as the housing need since some households, particularly in the lowest income category below R50 per month, may not wish to make a long-term investment in housing. However, it can be expected that during the first few years of any large scale housing program, demand would actually exceed the annual need projection shown below because of the large number of households currently living in inadequate shelter. Over the long-term (10 years) this need projection would approximate the effective demand for the period, and it is therefore a good indication of the level of production of housing and serviced sites that should be the target for the combined public and private housing agencies.

One important factor in determining the demand for housing is the availability of mortgage loans at rates and terms acceptable to households. There is very little experience with home mortgages in Lesotho. While savings generally appear adequate for down payments of 20-25% for middle-income housing, the Basotho are not familiar with long-term debt and the overall cost effects of mortgage interest rates.

The need for housing, particularly for low income groups, is adequate to support a substantial program for sites and services and

ANNUAL HOUSING NEED FOR INCOME GROUPS IN SELECTED URBAN AREAS^{1/}

1978 Monthly Household Income^{2/}

Number of Housing Units Needed

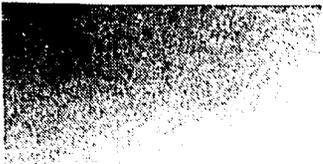
		<u>Maseru</u>	<u>Teyateyaneng</u>	<u>Maputsoe</u>	<u>Mafeteng</u>	<u>Other Urban</u>	<u>Total</u>
0 - R50	New	300	60	50	18	19	447
	Replace	250	50	35	25	50	410
R50 - R100	New	400	40	50	14	20	524
	Replace	245	45	35	20	50	395
R100 - R200	New	250	20	25	9	10	314
	Replace	<u>240</u>	<u>15</u>	<u>15</u>	<u>4</u>	<u>7</u>	<u>281</u>
TOTAL		1,685	230	210	90	156	2,371

^{1/} Assumes replacement of 50% of existing housing stock over the next 10 years, and that these replacements will be only within the low income groups where housing conditions are worst.

^{2/} General income ranges; R100 is estimated approximate household median for larger urban areas (including Maseru)--probably R120 in Maseru itself.

minimum self-help housing. For some of the lowest income households, home ownership may not be economically feasible, but for the group with incomes between R50 - R100 there is sufficient demand to support production of 900 units per year for several years at least.

Examples of Housing Stock
in Lesotho
pp. 68-71



Traditional housing using local materials and self-help labor.



Examples of very good self-help housing construction (upper) and increasingly common rental row houses (lower).

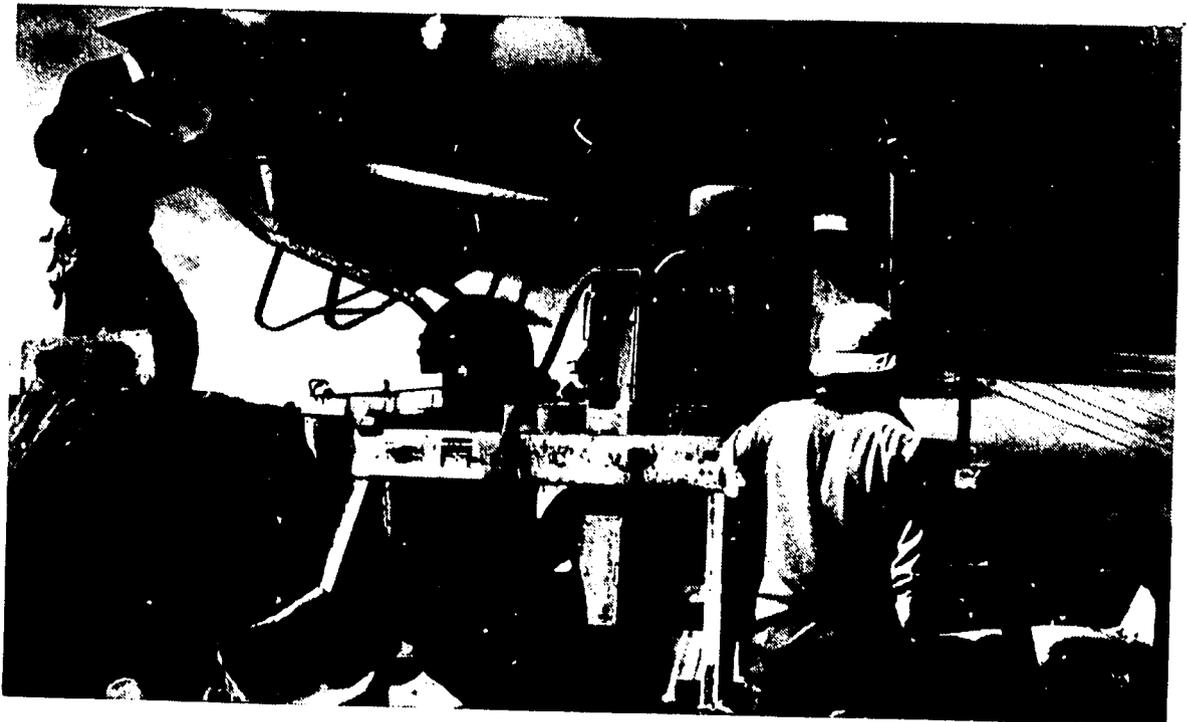


Modern "English-style" house for upper-income households and new version of "rendavel" houses built by the U.N. for international volunteer workers.





One of the LEHCO-OP houses under construction.



Employees of the Production Systems Division of LEHCO-OP engaged in the manufacture of building materials.

VII. CONSTRUCTION, INFRASTRUCTURE AND LAND DEVELOPMENT

A. Informal Construction Sector

The great majority of all residential construction in Lesotho is done by the traditional and/or informal construction sector.

In rural areas, households along with friends and relatives construct housing made entirely of locally available materials. The traditional house is one or more round buildings made of mud brick or stone with a thatched roof. Such buildings can be built quite rapidly without special tools or hired skilled labor. The cash cost is extremely small since most labor is self-help or voluntary and materials are generally gathered from natural sources rather than purchased.

Urban housing for low-income groups produced in the informal sector retains many of the characteristics of rural, traditional housing. Over half of all houses in Maseru are still built of mud brick or stone although burnt brick is becoming the dominant material for new construction. Rondavels are becoming rare in urban areas and have been replaced by square, one-room units often linked in long row houses. The most pervasive adaptation of "modern" building methods is the use of metal roofing on nearly all housing and the widespread use of metal window and door frames.

Typically, construction in the informal sector in urban areas is done

through a combination of self-help and hired skilled labor with no general contractor, architect, or other professional persons involved.

Land allocations made by the local chief do not coincide with the installation of roads and infrastructure and there are no enforced building codes for construction in the informal sector.

The quality and cost of construction in the informal sector may vary considerably depending on the capacity to pay and desires of the home owner. Although there are no well-documented statistics or cost data on informal construction, it was observed that costs of constructing a four-room 50m² cement block row house cost about R3,000 without any infrastructure. Local brick construction would cost about the same, but mud brick construction would be much cheaper (about half as much) with most of the cost being the metal roof and door and window components.

Building materials are often stockpiled by the home owner long before construction is actually started. Rather than borrowing money to construct completed houses the construction process is broken into a number of stages which are completed as resources permit. After a person completes his own 2 or 3 room home he often builds several rental one-room row house units on the back of the lot as resources permit.

The durability of informal sector housing may vary from as high as 40 years or longer for stone or burnt brick but only 5 years for mud brick. However, mud brick homes which are well-maintained and frequently repaired can last much longer.

Informal sector housing is seldom served by piped water and sewerage or surfaced roads and walks. Furthermore, there is no site planning or regulation other than that imposed by the original land allocations or by informal neighborhood groups. The Government does provide public water taps in most areas and is extending a few access roads into these informal residential areas.

The demonstrated capacity of the informal sector does indicate that sites and service-type programs and self-help housing can be successfully undertaken. Furthermore, the limited incomes of most of the population suggest that informal, individual self-help construction and supervised self-help are feasible solutions.

B. Formal Construction Industry

Nearly all construction done through a formal process of professionally designed and contractor-built buildings is done by or for the Government and its parastatal corporations. There has been a building boom in Maseru and new construction seems to be continuing to increase. The largest projects underway are the new 200-room Hilton Hotel, the lakeside commercial and industrial development, and several office buildings on Kingsway.

There are more than 60 contractors operating in Lesotho. The 10 largest have done more than 50% of the public construction in recent years (see list below). A number of these firms have the capacity to do high rise concrete form construction. It is estimated that total annual capacity of the construction industry is at least R5 million and as much as R10 million. Most of the large

contracting firms are either owned or managed by expatriates, mostly South Africans. The capacity of the formal construction industry can be expanded by bringing in additional contractors from South Africa, although the shortage of skilled labor in Lesotho may also make it necessary to bring in this level of construction workers as well. For low-cost, self-help housing and/or sites and services projects, the formal construction sector would be concerned largely with infrastructure installation and public buildings.

Although there may well continue to be a shortage of skilled labor and contractors during the next few years as a result of the large scale construction programs underway and planned, it should not be difficult to contract the work needed for a sites and services and self-help housing project even if contractors must be brought in from South Africa. According to a study by the Ministry of Finance, for the three years 1975/76, 1976/77 and 1977/78, public contracts amounted to R21.2 million. LHC and LEHCO-OP accounted for only R720,000 of this amount or 3.3%.

Ten Largest Construction Firms Operating in Lesotho:

Benco	McCarthy
Sepson	Manonyane
Herselman-Hicks	M and C
Taiwan	Senque
Forrest	(10th company not specified)

C. Infrastructure and Utilities

The Ministry of Works has direct responsibility for providing roads, water supplies and sewage and garbage disposal. The Lesotho Electricity Corporation has full responsibility for installing and managing the electric power supply.

