PN-AAW-219 40610

HOUSING FINANCE
IN ZIMBABWE

Prepared For:

The Office of Housing and Urban Programs

Agency for International Development

By:

Daniel S. Coleman
Vice President, International Programs

and

Randolph S. Lintz
Economic Development Consultant

National Council of Savings Institutions

TABLE OF CONTENTS

TABLES

STATISTICAL APPENDIX

CURRENCY EQUIVALENTS

(February, 1985)

Zimbabwean Dollar - Z$

US$1.00 = Z$1.59

Z$1.00 = US$0.63

Fiscal Year

For all financial institutions the fiscal year (FY) is July 1 to June 30

PREFACE

This document is the report of a study undertaken in early 1985 on Housing Finance in Zimbabwe. The report is divided into four major sections. Section I covers the financial sector in general and it discusses the present structure of the various financial institutions in Zimbabwe, their role in the economy and the present trends and projections as they affect the housing market. The second section covers the housing finance sector, with a major discussion on the buildings societies as well as government programs and plans. Section III discusses the issue of resource mobilization, including the potential for increasing the flow of financial resources to the housing sector. In that respect, this section covers fully the economic and government policy constraints that retard the flow of resources.

Finally, the last section makes a number of recommendations to improve the housing finance system in general and to direct new and supplementary sources to the sector. These recommendations are limited to four in order to facilitate the government in making policy decisions.

Calculations of the need and demand for housing are normally an integral part of any housing finance analysis. Those calculations, however, are not included in this report as they are being prepared separately by another consulting firm, the Urban Institute. To complement the National Council's report on housing finance in Zimbabwe, the Urban Institute's report on housing need and demand should be read concurrently.

This report was prepared by Daniel Coleman and Randolph Lintz of the National Council of Savings Institutions. It is one component of a feasibility study for the establishment of a National Housing Corporation in Zimbabwe.

EXECUTIVE SUMMARY

Zimbabwe has a sophisticated and well-developed financial sector, including three building societies which have been the country's major source of housing finance. To a large extent, the majority of the institutions comprising the financial sector have existed primarily to serve the needs of the private sector, especially the commercial and corporate entities. However, since independence, the financial sector has been called upon to serve the growing financial needs of the public sector. This has been occasioned by soaring expenditures (and concomitant revenue shortfalls) of the Government of Zimbabwe's (GOZ) large-scale social services and other programs and the growth of state-owned enterprises. The GOZ's dependence on the financial sector and the imposition of a myriad of operational controls to supplement these revenue shortfalls (primarily domestic savings) have had serious ramifications among financial intermediaries. The resultant highly regulated financial system has significantly hampered the building societies' ability to mobilize resources for housing finance. As such, the ability of the building societies to meet the need and demand for housing is severely constrained.

The housing finance market can generally be segmented into two groups with respect to urban areas. Loans to purchase husing for middle and upper income families are obtainable from the bilding societies while access to financial assistance by lower income families has been principally through government channels.

As of the end o fiscal year (FY) 1984, the three building socieites' collective loan portfolio consisted of 29,500 mortgages with a value of Z$416 million. During FY 1984, collective profits were less than Z$870,000. Although the spread between the socieities' average cost of money and average return on investment exceeds 4 percent points, administrative and operational costs consume the spread. These costs are primarily attributed to the cost of maintaining thousands of small savings accounts. Since 1980 mortgage loans have grown very slowly relative to pre-independence, primarily the result of minimal growth of deposits and share capital which in turn is attributable to the tax advantage available to savers at the GOZ's Post Office Savings Bank. Other GOZ policies have also contributed to the downward trend in mortgage loans. The building societies' ability to provide more housing finance is therefore contingent upon GOZ regulatory changes.

A number of GOZ agencies intervene directly and indirectly in the provision of finance to the housing sector. Although the GOZ's financial resources have been strained over the past five years, the GOZ has provided Z$152 million in loans below market rate for the development of housing schemes. The Ministry of Construction and National Housing administers two major programs which have directed these GOZ funds to the housing sector: The National Housing Fund (NHF) and the Housing and Guarantee Fund (HGF).

The NHF functions as a financial intermediary for GOZ and other loans to local government authorities for the development and sale of low-income housing solutions. While in the past loans were made to the NHF by private sector financial institutions and the City of Harare, the GOZ is presently the sole source of funds. Although the NHF is mandated to be self-sufficient, total income in the past two years was inadequate to cover expenses. As a result, the GOZ has made annual contributions to the NHF to cover the deficit. Local government authorities are in arrears to the NHF and, although some of this debt is being rescheduled, the weak financial position of local government suggests that this problem is likely to grow. The effectiveness of the NHF is significantly constrained by its dependence on GOZ funds, and until it can generate additional resources, its effectiveness as a primary supplier of low-cost housing funds will continue to be constrained.