The water supply for Maseru is adequate with a current capacity rated at two million gallons per day and current peak demand at about 1.2 million gallons per day. The system is relatively well-maintained and water treatment makes it unnecessary for consumers to boil water from the piped system. As noted above, half of the households in Maseru have private water taps, and most households have access to public piped water taps. Provision of water taps in new housing or sites and services projects should not be a problem and the current supply would be adequate for a substantial increase in the distribution system.

Sewage disposal in Maseru is a problem area because the current treatment plants are already overloaded. The new plant about to be completed will be able to service the current piped sewage system, but will not provide for any significant expansion. In view of the fact that only one-fifth of Maseru households have piped sewage, an even larger treatment facility will be needed soon, if the piped sewage system is expanded to cover a majority of Maseru's population. The Ministry of Works also operates a service to empty septic and conservancy tanks (which also includes many bucket privies) for a nominal monthly fee which is much less than actual costs.

In spite of the difficulties of a system based mostly on bucket privies and conservancy tanks, the sewage disposal is relatively good. The soil conditions and rocky subsoil conditions do not allow for widespread use of pit latrines in spite of the generally large lot sizes, and therefore it is felt that a piped sewage system should be used as much as financially possible. Some type of system for organic decomposition of wastes might complement or be substituted for the existing bucket privies, but this would require some research and development work before being implemented on a large scale.

Roads and streets are built and maintained by the Ministry of Works. There is an inadequate capacity within the Ministry to properly maintain the existing road system. With the several new country-wide road projects being supported by international donors, under construction and planned, the Ministry's capacity in this area needs to be greatly expanded or road maintenance and repair will suffer even more.

The financing of infrastructure development is through a combination of rates (a general charge levied on all real estate to cover general infrastructure costs), fees (such as the sewerage charge), and loans and budget support to the Ministry of Works. Because of the limited capacity and the inadequacy of income from rates and fees, on-site water, sewer and roads capital costs should be charged to housing projects and paid by homeowners through the prices of the housing units. Off-site infrastructure should remain the responsibility of the Ministry and paid for from the

rates and fees. General budget support of off-site infrastructure ought to be limited to assist lower-income households with their share of the costs.

Electricity is generally imported by the Lesotho Electric Corporation (a public Corporation) from South Africa although a major plan has been formulated to produce hydroelectric power locally with some power being exported to South Africa. Only 7% of households in Maseru use electricity, and there are only 4,000 individual consumers in the country.

Costs of electrical power are too high to make it suitable for low and middle-income groups except perhaps for lighting. In low level civil servant housing where electricity is installed, it often is cut off because the tenants will not pay the electric bill. However, the number of consumers and level of consumption have continued to grow by about 20% per year. Although street lighting may be suitable for low and middle-income housing projects, individual connections will probably be affordable only by the higher income groups in the foreseeable future.

Financing of electricity reticulation is provided by loans on commercial terms to the LEC which it amortizes through electricity service fees. Only about one-fourth of the electricity is used for domestic purposes, and any increased demand for domestic use could be easily accommodated within the system.

D. Land Use and Tenure

Questions regarding the legal and policy implications of land

ownership, use and transfer are described above, but the following comments relate to the physical planning and use for residential development. Land for residential use around Maseru and other urban areas is still readily available although within the urban limits of Maseru nearly all land has been committed. There is a plan to extend the boundary considerably. The tradition of "free" land has encouraged the practice of providing large lots even in urban centers. This causes the cost of infrastructure to be very high and also results in excessively low density settlements, except in the low-income areas where a single lot may be used by a number of households. The lack of an adequate physical planning capacity has also resulted in land development on a scale too small to incorporate common facilities such as schools, shopping, etc. within a residential development.

Lot sizes vary from a low of 150m^2 to $1,500\text{m}^2$ in Maseru. For the lowest income group actual lot size per household in rental, row house accommodations may be much less than 150m^2 , but lot size per owner (not including tenants) would indicate larger lots even for the low-income group. The cost of infrastructure varies directly with lot size (especially width) so that infrastructure costs for lots over 300m^2 become prohibitive for low-income groups. If full costs of infrastructure were charged to homeowners, even middle and upper-income groups would find it difficult to pay for lots of $1,000\text{m}^2$ or more that are the current standard for senior level civil servant and expatriate housing. Aside from the

infrastructure cost, the traditional large lots mean that the cities (even with small populations) will become so spread out that transportation and communication will become a problem-- especially for the majority of the population that cannot afford cars. Government officials increasingly are recognizing this problem so smaller lots are likely to be developed in the future.

There is an inadequate physical planning capability in the Ministry of Lands. This creates inefficient use of land and makes it difficult or impossible to provide community facilities and services. Few housing projects include a community center or other public buildings; the LEHCO-OP project with its adequate community facilities is an exception. There is a need for planning of larger areas to assure that all community services, roads and utility networks are used efficiently and are accessible to the whole population.

E. Building Design, Costs and Building Materials

1. Building Designs

Traditional: As noted above, traditional rural housing are rondavels of mud brick or stone with thatch roofs. A single household has one to three such buildings. Costs are minimal since labor is voluntary and materials are not generally purchased but collected from natural sources.

Increasingly, however, wood to support the thatch roof as well as windows and doors are purchased.

Transitional: Informal sector residential buildings blending modern and traditional materials are generally two or three

rectangular rooms about 9 to 12m² each with a separate toilet. Cooking is often done outside. Rooms are often in a row with outside doors on each room although some are grouped and have interior doors. There appears to be little difference in size or shape of rooms and a single room often serves as a complete housing unit for a household. Common toilets and water taps are quite common, especially in rental units. Construction is either of mud brick or burnt brick with a metal roof. Metal door and window frames are used if they can be afforded. Costs may vary from R40/m² to R70/m² depending on the type of materials.

Modern Standard: Civil servant, expatriate and other housing produced by the formal construction industry is generally of the type found in Europe or North American single-family homes although the quality of construction and finishing is low. For low level civil servants, houses are usually 25m² to 35m² with an interior toilet/bath and kitchen. Senior civil servants and expatriates have 2 or 3 bedroom single-family housing 65m² to 150m² with servants' quarters. Costs of construction by contractor vary from R130/m² to R300/m² depending on the type of construction and finishing.

2. Building Materials

There is a shortage of building materials in urban areas of Lesotho which result in a great reliance on imported materials from South Africa. This means that building materials are high cost and also subject to interruptions in the supply.

The only locally produced building materials are burnt brick, quarried and crushed stone, sand and gravel found locally. However, the demand for brick and crushed stone exceed local supplies. There is no suitable wood available locally so all wood and wood products are imported at present. There is no major metal working industry so that the metal roofing, window and door frames, pipes and other hardware are all imported. There are apparently no suitable limestone deposits so all cement is currently imported.

BEDCO (Basotho Development Corporation) programs for developing the local building materials industry include expansion and improved quality of the local brick industry, import of additional rock crushers, and possibly modernization and expansion of the rock quarrying industry. In addition, LEHCO-OP and some other companies are producing cement block and wooden building components for their own use and sale to others.

To overcome the irregularity in the supply of materials, the INDC and its subsidiaries from time to time consider stockpiling building materials when they are available. The current supply system is limited mostly to delivery by rail over a single line which frequently does not operate on a regular schedule. Furthermore, any material shortages within South Africa are immediately reflected in Lesotho which has a very low priority as compared with South African domestic demands.

3. Building Costs

The building costs vary considerably depending on the type of housing being constructed and whether it is built by self-help, skilled labor or a contractor. Estimates based on observations and data collected from various sources indicate the following costs for various types of housing.

ESTIMATED URBAN RESIDENTIAL CONSTRUCTION COSTS IN MAY 1978 (R1 = \$1.15)

<u>Type of Unit</u>	<u>Building Cost</u>	<u>Cost/m²</u>	<u>Services</u>	<u>Total</u>
One room 10m ² unit, mud brick, common services, bucket privy, self-help.	R250	R25	nil	R250
One room 12m ² unit, burnt brick, public water tap, bucket privy, skilled labor.	R600	R50	nil	R600
15m ² one-room and bath, single-family, burnt brick, aided self-help, piped water and sewer 200m ² lots.	R750	R50	R600	R1,350
25m ² two-room and bath, brick or concrete block, aided self-help, piped water and sewer, 300m ² lot.	R1,500	R60	R800	R2,300
40m ² three-room and bath, piped water and sewer, electricity, contractor built, 500m ² lot.	R6,000	R150	R2,500	R8,500
70m ² two-bedroom, full services, contractor built, common servants' quarters, 1,000m ² lot.	R17,500	R250	R4,000	R21,500
120m ² three-bedroom, full services, carport, servants' quarters, 1,500m ² lot.	R30,000	R250	R6,000	R36,000

The principal factors which determine housing construction costs are:

- size of house
- types of materials and design
- labor: self-help, skilled, contractor
- size of plot
- services: piped water, sewage disposal, electricity

The table illustrates what happens to costs as houses and plots become larger, more skilled labor is employed, plots become larger, and services are added.

While house sizes in Lesotho seem to be generally reasonable for various income groups, plot sizes tend to be very large, thus greatly increasing servicing costs. Also, the heavy reliance on imported building materials causes costs to increase substantially. The Building Cost Index for the part of South Africa nearest Lesotho (Northern Cape and Orange Free State) increased from 166 in late 1974 to 210 in late 1977, or 27% in three years. Building materials imported to Lesotho reportedly have increased as much as 50% in the past three years. The Ministries of Interior and Works, in a study of infrastructure costs have provided for the following inflation rates: water and sewerage, 15% per annum; electricity, 20%; and roads, 22%.

Housing costs in communities other than Maseru can be less if local materials and self-help and/or local labor are used, but the costs are greater if imported materials and contract labor are used--because of increased transport and other

overhead costs.

Considering that the median household income in Maseru is R100 to R120 per month or R1,200 to R1,440 per year, the most the lower-income households can afford to pay for a house is R3,000 or so. This does not enable them to afford a contractor-built house or electricity, as can be seen on the construction costs table. It would seem that households well below median income could only afford a very small housing unit with piped water and sewer (e.g., one-room of 12m² as part of a basic row house). Alternatively, they could afford a somewhat larger house with a common water tap and bucket privy or other non-water borne sewage. It is unlikely that the lowest 25-30% of households in terms of income could afford anything but a small house made of traditional building materials, self-help labor, with common water tap and very basic sewage disposal.

VIII. ANNEXES

PRINCIPAL SOURCES OF INFORMATION FOR UPDATED SHELTER SECTOR STUDY

Hon. B. Sennonyana	Minister of Finance
A. M. Monyake	Permanent Secretary, Planning and Statistics
G. Rockliffe-King	Central Planning and Development Office, Finance
M. Lerotholi	Central Planning and Devel- opment Office, Finance
M. T. Thabane	Permanent Secretary, Inter- ior
B. Mosretsi	Deputy Permanent Secretary, Interior
J. T. Molapo	Assistant Secretary (Planning), Interior
A. Mosaase	Commissioner of Lands, Inter- ior
M. Nkhahle	Director of Housing, Interior
W. B. Cape	Lands, Surveys and Physical Planning, Interior
J. M. Peko	Lands, Surveys and Physical Planning, Interior
N. S. Bereng	Deputy Permanent Secretary, Cabinet (Personnel)
M. Motsopa	Cabinet Planning Unit
J. S. Lerotholi	Housing Officer, Cabinet (Personnel)
M. Sebatane	Cabinet Planning Unit

PRINCIPAL SOURCES OF INFORMATION FOR
UPDATED SHELTER SECTOR STUDY (Cont.)

L. Molapo	Principal Assistant Secretary, Mindrudev
H. M. Ntsaba	Lesotho Housing Corporation, Managing Director
V. M. Makhele	LEHCO-OP, Managing Director
E. Galindo	LEHCO-OP, Advisor
R. M. Senior	LEHCO-OP, Consultant
J. T. Mayer	Building Finance Corporation, Director

VIII. ANNEXES (Cont.)

CENTRAL PLANNING AND DEVELOPMENT OFFICE

TOWARDS A NATIONAL HOUSING POLICYA REVIEW PAPER BY NICK DEVASFEBRUARY 1978Summary

This paper is a review of progress in the housing sector, and on housing policy, over the past two years, with guidelines for further work on housing policy.

There have been considerable achievements in this sector in the past two years, but these, have taken place largely in a policy vacuum. There are still some very considerable problems in the sector - housing shortages, poor conditions, lack of physical planning and infrastructure, lack of finance for private house construction, land tenure problems, inequality of the present system, &c. The most central problem is the high cost of housing in relation to incomes, and it is necessary to examine ways in which these costs can be reduced; the most usual way, subsidies, carries with it some severe dangers, though. Lesotho's housing problems are not particularly serious yet, but they do need to be tackled now; they are also mostly problems of the urban areas with rural housing being generally of quite a high standard.

The paper then sets out certain guidelines for a national housing policy:

- it should be realistic in terms of the resources available to the Government and to the individual
- it should make best use of available resources (land, capital, labour and skills, construction industry, materials, existing housing stock)
- it should be concerned with all income groups
- it should be equitable
- it should increase the range of housing choice
- it should encourage but control the private market
- it should encourage the development of the necessary institutions.

Finally, the paper deals with the specific elements of a housing policy for Lesotho:

- the need for a proper administrative framework
- the need for revised urban land tenure and for physical planning controls (Administration of Lands Act)
- the changes needed in civil service housing, notably the need for economic rents
- the need to encourage and support the existing implementing institutions (LHC and LETHO-CP)
- the need to develop the financial resources for housing, particularly through RFC
- the need to develop the sites-and - services system for housing for all income groups
- the need for upgrading of the less satisfactory urban areas
- the need to encourage and control the private sector.

1. Introduction

Two years ago a paper was circulated from this office under the title "Towards a National Housing Policy". In those two years, a great deal has happened in the housing sector, but many of the policy issues remain unresolved, with the result that much of this activity is going on in a policy vacuum. This paper attempts to review progress in this sector and to bring together the policy issues which still require attention.

2. Review of Progress

2.1. The following can be identified as achievements over the past two years.

- USAID has conducted a useful study of the Housing Sector;
- an inter-ministerial Working Party met and discussed, at some length, matters of housing policy (although, with one exception, little has been done about its recommendations);
- a Housing Section has been established within the Ministry of Interior; the section has an officer, and technical assistance has been requested from USAID;
- the Department of Lands, Surveys and Physical Planning has been built up into a viable operation;
- the Building Finance Corporation (BFC) has been established and is operating (although, due to administrative problems it is not, as yet, taking in savings);
- the Lower Income Housing Company (LIFICO-OP) has grown into a competent technical services organisation; its first 200 units have been completed, and it is ready to start work on phase II in Maseru and on new schemes in Naputsoe & Roma; it has also developed a substantial building materials and furniture production unit;
- the Lesotho Housing Corporation, after 5 years of dormancy, has been effectively re-established, with new management; they have built the Arrivals Centre, and construction is under-way on 46 units funded by CDC and on 50 units financed by a German concern; they are due to start shortly on 30 medium cost units funded by BFC, and on low cost schemes in Maseru and Naputsoe;
- preliminary work has started on preparing for a site-and-service/upgrading project for funding by the World Bank, and a visit to Botswana provided valuable material for this exercise.

2. Despite all this, many of the essential policy issues remain unresolved although there is undoubtedly, now, a greater awareness of the need for a proper housing policy. This awareness has been heightened by the recent missions from the World Bank and CIDA, both of which agencies have raised serious concern that many housing programmes proceed (or are proposed) largely in a policy vacuum.

3. The Problems of the Housing Sector

3.1 The need for a proper national policy on housing is demonstrated by a brief examination of the problems which exist in this sector. This list is by no means exhaustive, nor is it in any particular order of priority.

- 3.11. Housing Shortages : There is obviously a general shortage of housing, particularly in Maseru. There is a shortage of Civil Service housing, which impedes mobility within the service, lowers staff morale, and impedes the recruitment of expatriate Technical Assistance personnel; (the present waiting time for housing for such personnel is around 6 months, which hardly matches up with the Government's commitments to provide housing). On a wider level, the shortage of housing has led to overcrowding, poor conditions, exploitation, and the rapid growth of new housing outside the town.
- 3.12. Housing conditions: Whilst housing conditions here are far better than in most developing countries (and many developed countries), there are areas where conditions are very poor. Lack of basic services is a particular problem and the result may be health hazards and social problems.
- 3.13. Shortage of Land: the relatively low density of development, combined with the tight boundaries of the urban reserves, has resulted in a chronic shortage of land for urban development, particularly in Maseru. The result has been to encourage (or enforce) development beyond the town boundary.
- 3.14. Lack of Planning and Infrastructure : the rapid development of the areas beyond the town boundaries (the peri-urban areas) has taken place, largely, on an ad hoc and unplanned basis; this has created some serious difficulties as a result of the lack of infrastructure and services; thus, even though people may be willing and able to build good homes, the absence of planning and infrastructure makes it virtually impossible to realise this aspiration.
- 3.15. Finance for Housing : until the establishment of the BFC, there was no real source of finance for housing, since banks are generally unwilling to lend for the length of time necessary for housing. Even with the establishment of the BFC, it will be a long time before there are sufficient resources to provide for all the housing needs, and it is questionable to what extent the BFC will be able to provide finance for the lower income groups.
- 3.16. Land Tenure : Whilst Lesotho's traditional land tenure has many advantages, it is difficult to adapt it to the needs of urban development. Housing development really requires freely transferable title to land, and, especially for mortgage purposes, a greater degree of security of tenure. The present system has probably discouraged the development of an effective private market in housing.
- 3.17. Inequity : The present housing situation has some considerable inequities; the system of subsidised civil service housing favours those who are fortunate enough to get a house, and the bigger the house, the greater the subsidy; the system of allocating sites (even serviced sites) free of charge, when these generally seem to go to the well-off, whilst the lower income groups seem to get little or nothing, is also inequitable; and the present arrangements, whereby, in general, the upper income groups live in the centre of town, whilst the lower income groups live on the periphery (where they incur higher transport and service costs) is also clearly inequitable.
- 3.18. The Cost of Housing : probably the greatest housing problem, anywhere in the world, is simply the cost of housing. The cost of a reasonable, contractor - built house is, generally, far greater than what a large proportion of the population can afford. This is really the crux of the housing problem here and anywhere, and it is discussed further in section 4. Largely as a result of this problem, the Government ends up making a considerable contribution to the cost of housing.

Unfortunately much of this contribution is "hidden" (i.e. not explicit) - in terms of staff housing subsidies; I have estimated that this subsidy on the Government's "pool" houses alone is about R0.86 m a year, most of which goes to the higher income groups.

3.19. Administrative Framework: Finally, the fact that housing has not, until now, been treated as a single policy area, has resulted in a large number of Ministries, Departments and Agencies being involved in housing, without there always being good co-ordination between them.

3.2. Two observations need to be made here:

a) these problems generally relate to the urban areas; by-and-large, rural people are able to provide themselves with quite a reasonable standard of housing (although they may lack services and facilities); the housing problem is really an urban one;

b) Lesotho's housing problems are minute compared with those in many countries, and there are many factors which operate in Lesotho's favour, with respect to housing; however, the situation is getting worse, and the problems need to be tackled now, before they get out of control.

4. The Central Problem : the Cost of Housing

4.1. As indicated in 3.18 above, the central problem of housing is its cost in relation to incomes. The situation is typified by the example of an ordinary person wishing to buy or build a house. 40 sq. m. would be reckoned to be about the minimum acceptable size for a family house. At current contract or building costs, this would come out at about R5000. If he was to take out a loan at 12% over 15 years (the likely sort of terms from a Building Society, e.g. B.C.), he would have to pay R106/month. In order to do this without spending more than 25% of his income on housing, he would have to be earning over R5000 per year! Yet probably a bare 5% of urban householders are in this range and could afford even such a basic unit.