The HGF operates a guarantee scheme, whereby a portion of a mortgage loan obtained from a private financial institution is guaranteed for repayment, as well as a rental housing ownership and management scheme. During the 1980-1984 period, the HGF guaranteed nearly 11,000 building society loans, almost evenly divided between public servants and the general public. The value of the HGF is that the guarantee scheme has helped assure the flow of building society funds to the relatively soft housing market. Since the inception of the HGF, the fund has accumulated real properties presently valued at Z$7.2 million, primarily the result of foreclosures on guaranteed loans. Rental (and occasionally the sale) of these properties to GOZ employees has generated a surplus for the HGF.

The mobilization of domestic resources which can be channelled to housing credit is the key to a viable housing development program. Zimbabwe's domestic savings can only be additionally tapped as a source of housing finance if the GOZ institutes policy changes. These changes relate to present policies which inhibit the flow of savings to the building societies and the various funds which would in turn make resources available in the form of housing credit. In order to enable the housing funds to maintain their value, GOZ's loans for low-cost housing should reflect an interest rate closely in line with the rate of inflation so as not to decapitalize the funds. Additionally, housing loans made to the NHF in perpetuity would insure a steady flow of resources for low-income housing. The redirection of a portion of the assets of life insurance companies and pension and provident funds, now invested in government and quasi-government securities, to the housing market would permit a steady and reliable source of resources. Although the GOZ has recently begun to rely on external loans for housing development, this source is quite limited. The GOZ's principal source of external funds to date, the IBRD and USAID, have made it clear that it is not within their mandate to provide all housing requirements. The potential for raising new funds for housing through the sale and purchase of existing mortgages is limited only by the demand for housing finance. Since an institutional framework already exists in Zimbabwe which could be adapted to oversee a secondary mortgage operation, a secondary mortgage market operation could, in theory, be established under the auspices of the discount houses.

Since existing housing finance institutions cannot presently cater to the needs of all Zimbabweans, the team poses several recommendations in an attempt to provide policymakers with a concrete agenda whereby through a public and private joint effort, many of Zimbabwe's housing finance problems can be overcome. The building societies are the country's only specialists in housing credit and must be competitive in their ability to attract savings in order to generate mortgages. Therefore, it is recommended that the tax-free status and/or allowable ceilings of POSB accounts be modified. Assuming that the demand for housing is sufficient to warrant the establishment of a secondary mortgage market system to generate additional housing funds, it is recommmended that the GOZ study the possibility of allowing the building societies to raise funds through the sale of its mortgage portfolio or of participations thereof. Besides Harare and Bulawayo, 15 other urban councils are trying to meet their constituents' demands for an expanded level and range of municipal services, especially housing. As such, it is recommended that loans to all urban councils be included in the list of approved assets required to be held by financial institutions. Finally, the team recommends that GOZ budgetary loans for housing for low-income families be directed to district and rural councils which would enable housing credit to be extended to an even lower income segment of the Zimbabwean population.

I. The Financial Sector

A. Introduction

At independence, the Government of Zimbabwe (GOZ) initiated a strategy of "Growth With Equity" with increased living standards as a key component of the strategy. Also since independence, there has been a marked increase in the GOZ's participation in the economy. It is against this backdrop that the proposal for a National Housing Corporation emerged - a proposal to increase the living standard of all Zimbabweans through greater participation by the public sector. Prior to endorsing such a public sector solution to a significant problem, an analysis of the existing private financial system is in order to ascertain whether the creation of an entirely new financial entity is truly warranted.

This section is intended to describe the financial system as it exists today in Zimbabwe and to trace and analyze the trends in the system since independence. The purpose of this exercise is to: (a) ascertain whether the existing financial system, reported to be unique on the African continent, is capable of providing mortgage credit; (b) identify any constraints inhibiting its performance; and (c) assess its future potential for providing housing finance.

B. Structure of the Financial Sector

Zimbabwe has a sophisticated and well-developed banking system consisting of the Reserve Bank, five commercial banks, four accepting houses or merchant banks, two discount houses, five finance houses, three building societies and the Post Office Savings Bank. In addition to these deposit-taking intermediaries, there are approximately 50 registered insurance companies and over 1,300 registered pension, provident and retirement annuity funds operating in the country. There are also several institutions designed to channel government and/or private sector capital subscription funds to specific economic activities such as agriculture and industry. The most important of these entities is the Agricultural Finance Corporation. Table I-1 depicts the structure and total assets of the financial system since 1980.