4.2. How do we solve such a problem? There is no easy answer, and the solution must be a combination of various strategies - which is what makes a housing policy so important. These strategies would include the following:

- a) Reducing Specifications: R200/sq.m. is quite a high standard of building; by reducing construction specifications it is possible to produce a reasonable building at a lower cost; however, there is clearly a limit.
- b) Reducing Size of Site : since large sites increase infrastructure costs, reducing the size of the site, will help, but, again, there is a limit.
- c) Reducing Infrastructure Provision: use of pit latrines or some other low cost sanitation system instead of water borne sanitation, and the use of stand-pipes can reduce infrastructure costs, but again there is a limit.
- d) Alternative construction methods: by using small contractors, who should be cheaper and local building materials (where available) it may be possible to reduce construction costs; the use of prefabricated systems is often recommended (particularly by those who wish to sell them) as a way to reducing costs; however, such systems rarely reduce costs without huge production runs, they involve imported materials and techniques, are capital

rather than labour intensive, do not train relevant skills and generally produce monotonous and ugly results.

- e) Use of Self Help : this is one of the most significant ways to reduce costs, not only by enabling a potential house - owner to use his own labour to save on contractor costs, but also by enabling him to build a bit at a time, as he is able to afford it. Such an approach does however require an adequate "support system" to provide serviced sites on which he can build, plus a technical advisory service, if it is to be successful.
- f) Spreading Mortgage Payments by extending the period can help reduce monthly costs; another technique is a "low-start" mortgage which increases annually with inflation; however such a system does create administrative complications.
- g) Subsidies : subsidies are the favourite solution because they are the easiest; they can be applied to the cost of construction, to the cost of infrastructure, to the interest rate or to the rent of a completed house. However, subsidies on housing involve some serious dangers:
 - i) huge cost: if subsidies are to be given to everyone, it would involve the Government in a vast cost; with its very limited recurrent resources, it would be hard to justify huge subsidies on housing;
 - ii) inequity: if, as happens now with Civil Service housing, some lucky ones get the subsidy but most do not;
 - iii) distortions : subsidies often distort the market and discourage the private investors from providing housing;
 - iv) higher standards : subsidies may just result in the adoption of unnecessarily high standards by a few, without any general benefit to the majority, or any overall improvement in the housing situation;
 - v) urban migration : giving subsidies to those in the urban areas may encourage the shift from the rural areas to the towns; rather, any subsidies should be used to improve employment opportunities and facilities in the rural areas.

4.3 For all these reasons, I would advocate strongly against any general housing subsidies by Government, although a system of cross - subsidisation from higher to lower income groups should be encouraged. However, there are certain types of subsidies which are more-or-less essential if good housing programmes are to be developed. These would include:

- i) institution - building ; initial support by Government to the institutions/agencies who are to develop housing, to enable them to get established on a self-sufficient footing; it may take quite some time to build these institutions up to such a level, and premature withdrawal of support could leave such institutions unable to operate;
- ii) provision of certain primary infrastructure (e.g. bulk water supplies, sewage treatment works &c.) which will

serve large areas and without which no development can really take place; (this is not to say that beneficiaries should not pay an economic cost for the use of such services, but, simply, in order to promote development initially, the Government may have to be prepared to subsidise such things).

5. Policy Guidelines

In developing a national housing policy, there are certain broad policy guidelines which, it is suggested, should be followed. These are by no means new: most of them were included in my previous paper and the subsequent report of the working party, as well as being approaches advocated by the World Bank, USAID's office of Housing, and others.

- 5.1 Any housing policy should be realistic in terms of the resources available to the Government and to the individual.
 For the Government, this means schemes should be related to the capacity for implementation and to the budgetary resources available; costly schemes which have to be subsidised in perpetuity because no one can afford them, should be avoided, as should any general subsidies which will put a long term drain on the Government's budget. With regard to the individual, schemes should be designed to be affordable, and specifications, methods and techniques should be adjusted (as per 4 above) to match aspirations with individuals' resources.
- 5.2 The policy should make best use of available resources:
- a) Land: by developing in a planned manner, by keeping sites realistically small and by infilling larger sites where feasible;
 - b) Capital : by mobilising personal savings (which, in Lesotho, are considerable) into the housing sector, through institutions like the Building Finance Corporation, and by using self help and other methods to "stretch" available capital further;
 - c) Labour, time and skills: where capital may be lacking, time and effort may be available, and this, along with the skills which individuals may be able to call on should be mobilised through self-help and site-and-service schemes; cooperatives provide a good model here;
 - d) Construction Industry : frequently, self-help may not be an adequate solution, and it is therefore necessary to develop the resources of the construction industry, through skill training and encouragement of small contractors;
 - e) Materials : the use and development of local materials may not only reduce costs, but also increase incomes through employment generation;
 - f) Existing Stock of houses : although some of the existing stock of housing may be unsatisfactory, whilst there is a shortage of housing we should avoid destroying any of the existing stock (except where essential for improved access, higher density development or general neighbourhood improvements); thus the emphasis in the "sub-standard" areas of town should be on upgrading, rather than on demolition.
- 5.3 The policy should be explicitly concerned with all income groups and it should endeavour to offer practical solutions suitable for each income group - even though, in the case of the lowest income groups, this may only mean providing an orderly settlement area with the most basic level of services.
- 5.4 The policy should, as far as possible be equitable, such that any subsidies which there may be, are directed to those with the greatest need, rather than just to the first, lucky few; cross subsidies from higher to lower income groups should be encouraged.
- 5.5 The policy should aim to increase the choice available to people, in terms of the type, design, cost and standard of housing offered, tenure arrangements, location etc, rather than imposing rigid, standard solutions across the board.

- 5.6 The policy should encourage private initiative as the private housing market can do much to supplement Government - sponsored efforts; however, adequate controls are needed to avoid exploitation of consumers, speculation and other potential hazards of the private market.
- 5.7 The policy should encourage the development of the necessary institutions to promote housing within the framework set by the policy; such institutions, especially where they are dealing with the lower income groups, cannot be expected to develop and operate without strong Government support.

6. Specific Elements of the Housing Policy

Having discussed general guidelines for policy. We need now to consider some specific elements which should be included in any housing policy for Lesotho.

- 6.1 Administrative Framework: the newly established Housing Section at Interior will need to be properly staffed and strengthened to be able to fulfil its functions:
- formulation in consultation with all parties, of a national housing policy for approval by Cabinet
 - collection of data with which to monitor and update the policy
 - ensuring implementation of the policy through the co-ordination of the activities of Ministries and Agencies involved in housing
 - preparation of new housing programmes, in conjunction with the executing agencies, and to assist in their implementation.

6.2 Land Tenure and Planning

- 6.2.1 It is undoubtedly vital to an effective housing policy that there be a change in the present urban land tenure arrangements, along the lines of the Administration of Lands Act (or some modification of this Act):
- to make title to land freely transferable
 - to give proper security of tenure
 - to bring in proper physical planning and building controls
 - to extend the present urban boundaries
 - make the allocation of urban land a function of Government.
- 6.2.2 Any such change must, however, carry adequate safeguards to prevent speculation in land and other abuses; the Administration of Lands Act does contain reasonable safeguards.

6.3 Civil Service Housing

- 6.3.1 An essential component of the housing policy will be some action on the Civil Service housing situation. It has long been the stated Government intention to extricate itself from direct housing provision. Fundamental to this is the need to eliminate the considerable subsidy on Government housing. Government rents have not been raised for at least 12 years, during which time incomes have probably trebled.
- 6.3.2 To introduce "economic rents" would require very substantial increases, e.g. from R42 per month to, say, R300 for a new Caledon. from R16 per month to, say, R100 for a flat. Such increases could not be made easily without causing dissatisfaction within the service. However, such a move could be achieved by :

- a) phasing the progression to economic rents over 2-3 years, with good advanced warning of intended increases;
- b) combining a substantial increase with the next salary increase, calling such a salary increase a "Housing Allowance"; and increasing rents to match;
- c) making loans and sites available to Civil Servants to build their own houses.

- 6.3.3 Donor agencies and expatriate personnel can be expected to pay these rents too, and agreements with donors should, as far as possible, be renegotiated so as no longer to include free housing; where a donor insists on free housing as a counterpart contribution, the rent should come from the vote of the relevant Ministry.
- 6.3.4 An unwillingness to face up to this vital step of increasing Government rents will seriously erode the effectiveness of any national housing policy.
- 6.3.5 It is also highly desirable that Government housing be transferred to a parastatal, such as the Lesotho Housing Corporation. The advantage of such a move is that LHC would then be able to manage them as a commercial proposition and to raise capital on the open market, on the security of these houses, to build new houses. Government (Cabinet Personnel) should, of course, retain nomination rights, and allocations should be in accordance with a strict and explicit set of criteria. Until such time as rents reach an economic level, there will have to be some transfer payment to offset the subeconomic rents. It will, not, of course, be possible to transfer all Government houses to LHC, as some are tied to specific jobs; "tied" houses should, however, be pruned to a minimum.
- 6.3.6 Under the present set-up, the continued construction of expensive Government houses is an appalling waste of money; although these are justified as being needed for Technical Assistance personnel, the fact is that the Government has a vast number of houses already which it could make available for this purposes, but these are occupied by local civil servants. Thus, in effect, Government is spending huge sums to build high cost houses so that it can let them (or others) at very low rents. It would be far more sensible to encourage civil servants to build their own houses, by providing loans and sites (at economic costs). This would enable Government staff to have their own property for the future, whilst freeing up Government houses for Technical Assistance personnel (who, by the nature of their assignments cannot provide their own housing). Thus, rather than building more, subsidised government houses, the policy should be to provide Civil Servants with a priority for loans and sites to build (or have built) their own homes.
- 6.3.7 There is also the question of selling houses to Civil Servants. Out of fairness, this should perhaps be offered as an option at the time when the houses are to be transferred to LHC, so long as the price is a fair one (i.e. not a subsidised one). However, since such a step could greatly reduce the stock of houses available for reallocation, this policy is less attractive than one of encouraging Civil Servants to build their own.

6.4 Institutional Framework

6.4.1 With the recent development of LHC and LEHCO-op, there is now a reasonable institutional framework. However, these organisations will need continued Government support - including financial support; they cannot be expected to be viable entities, whilst they are so small, nor to develop new projects without continued Government support (although they should, of course, aim at self-sufficiency in the long term).

6.4.2 Certain changes are, however, needed. LHC needs to be severed from LNDC (which has no real interest in it) and established as a Statutory Corporation. Both organisations should come under the administrative responsibility of the Housing Section of Interior. There is also a case for merging the two organisations; not only would it be easier to pool technical resources, but it would enable cross-subsidisation within projects between higher and lower income groups. However, such a merger has a considerable number of difficulties, and should be approached with caution.

6.4.3 The functions of the two organisations perhaps require some clarification:

LHC is responsible for building houses for sale or rent to all income groups, for providing serviced sites to all income groups, and, in due course, hopefully, for managing the Government's stock of houses; for the time being it is probably better if it concentrates on middle and upper income housing whilst cooperating with LEHCO-OP on lower income group housing;

LEHCOOP is specifically concerned with lower income housing (which would be defined as below the median income level), specialising in a cooperative approach, but developing other approaches as appropriate.

6.4.4 One further point on the institutions: as they develop projects, they are bound to encounter problems - people defaulting or trying to undermine project management, in order to avoid paying rent or repaying their mortgages, etc. It is very important that Government gives the institutions adequate backing, whilst, of course, carefully monitoring their performance and management. The problems of defaulting and petty politicking bedevils low-cost housing schemes round the world. If the Government does not provide the backing which is required, and if it does not support a tough line against defaulters, but rather chooses to interfere every time there is a small problem, these institutions will just be destroyed, and the Government will end up having no way of implementing further schemes (since, if it undertakes them itself, it will hit just the same snags).

6.5 Finance for Housing

Donor finance will undoubtedly be available for suitable low-cost housing schemes in the future. However, it is essential that we don't become so dependant on such sources of finance, that the schemes will no longer work when, one day, donors lose interest.

- a) Commercial finance should be sought for high and medium cost schemes;
- b) the Building Finance Corporation should be encouraged to mobilise savings, and to direct them towards lower income groups; BFC's need for security for its depositors can be maintained in schemes for the lower income groups if resources are channelled through institutions like LHC/LEHCO-op as implementing agencies;

- c) where donor funds are available, they should not be passed on at zero interest to beneficiaries, but a realistic rate of interest should be charged in order to build up a revolving fund to ensure funds for future schemes.

6.6 Development of Site-and-Service Schemes

Although new to Lesotho, the concept of "sites-and-services" is well tried around the world. By providing a serviced site, a loan for materials and some technical advice, it is possible to enable even quite low income households to provide their own housing. Serviced sites should be made available at an economic cost for all income groups, preferably on an integrated basis, to allow for cross-subsidisation; sizes of site and levels of service provision should adjusted to income and affordability. Building material loans and technical advice should be provided to the lower income groups, whilst the upper income groups should be able to obtain loans directly from the B.F.C. for house construction. Many valuable lessons on this type of scheme were learnt during the recent visit to Botswana, and reference should be made to the report of that visit.

6.7 Upgrading Schemes

Since many areas have been developed without proper services and since much of the present urban housing stock is of a less than desired standard, upgrading schemes should be an integral part of the housing policy. It is essential that any upgrading scheme be very carefully prepared, to be closely related to what the people in the area concerned want, and to what they can afford. Such schemes can provide opportunities for "infilling with new housing and for provision of much needed amenities.

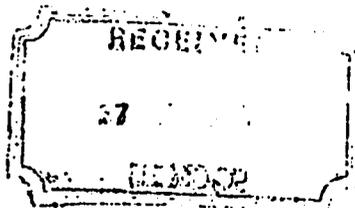
Again, with much useful information gained on such schemes from the visit to Botswana, the report of the Botswana trip should be referred to.

6.8 The Private Sector

The private sector is already very significant in Lesotho, with perhaps as much as $\frac{1}{3}$ of the population of Maseru living in "flats". Although there is a lack of information on rents and facilities available, there is little to suggest that there is gross exploitation at present. At the top end of the spectrum, there are undoubtedly huge speculative gains being made on high cost units, but these are generally at the expense of those who can well afford it. With a shortage of rented property at all levels, the private developer should be encouraged, but, as a part of the housing policy, there is a need to define certain controls.

These would include ceilings on rents for particular types of accommodation (which should not be set too low), and minimum standards for the provision of water supply, sanitation etc.

These standards should be enforceable and they should not be too rigid, or they will simply end up destroying the private market, leaving those seeking accommodation worse off than before.



C.M.D.
22/2/78

VIII. ANNEXES (Cont.)

SOUTHERN AFRICA DEVELOPMENT ANALYSIS PAPER
PRELIMINARY COUNTRY REVIEW PAPER ON SHELTER AND URBAN DEVELOPMENT

by Jack Edmundson, FCH

LESOTHO

SUMMARY SHELTER SECTOR ASSESSMENT

Population

JULY, 1978

The population of the Kingdom of Lesotho is 1,213,960. According to the preliminary report from the 1976 Census, the composition by sex is: 558,870 males (48.34%) and 627,090 females (51.65%). Slightly less than 50% of the population is nineteen years of age or less. The annual estimated population growth rate is 2.2%.

The non-African population is reported to be a fraction of one percent. Expatriates, and especially South Africans, have an influence on national life totally out of proportion to their numbers. Expatriates occupy many top management positions. The bulk of business and commercial operations are controlled by South African organizations and individuals. The population of refugees totals about 1,500, and is increasing at a manageable rate of about 20 persons per month.

The population is concentrated in the lowlands region, and population density in the arable lowlands averages 280 persons per square kilometer. The actual and projected distribution of population by administrative district appears in the table below.

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Distribution Of Total Projected Lesotho Population
By Administrative District
(in '000s)

DISTRICT	1975	1976	1977	1978	1979	1980
BUTHA-BUTKE	77	79	80	82	84	86
LERIBE	196	200	205	209	214	219
BEREA	142	145	148	151	154	158
MASERU	248	254	260	265	271	277
MAFETENG	141	144	147	150	154	157
MOHALE'S HEOK	138	141	145	148	151	154
QUTHING	90	93	95	97	99	101
QACHA'S NEK	76	77	79	81	82	84
MOKHOTLONG	73	75	76	78	80	82
TOTAL, LESOTHO	1181	1208	1235	1261	1289	1218

Source: Annual Statistical Bulletin, 1975.

The majority of the male labor force resides and works outside Lesotho; estimates vary, but between 175,000 and 200,000 Basotho reside in the Republic of South Africa, where they work predominantly in the mines. This issue is discussed more fully below.

Migration is an important phenomenon in Lesotho, and takes two forms. The most significant form of migration is migration of

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the work force from Lesotho to South Africa. At present, there is no evidence that out-migration to South Africa is increasing. Nonetheless, the absence of over half the male labor force is significant in and of itself, and reflects the severe limitations of the domestic economy and the overwhelming economic dependence on South Africa. The other form of migration is rural-urban migration which surpasses natural growth rates and is the primary cause of urban growth in the capital, Maseru, as well as other towns. There are no reported data indicating that the rates of rural-urban migration are due to increase dramatically.

Pattern of Urban Development

The major urban centers of Lesotho are Maseru, the capital, Teyateyaneng, Maputsoe, and Mafeteng.

The urban areas of Lesotho are relatively small; Maseru is the only urban town with more than 10,000 people. The results of the 1966 Census and the 1972/73 Urban Household Budget Survey were compared to derive approximate annual growth rates for selected urban areas. Consideration was given to potential increases in urban population resulting from increased urban employment opportunities. For example, the Second Five Year Development Plan (1975-80) projects the following increases in urban employment: from 27,500 to 46,000 jobs in modern sector (manufacturing, construction, government, tourism, other services, and labor-intensive public works), or 12% per year compounded. Based on these considerations, the following table presents projected

growth for the major urban areas.

Estimated 1978 Population and Growth Rates for Selected Urban Areas

<u>Name of Area*</u>	<u>Current Growth Rate</u>	<u>1978 Population</u>	<u>Projected 1983 Population</u>
Maseru	12%/yr.	43,000	75,700
Teyateyaneng	7%	9,000	12,600
Maputsoe	10%	6,000	9,600
Mafeteng	5%	3,500	4,400
Other Urban	3%	<u>8,500</u>	<u>9,800</u>
Total		<u>70,000</u>	<u>112,100</u>

*Area includes official jurisdiction and adjoining developed areas.

Given the high rates of urban growth, and an annual population growth rate of 2.2%, it is clear that the bulk of urban growth is due to rural-urban migration. The expansion of job opportunities in the modern sector attracts migrants. Agriculture is a precarious activity in Lesotho at best; crop yields and production have declined since 1950, and livestock production has not increased over the last five years. Diminishing returns in the agricultural sector drive people from the countryside to seek a living in urban areas. Refugees are not a significant factor in urban growth in Lesotho; there are currently about 1,500 refugees in the country, and since October 1977 their arrival rate has been only 20 per month.

A number of potential problems for urban growth are posed by the economic dependence of Lesotho on South Africa. Should employment

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opportunities for Basotho in South Africa decline, returning workers would most likely flock to the cities since they are essentially urbanized because their work in south Africa has integrated them into the modern, cash economy sector and many of them are skilled workers. If even half (100,000 men) of the Basotho employed in South Africa returned to the towns. such an influx would create a tremendous strain on urban employment opportunities, housing and the urban services delivery systems. A change in the political and economic relations between Lesotho and South Africa would seriously affect overall urban development since Lesotho depends on South Africa for so much of its construction materials and other supplies essential for the provision of urban services.