To a large extent, the majority of institutions comprising Zimbabwe's financial sector have existed primarily to serve the financial needs of the commercial and corporate sector. These institutions include the commercial banks, the merchant banks, the discount houses, the finance houses and the insurance companies. The financial requirements of private individuals, on the other hand, have been addressed by commercial banks, finance companies, building societies, the Post Office Savings Bank and the pension plans.

TABLE I-1

Zimbabwe: Structure of the Financial System

(Current Z$ Millions; End of Period)

	Total Assets					Proportion of Total				
	1980	1981	1982	1983	1984 1/	1980	1981	1982	1983	1984
Reserve Bank	428.2	662.0	695.9	1,015.8	1,031.6	9.6	12.6	11.6	14.7	13.8
Commercial Banks	980.9	1,227.3	1,438.9	1,508.7	1,581.8	22.0	23.3	24.0	21.9	21.1
Merchant Banks	313.5	264.8	308.4	305.2	342.8	7.0	5.0	5.1	4.4	4.6
Discount Houses	101.3	110.2	104.7	131.1	145.6	2.3	2.1	1.7	1.9	1.9
Finance Houses	136.2	184.8	176.8	202.1	210.9	3.0	3.5	2.9	2.9	2.8
Post Office Savings Bank	271.7	313.2	375.1	445.4	572.6	6.1	5.9	6.3	6.5	7.6
Building Societies	596.3	605.8	643.4	652.0	649.8	13.3	11.5	10.7	9.5	8.7
Insurance Companies	691.1	772.2	921.4	1,025.2 2/	1,140.4 2/	15.5	14.7	15.4	14.9	15.2
Pension and Provident Funds	809.9	985.2	1,166.0	1,390.0	1,568.1 2/	18.1	18.7	19.4	20.2	20.9
Agricultural Finance Corporation	139.3	141.9	166.3	219.4	250.7	3.1	2.7	2.8	3.2	3.3
Total	4,468.4	5,267.4	5,996.9	6,894.9	7,495.7					

Sources: Central Statistical Office, Quarterly Digest of Statistics
Report of the Registrar of Financial Institutions and Building Societies
Report of the Registrar of Insurance
Report of the Registrar of Pension and Provident Funds
Reserve Bank of Zimbabwe, Quarterly Economic and Statistical Review

1/ End of June
2/ Estimate

In recent years, however, these institutions have been called upon to serve the growing financial needs of the public sector and in many respects this has influenced the shape, performance and direction of the financial sector. The effects of the GOZ's growing reliance on the financial sector will be discussed below in Section C.

In separate sections below, each of the financial intermediaries of Zimbabwe's financial sector are described and analyzed in terms of their activities, control of financial resources and their investment portfolios. Quantative data pertaining to each sector grouping are summarized in Tables I-1 and I-3 and delineated on a yearly basis in Tables SA-1 through SA-5 in the Statistical Appendix.

1. Reserve Bank of Zimbabwe

The Reserve Bank of Zimbabwe (RBZ) stands at the apex of the banking and monetary system. Established by the Reserve Bank Act of 1964, RBZ acts in the national economic interest in exercising its responsibilities regarding the money supply, the administration of government loans and treasury bills and the custodianship of the country's foreign exchange reserves. As the allocator of foreign exchange funds, the RBZ operates a sophisticated allocation system involving both the public and private sectors in the determination of an appropriate level of foreign exchange available to each sector and components thereof.

The RBZ carries out all the traditional functions of a central bank, serving as both the banking system's and the GOZ's banker. It issues currency, provides clearinghouse facilities and acts as a lender of the last resort. The RBZ sets liquidity and reserve requirements, regulates and supports the commercial financial sector and intervenes directly in the market to impact the level of interest rates through its influence on the setting of prices at the weekly treasury bill auction.

Besides its control over the country's foreign exchange reserves, the RBZ handles the nation's gold output. All gold production in Zimbabwe is required to be sold to the RBZ and is treated as an export receipt in the country's balance of payments estimates.

As depicted in Table I-1, the assets of the RBZ have increased by over 40 percent since 1980. As of mid-1984, the RBZ controlled 14 percent of the country's financial resources.

2. Commercial Banks

A full range of retail banking services are available throughout the country at branches of Zimbabwe's five commercial banks. These are:

Bank of Credit and Commerce Zimbabwe Limited
Barclays Bank of Zimbabwe Limited
Grindlays Bank plc
Standard Chartered Bank Zimbabwe Limited
Zimbabwe Banking Corporation Limited

As illustrated in Table I-1, these banks have controlled between 21 percent and 24 percent of Zimbabwe's financial assets during the 1980-1984 period.