Employment and Income Distribution

Employment.

The Lesotho work force consists of 290,000 males and 160,000 females. An estimated 81% of the working age population is employed. The single most revealing fact about employment in Lesotho is that probably six times as many of Lesotho's work force is in employment in South Africa as those in similar work in Lesotho.* Remittances from these workers to their families in Lesotho account for more than half of the national foreign exchange receipts each year.

The modern, or wage, sector of the domestic economy is very small; it employs less than 10% of the total work force. In 1976/77, the number of persons in wage employment in Lesotho was estimated at 30,000.

* "Lesotho: Survey of Recent Economic Developments, Prospects, and Major Policy Issues, 1977." D.W. Hill (ECA Regional Advisor). Mimeo, n.d., p. 9.

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Government employment in Lesotho amounts to nearly 11,000 of the workers in the modern sector. The private sector accounts for the remainder of wage employment, and includes activities such as construction, manufacturing, tourism, finance, and a large number of jobs in domestic work and services.

Women are active in the labor force as a whole; their participation in the work force is estimated at about 80%. Women in the modern sector are clustered in domestic work, and about 25,000 Basotho women migrate to South Africa for domestic employment.

The possibilities of job creation are few. The only growth sector of the modern domestic economy is tourism. New wage employment opportunities in Lesotho have average 333 jobs per year over the last seven years.* The rate of new job creation does not begin to match the number of new job entrants annually.

Agricultural productivity is low, and it is most unlikely that agriculture could absorb the migrant labor force. The economic interrelationships between Lesotho and South Africa present two serious issues vis-a-vis employment: (1) to retain skilled labor, Lesotho has to compete with South Africa which offers better salaries; (2) should relations between the countries change so that South Africa reduced its employment of Basotho, a severe strain would be placed on the Lesotho economy in trying to absorb so many laborers.

* Ibid.

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Information on urban household incomes in Lesotho is obsolete and fragmented at best. It is possible to provide a very general picture of current household incomes working with available information on incomes of government workers, the formal private sector, and migrant miners.

The only available household income distribution data come from the 1972-73 Urban Household Budget Survey. That income distribution data can be updated by assuming that: (1) the distribution of the population has remained fairly stable since 1972; and (2) overall incomes have increased 100%. This second assumption is based on estimates that inflation (i.e., the price index) increased 100%; government salaries and wages increased at least 30%; miner wages increased more than 400%; and that private sector income probably kept pace with inflation especially considering the enactment of a minimum wage law. The following table shows the results of updating the 1972 urban household income estimates using these assumptions.

Distribution of Household Incomes in
Selected Urban Areas (R1.00 = \$1.15)

1972 Annual Household Income Range	1978 Annual Household Income Range	1978 Monthly Household Income Range	Percentage of Household Income Ranges			
			Maseru	Teyatey aneng	Marf- teng	Other Urban
R 0-R199	R 0-R399	R 0-R33	22%	47%	40%	34%
R 200-R499	R 400-R999	R 33-R83	33%	29%	32%	36%
R 500-R999	R1000-R1999	R 83-R167	23%	15%	19%	18%
R1000 and over	R2000 and over	R167 and over	<u>22%</u>	<u>8%</u>	<u>9%</u>	<u>12%</u>
			100%	100%	100%	100%
Approximate Monthly Median Household Income, 1978			R80	R35	R46	R50

Source: Based on "1972-73 Urban Household Budget Survey," Bureau of Statistics. 1978 incomes assumed to be 100% more than 1972.

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Income Distribution. The pattern of income distribution varies between rural and urban areas and within urban areas. Income distribution in rural areas is quite equitable, probably due to traditional rural systems of land allocation and cattle ownership which provide a rather even distribution of productive assets. The heavy participation of workers in mining and other jobs in South Africa also creates an equalizing effect on incomes throughout the country. As shown in the table, when the income of expatriates is excluded from national income, the national distribution is surprisingly equitable.

National Income Distribution

<u>Population Group</u>	<u>% of Total Income Received</u>	<u>% Total Income Received Excluding Expatriates</u>
Lowest 5%	3	4
Lowest 20%	15	16
Lowest 40%	30	32
Highest 40%	52	50
Highest 20%	33	30
Highest 5%	16	11

Source: 1970 Agricultural Census and 1972/73 Urban Household Budget Survey as reported in the Second, Five-Year Development Plan, Vol. 1.

Income distribution within urban areas, and particularly within Maseru, is less equitable than the national pattern (due to the concentration in urban centers of expatriates, senior civil servants, and wealthy members of the private sector. In urban areas, 26% of all income accrues to 5% of the urban population.*

*Second Five-Year Development Plan.

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From the above information, only a vague picture of urban household incomes emerges. It is probable that there was substantial under-reporting of income in the 1972-73 Survey. Informed observers estimate the overall monthly urban median to be around R100 per month in Maseru; the median in other urban areas would be somewhat lower.

Expenditure on Housing. According to the 1972-73 Household Budget Survey, households in various income categories were spending from 12 to 20 percent of their income on housing, with most households close to the 20% range. These figures are somewhat conservative since they do not compensate for either initial capital investment of home owners or the high subsidies for civil servant housing. It is likely that most households would invest at least 25% or more of their income to have the opportunity to become homeowners of a standard, permanent house. This is borne out by the response of participants to a low-cost housing project in Maseru sponsored by the Lower Income Housing Company.

Shelter Situation. Since 94% of the population resides in rural areas, most housing is, of course, rural. Traditionally, housing in the rural and semi-rural areas consists of one or more round buildings made of stone or mud brick with thatched roofs. Such buildings are built rapidly and with a low cash cost, since most labor is self-help or voluntary, materials are gathered from natural sources, and no special tools are required. The durability of rural housing varies with the material. Stone houses usually last 40 years or more; mud brick homes normally last 5 years, but their lifetime can be extended considerably with good maintenance and frequent repair.

In rural areas, housing per se is not a problem. The current

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shortage of building materials, principally wood and thatch, is becoming a problem, however. The real shelter sector problems in rural areas revolve around services and there are a host of problems in this regard. In general, physical infrastructure services are rudimentary. Water supply systems at the village level are unsanitary and often far removed from the houses. (AID estimates a backlog of about 500 village requests for new water supply systems.) Sewage disposal is rudimentary; rural roads are inadequate; educational and health care facilities are insufficient. These problems are compounded by the fact that land allocation in rural areas is handled by the local chiefs. Generally, allocations made by chiefs do not follow any particular layout plan, and this will create difficulties for future efforts to extend physical and social infrastructure and services to rural areas.

It was not possible to obtain an accurate census of the existing housing stock in Maseru or other urban areas. A housing survey carried out in 1973 reported that of all houses in Maseru 61% are built of brick or stone, 60% have mud floors, 93% have tin roofs, 23% have piped sewage, 50% have private water taps, and 7% have electricity. These data indicate that the majority of housing in Maseru is self-built of primarily temporary materials and lacking in services.

For other urban areas, there are no data on the condition of the housing stock, but apparently there is an even lower percentage of permanent housing, and it is likely that standards for both house construction and provision of services are lower than in Maseru.

Of existing housing stock, some 2,000 housing units are owned by government, 1,500 of which are located in Maseru. This housing is built

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to high standards with full services.

The majority of urban housing, and particularly housing for low-income groups, is produced by the informal sector through self-help. This housing retains some characteristics of rural housing, especially as regards building material for walls and floors and the lack of services such as piped water and sewerage or surfaced roads and walks. The government does provide public water taps in most areas, and is extending a few access roads into these informal residential areas.

Housing conditions in the urban areas of Lesotho, and especially in Maseru, are crowded. The average persons per room ratio for Maseru is 1.9, but rises to 2.8 for the lowest income group. Many low-income families, and nearly all low-income renters, live in a single room. Fully 40% of the population of Maseru lives in rental accommodations which are usually one-room units, indicating that apparently a large portion of the urban population lives in overcrowded conditions.

Shelter sector problems in urban areas include housing as well as general urban development and services. The current urban growth rates, ranging from 3% to 12%, create a high demand for housing. The unavailability of serviced land, a 20% annual inflation rate, lack of adequate building materials, limited construction capability, and an almost complete absence of long-term mortgage finance combine to cause a critical housing problem in almost all the urban areas. This demand is compounded by the need to replace existing stock. Since physical and social infrastructure is inadequate for the present urban population, the need for such services may be expected to expand exponentially.

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Existing Shelter and Urban Development Programs.

Provision of Housing. The informal building sector is responsible for provision of the majority of urban housing. The government and parastatal agencies operate the only major formal sector housing programs in Lesotho. In the 1970s the government has played a more active role in the shelter sector, and several new housing institutions have been created. Outside the informal building sector, the majority of housing construction is currently carried out by two quasi-governmental agencies, the Lesotho Housing Corporation (LHC) and the Lower Income Housing Company (LEHCO-OP).

The Lesotho Housing Corporation was created in 1971 as a wholly owned subsidiary of the Lesotho National Development Corporation (LNDC). The LHC was essentially dormant until 1976 when it first received money for operating expenses from the government. The LHC now has a small but efficient staff, good management, and three small projects underway. The LHC both owns and sells the units it builds. In 1976, the LHC erected a 43-unit prefabricated and fully equipped Arrival Center to provide temporary accommodation for newly arrived technical personnel. Ongoing projects of the LHC include construction of 48 flats and houses for technicians and 30 houses for the middle and upper income brackets.

In the immediate and near future, LHC efforts will be concentrated on construction of small rental units for lower income groups and houses for rent and sale for middle-upper income groups and provision of serviced sites for all income groups. The LHC will also take on responsibility for some of the government's civil servant housing, once the disposition of these units has been initiated.

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The Lower Income Housing Company was established in 1975 as a parastatal organization incorporated as a subsidiary of the LNDC. LEHCO-OP was created with a grant and technical assistance from UN specialized agencies. The government's contribution has been marginal. LEHCO-OP was formed as a technical services organization to sponsor and serve housing cooperatives and self-help housing programs. To date, LEHCO-OP has established a cooperative society, and the first LEHCO-OP project of 200 houses now has about 170 self-help housing units completed. The income of groups served by this initial housing project is about R75 per month, i.e., at or below the urban median. LEHCO-OP activities in the provision of low-cost housing are slated to expand as the organization will be the primary implementing agency for a Canadian-funded \$2.68 million sites and services program due to create 1,036 new housing units in Maseru, Maputsoe, and Roma beginning in September 1978.

In 1976, LEHCO-OP established the Production Systems Division, a building materials production and distribution organization. The purpose of Production Systems is to reduce Lesotho's economic dependence on South Africa by producing materials locally and creating a new source of employment since AID funding has been made available for expansion of the physical plant.

Another type of government program in the shelter sector is the provision of housing for civil servants. The total stock of government housing is estimated to be 2,000 units, of which 1,500 are located in Maseru.

Severe shortages of housing for Government civil servants exist in all district administrative centers compounding the difficulty of

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recruiting personnel for rural positions, be they teacher, extension workers or administrators.

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Currently, only 20% of civil servants are quartered in government housing; the 80% who are not housed by government do not receive compensation. The government produces between 100 and 150 units of new civil servant housing each year which is not adequate to keep up with increase in civil servants. Government housing production is carried out under the direction of the Ministry of Public Works.

There seems to be a rather fragmented and poorly coordinated system for financing, construction, managing, and maintaining the Government housing stock. All government housing is highly subsidized so that over-all rents charged are not even adequate to cover maintenance costs, much less amortize the cost of buildings. Government subsidy of civil servant housing currently totals about R1 million per year.

The role of the private sector in housing varies: the institutional, or formal, private sector plays a very limited role in the provision of housing; the individual, or informal, private sector is responsible for provision of the overwhelming majority of housing stock through self-help construction. A number of factors have restricted development of an effective housing and shelter sector within the economy: (1) the absence of any financial vehicle to marshal resources for the sector; (2) an inadequate legal structure for the transfer of interests in land; (3) government provision of heavily subsidized housing for civil servants and expatriate personnel; (4) the diffusion of responsibility for housing through at least seven government and quasi-governmental agencies; and (5) a severe shortage of trained Basotho management personnel and skilled labor which restrict the housing supply capacity of the country.

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Shelter Finance: Until 1976, when the government established the Building Finance Corporation (BFC), there was no financial mechanism for marshalling resources for housing. The function of the BFC is to promote private investment in housing to help ease the present chronic shortage. The BFC will soon open its doors to the public. Given its highly preferential interest rates on savings accounts, it should have little difficulty in mobilizing sizeable amounts of savings in short order.

The BFC will also acquire a portion of the civil servant housing once the decision is made to divest this housing. This would represent a sizeable mortgage portfolio and provide the BFC with a valuable additional asset, and thus assure adequate capitalization for the next several years.

Government programs in shelter for people other than civil servants, and particularly for the lower income sector, are still new. The LHC and LEHCO-OP have been fully functioning bodies for less than three years. As a result, government housing programs are essentially in a start-up phase and, for the time being, are small-scale efforts. A significant expansion of LEHCO-OP's programs is imminent, however, and the LHC is slated to extend its operations to include sites-and-services projects. A merger of the two agencies is under consideration. These shifts in parastatal housing programs point to an increasing concentration on minimum shelter solutions for low-income people and an overall expansion of government efforts in the urban housing sector. The ability to step up low-cost housing and sites-and-services provision will depend in large part on the level of ongoing and future government commitment to urban shelter, the ultimate policy on housing subsidy, and on government's ability to marshal external resources for the shelter sector.

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Construction Industry

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The great majority of all residential construction, in both rural and urban areas, in Lesotho is carried out by the traditional and/or informal construction sector. Typically, construction in the informal sector in urban areas is carried out by a combination of self-help and hired skilled labor with no general contractor, architect, or other professional persons involved. The demonstrated capacity of the informal sector indicates that sites-and-services programs and self-help housing can be successfully undertaken, and the government is now promoting such schemes. The limited incomes of most of the population suggest that informal, individual self-help construction and supervised self-help are the feasible and necessary solutions. Thus, it may be expected that informal construction activity will remain significant, if not predominant, in Lesotho.

Nearly all construction done through a formal process of professionally designed and contractor built buildings is done by or for the government and its parastatal corporations. Government housing clearly constitutes the largest portion of housing produced by the formal sector in urban areas.

There were 28 registered contractors in Lesotho in 1976, and 44 in 1978, a significant upsurge. A number of these firms have the capacity to do high rise concrete form construction. Most of the large contracting firms are either owned or managed by expatriates, many of whom are South Africans. There are more expatriate firms in Lesotho in 1978 than there were in 1975. All the expatriate firms intend to compete for public contracts, and they may supersede expanding Basotho firms in projects which could be handled locally, such as large housing projects. Local contractors are largely

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restricted to construction of housing and standard public buildings while expatriate firms tend to handle infrastructure projects, steel structures, and special buildings. The capacity of the formal sector construction industry is estimated at about R5,000,000 or more. Ten of the registered contractors had a tender value capacity of R100,000 or more in 1976. This capacity could be expanded by bringing in additional contractors from South Africa, although the shortage of skilled labor in Lesotho may also make it necessary to bring in construction workers as well. For low-cost, self-help housing and/or sites and services projects, the formal construction sector would be concerned largely with infrastructure installation and public buildings. Current experience of the Lesotho Housing Corporation (LHC) in utilizing smaller indigenous construction firms seems to be favorable.

The Second Five Year Development Plan sets employment targets for the construction industry. The target for private sector construction and civil engineering is to raise Basotho employment from 2,500 (estimate for April 1975) to 5,000 by 1980. A recent study indicates that employment in the construction sector had increased by 1,184 positions from 1975 to April 1978.* Secondary employment generated through subcontracting is not included in this figure. These figures would seem to indicate that it is possible the target for employment expansion in the construction industry will be met.

There is a critical shortage of building materials in urban areas of Lesotho which results in a great reliance on imported materials from

* "Three-Year Review of Building Construction and Civil Engineering Sectors (1975-8)". By Steve Brushett. April, 1978, p. 3.

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South Africa. A LEHCO-OP study found that 70% of all building materials required for low cost housing construction must be imported from South Africa. The only locally produced materials are burnt brick, quarried and crushed stone and sand and gravel. However, the demand for brick and crushed stone far exceed local supplies. Wood and wood products, metal roofing, window and door frames, pipes, and other hardware are all imported. There are apparently no suitable limestone deposits, so currently all cement is imported. The current building materials supply system is limited mostly to delivery by rail over a single line which frequently doesn't operate on a regular schedule. Furthermore, any materials shortages within South Africa are immediately reflected in Lesotho which has a very low priority as compared with domestic demands. Transport raises the cost of building materials.

A number of programs are underway to address the building materials problem. The Basotho Development Corporation (BEDCO) plans to develop the local building materials industry through expanding and improving quality of the brick industry, importing additional rock crushers, and possibly modernizing and expanding the rock quarrying industry. LEHCO-OP and some companies are producing cement block and wooden building components, and LEHCO-OP plans to expand its production capacity in the near future.

To overcome the irregularity in the supply of materials, the LNDC and its subsidiaries have considered stockpiling building materials when they are available. LNDC is presently contemplating the importation and stockpiling of limestone and establishment of a small cement factory.

Shelter Need

The major factors which determine the need for housing are population growth, housing condition and replacement rate for the existing housing

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stock, and overcrowding in the existing housing stock. It appears that about 50% of the housing units in Maseru should be either replaced or substantially upgraded during the next 10 years. Thus, the replacement rate for the total housing stock would be about 5%. For other urban areas, there are no statistics on the condition of the housing stock, but apparently there is an even lower percentage of permanent housing. Therefore, a replacement rate of 5% per year is a reasonable and conservative figure. In urban areas, based on current growth rates, the annual need for units to accommodate growth is 1,570. The annual need for replacement is 805. Thus, the total annual need for housing in urban areas is 2,371 units. The urban housing need is overwhelmingly concentrated in Maseru. The annual need for urban growth in Maseru totals 1190 units -- more than 10 times the need of any other urban center.

By matching housing needs to income distributions, a breakdown of housing need by urban area and income category is derived, as shown in the following table. Assumptions are that nearly all replacement of substandard, temporary housing will be in the two lowest income categories, and that population growth will be evenly distributed among income categories.

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Annual Housing Need for Income Groups in Selected
Urban Areas¹

1978 Monthly Household Income ²	Number of Housing Units Needed					Other Urban	Total
	Maseru	Teyatey- aneng	Maputsoe	Mafeteng			
0-R50: New	300	50	50	18		19	447
Replace	250	50	35	25		50	410
R50-R100: New	400	40	50	14		20	524
Replace	245	45	35	20		50	395
R100-R200: New	250	20	25	9		10	314
R200+: New	240	15	15	4		7	281
Total	1685	230	210	90		156	2371

1. Assumes replacement of 50% of existing housing stock over the next 10 years, and that these replacements will be only within the low income groups where housing conditions are worst.
2. General income ranges: R100 is estimated approximate monthly household median income for larger urban areas.

It can be expected that during the first few years of any large scale housing program, demand would actually exceed the annual need projection shown above because of the large number of households currently living in inadequate shelter. Over the long term (10 years) this need projection would approximate the effective demand for the period, and it is therefore a good indication of the level of production of housing and serviced sites that should be the target for public and private housing agencies combined.

On the basis of the estimated demand figures, some very rough prognostications of capital requirements over the next five to ten years may be made. These estimates appear below.

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Projected Annual Investment in Shelter

<u>Income Group</u>	<u>Annual Need # of Solutions</u>	<u>Cost/ Solution*</u>	<u>Total Annual Cost</u>
R0-R50	887	1,200	1,064,000
R50-R100	919	1,500	1,378,500
R100-R200	314	3,000	942,000..
R200 & Over	<u>281</u>	7,000	<u>1,967,000</u>
	2,371		5,351,500

*These all represent fairly low-cost solutions.

Taking R5,000,000 as the capital required in 1978, and providing for a 20% annual inflation factor, a projection of capital needs over the next 10 years is as follows:

Projection of Total Capital Requirements in
Urban Shelter Sector

	<u>In Millions of Rand</u>
1978	5
1979	6
1980	7.2
1981	8.6
1982	10.4
1983	12.4
1984	14.9
1985	17.9
1986	21.5
1987	<u>25.8</u>
Total	129.7 =====

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The Government of Lesotho is presently committing R550,000 per year for housing and urban development in the years 1975-81. Even with continuing external assistance, government allocation for the urban shelter and development activities will have to increase substantially to keep pace with the expanding needs as projected.

Housing Policy

For the past several years the government of Lesotho has been working to formulate a comprehensive housing policy. AID has carried out several technical missions related to this effort. AID-funded technicians conducted shelter sector studies in 1976 and 1978, and in 1978 provided a short-term housing policy consultant at government request.

A number of recent moves by government indicate increasing attention to and concern with housing policy and problems. The Prime Minister has recently recommended the consolidation of the LHC with LEHCO-OP into one organization called the National Self-Help Housing Agency. This is now under study by the Secretary to the Cabinet and should be ready for presentation to the Parliament by the end of 1978.

In 1977, the Government created an Office of Housing in the Ministry of Interior, and in early 1978 appointed a competent and well trained Masotho Urban Planner to head the Division. The purpose of this office is to coordinate shelter and urban development efforts among government, parastatal, and private entities. During the early years, this office will concentrate on the development of a comprehensive housing policy for the country. Creation of the Office of Housing and the possible consolidation of parastatal housing agencies will facilitate the articulation and future implementation of national housing policy. These moves are

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recent, however, and reflect the ongoing process of evolution of shelter policy.

The government of Lesotho has a commitment to improve housing during the second Five Year Plan, 1975-80. Expenditures in housing will be met, in large part, through contributions from external donors. The intent of current policy will be to increase somewhat resources available to low-income and sites-and-services housing programs. Nonetheless, the single largest housing allocation in the 1975-80 plan is for government pool housing, so a substantive shift in policy remains to be seen.

There are a number of issues that seriously affect the shelter sector which are receiving special consideration in the context of evolution of housing policy. Subsidy in government housing has grave economic and political repercussions, and is currently under intensive review within government agencies. The level of subsidy in civil servant housing is currently estimated at 80-90%. The high cost of subsidy limits the government's capacity to provide housing to all civil servants and creates a most unequal distribution of benefits between those who get government housing and those who must rent in the private sector. Given the critical shortage of resources in relation to housing need, the cost of government housing subsidy is excessive. It is, therefore, the government's intention to phase out provision of public service housing, and consideration is being given to gradually transferring responsibility for the sale and disposition of such housing to the LHC and BFC.

A Town and Country Planning Act is now under consideration which would strengthen the Government's ability to develop comprehensive town plans which will lead to an overall urban settlement policy. The estab-

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ishment of selected urban growth centers related closely to agricultural development programs will form an important part of this policy.

External Assistance

A number of external donors are providing assistance which covers a wide range of shelter sector and urban development needs. Much of the funding to Lesotho comes in the form of grants, and loans are financed at concessionary rates due to the fact that Lesotho is considered by the UN to be among the "inner six" of the 25 poorest nations.

The UN has supported several aspects of urban shelter programs. A UN grant helped establish and is currently supporting LEHCO-OP's initial program in cooperative and self-help housing. The Building Finance Corporation is also the recipient of a UN grant.

AID has provided technical assistance to shape government housing policy. An initial shelter sector assessment was conducted by AID in 1976, and was updated in 1978. At the request of the government, AID funded a consultant on housing policy in 1978. AID is currently supporting a technician working to develop the building materials production division of LEHCO-OP.

The Canadian International Development Agency will initiate a \$2.6 million sites-and-services program in September 1978, for which LEHCO-OP and the LHC will be the primary implementing agencies. The British Commonwealth Development Corporation is funding the construction of middle income housing through the LHC.

The World Bank is considering the possibility of providing \$3 million for sites-and-services and upgrading projects to be implemented by the Ministry of the Interior, LEHCO-OP, and the LHC.

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Urban infrastructure for Maseru has been funded with contributions from the British Overseas Development Ministry (sewage plant) and the African Development Bank (water supply). Nearly half of the actual and projected donor contributions are directed toward self-help or sites-and-services housing programs operated by LEHCO-OP or LEHCO-OP in combination with other governmental institutions. External assistance will increase significantly existing sites-and-services housing programs operated by LEHCO-OP or LEHCO-OP in combination with other governmental institutions. External assistance will increase significantly existing sites-and-services and low-cost housing programs.

Strategy and Programs

Strategy

The shifting political sands in the region have caused the government of Lesotho to reassess its overall development strategy. In 1976 Lesotho was placing highest priority on achieving food self-sufficiency, but since that time has concluded that employment creation (especially for returning migrant workers) and the development of indigenous private enterprise should be accorded higher priority. Today the need to create more non-agricultural jobs in-country is one of the most pressing preoccupations of the government.

This suggests the desirability of AID re-evaluating its longer range program for Lesotho. Rural and agriculture development will be emphasized in the immediate future since the overwhelming majority of the population resides in rural areas. However, longer term strategy, in accordance with changing government views, should seek ways to assist in meeting employment needs and creating more jobs in the modern sector. Indeed, such a strategy would call for more extensive efforts to develop labor-intensive production, especially in the emerging urban areas to which most of the miners are expected to return.

Greater emphasis on the urban development sector by AID seems to be indicated by the shifting or priorities by the Lesotho government and would respond to the critical existing need for shelter and housing programs.

Implementation and financing of badly needed urban development of sufficient scale, will in themselves, create an immediate demand for:

1. skilled workers in the construction field,
2. trained manpower in all aspects of shelter and urban development

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programs, and

3. building materials of all sorts.

Recalling that up to 70 percent of building materials for low cost housing are imported from South Africa, it behooves AID to assist the government diminishing this severe dependency on South Africa in this sector.

To achieve these longer range objectives, the following short and long range strategies and programs may be considered.

AID should continue and expand its support to the government building and materials production areas. A small start in this direction has already been made by AID's current support of the LEHCO-OP building materials production enterprise. Research and investigation into the exploitation of local building materials is essential and should occupy high priority in the short term.

AID should continue supporting the government with technical assistance on its overall shelter and urban development programs, especially in housing policy and policy and program coordination. Consistent with the present emphasis on rural development, AID should pursue development of a comprehensive approach toward town and community planning which examines the creation of selected growth poles (market centers), and the anticipated shift towards greater industrialization in the urban and semi-urban areas. The lack of natural building materials - thatch and wood - could be addressed as part of ongoing agricultural development programs, and would have a beneficial impact on rural housing. Reforestation programs would also benefit urban housing projects by generating a local supply of wood for windows, doors, and furniture. Technical assistance to the newly created Office of Housing, and the existing Department of Lands, Surveys and Physical Planning and the BFC is vital. Such an

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effort would also include substantial participant training and modest grant capital inputs for a number of low-cost shelter and community development programs in 3 to 5 towns. (632-0203).

In the short and long term, there will be a great lack of Basotho manpower skilled for working in the shelter/urban development sector. A study defining the manpower needs and the means of training Basotho for technical, managerial, and skilled labor jobs is needed. Such a study should be followed by an AID commitment to providing technical and capital resources for manpower training.

In recognition of the abrupt government shift in priorities, and the very real constraints in agricultural development, some transformation of the economic base seems necessary to sustain the nation, to reduce the dependency on South Africa, and to begin to develop an economy which could become viable and employ a greater proportion of the Basotho locally.

At this stage it is difficult to define precisely how this transformation will emerge, but the general direction seems clear, i.e., towards a more urbanized and industrially oriented society. This will require new and stronger institutions, an adequate infrastructure, and a retrained, expanded, and upgraded manpower pool.

As part of this longer range approach, it will be necessary to pursue an incremental strategy, in which the shelter, building materials, and construction sectors (as part of the overall industrialization process) will require substantially increased inputs. Clearly, capital assistance is needed, and the provision of capital assistance through grant funding should be given serious consideration in view of the extreme poverty of Lesotho. It is to be assumed that at least 75% of the capital requirements in the shelter, construction, and building materials sector must

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come from external sources. The magnitude of investment must be increased substantially in coming years, and the capital resources needed will increase sharply if the inflow of migrant workers increases as predicted.

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People interviewed by J. Edmondson

July 21, 22, 23, 1978

Central Planning and Development Office

Mrs. Moji - Dep. P.S.

Mr. Jeff Rockcliffe King

Ministry of Interior

Mr. Mkhahle - Director of Housing

Mr. A. Mosaase - Commission of Lands

Cabinet secretary

Mrs. Ntsane - Dep. P.S.

Lesotho Housing Corp.

Mr. Henry Ntasaba - Managing Director

Building Finance Corp.

Mr. John Mayer - Director

LEHCO-OP

Mr. V. Makhele - Director

Mr. El Galinde - ICHDA Advisor

Mr. L. Marchese - FCH Advisor (And others in staff).

AID

Mr. F. W. Campbell - Operations Officer

Mr. John Figuiera

U.S. Embassy

Mr. B. Stokes - Chargé de Affaire

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