Commercial banks provide deposit (variable term) and current accounts (for which a fee is assessed) to both individual and corporate clients. The majority of commercial bank lending activity is short-term, primarily for working capital and commercial agriculture finance. These loans are almost exclusively drawn on an overdraft basis, usually secured by real property or commercial assets. In some instances, 5-7 year medium-term loans can be arranged, although this type of credit is generally provided by merchant bank subsidiaries. Not surprisingly, the bulk of commercial banking activity is concentrated in Harare with 78 percent of total deposits by value transacted.

Commercial bank deposit and lending rates for the past five years are depicted in Table I-2. Through a vehicle known as the Register of Cooperation, a cartel agreement among the principal banks, interest rates and charges are fixed with the intent of providing the banking sector a stable environment in which to operate.

During the 1980-1984 period, the commercial bank lending rate was raised to 13 percent in 1981, while deposit rates have fluctuated from a low of 4.4 percent in 1980 to a high of 14.2 percent during 1983. At mid-1984, the commercial bank deposit rate stood at 10.5 percent. Despite a significant increase in the lending rate, commercial bank advances have risen by over 152 percent since the beginning of 1980, partially the result of increased lending to statutory bodies. Presumably attracted by higher deposit rates, savings with commercial banks has increased by over 135 percent since the beginning of 1980.

The Reserve Bank of Zimbabwe sets capital, liquidity and reserve requirements for the commercial banks. The most notable of these requirements is for a minimum of 35 percent of the banks' assets portfolio to consist of "approved" liquid assets. These approved assets consist of registered government and quasi-government securities and loans with a maturity of less than 6 years. Table I-3 illustrates that commercial bank holdings of approved assets increased from Z$397 million in 1980 to a high of Z$559 million in 1982 before declining to Z$492 million in mid-1984. The 1980 and 1984 increases in the statutory liquid asset ratio (to 35 percent and 40 percent respectively) undoubtedly placed the banks in a tight liquidity position, primarily to the benefit of short-term GOZ borrowers such as the Treasury and the Agricultural Marketing Authority. Tables SA-1 through SA-5 in the Statistical Appendix provide more detailed information on the yearly composition of commercial bank holdings of approved assets.

3. Merchant Banks

There are four merchant banks in Zimbabwe which are technically known as registered accepting houses. These include:

Merchant Bank of Central Africa Limited
RAL Merchant Bank Limited
Standard Chartered Merchant Bank Zimbabwe Limited
Syfrets Merchant Bank Limited

As depicted in Table I-1, this group of banks controlled between 4 and 7 percent of the country's financial resources during the 1980-84 period.

The services offered by these institutions are geared closely to corporate needs and large account holders. Services include the financing of imports and exports through acceptance credits, the processing of commercial letters of credit and foreign bills of exchange, the provision of shortand medium-term financing, bridging finance and foreign exchange transactions and dealings. Together with the commercial banks, merchant banks are the country's only authorized foreign currency brokers. In the area of acceptance finance, the merchant bank group handles acceptances for the Tobacco Marketing Board. These banks also specialize in the flotation of public companies and are authorized to underwrite new issues. They can also manage portfolios, raise development capital, undertake the capital reconstruction of companies and arrange for mergers and takeovers.

Merchant bank deposit and lending rates are illustrated in Table I-2. Also internally fixed, both deposit and lending rates have fluctuated over the 1980-84 period. The deposit rate increased from 4.4 percent in 1980 to a high of 14 percent in 1981 then declined in 1982, rose again in 1983 and declined to 10.5 percent as of mid-1984. The merchant bank lending rate has mirrored the deposit rate fluctuations and stood at 10.75 percent at mid-1984.

While merchant banks' capital and reserves are regulated by the Reserve Bank, they are not required to carry as high a level of approved assets as commercial banks. The merchant bank group's share of required central and local government and parastatal securities as a proportion of

TABLE I-2

Zimbabwe: Banking Sector Deposit, Lending and Inflation Rates 1980 - 1984
(Percent at End of Period)

	Deposit and Lending Rates for										
	Commercial Banks		Merchant Banks		Finance Houses		Post Office Savings Bank	Building Societies			
	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit Only 2/	Deposit 3/	Residential Lending 4/	Commercial Lending	Inflation Rate 5/
1980	4.40	7.50	4.40	6.00	5.25	11.00	4.50	4.75	7.75	8.50	7.2
1981	12.00	13.00	14.00	11.25	9.13	17.00	8.50	9.75	13.25	14.75	13.9
1982	10.50	13.00	10.75	10.65	9.13	18.00	8.50	9.75	13.25	14.75	14.6
1983	14.20	13.00	13.00	11.00	9.13	20.00	8.50	9.75	13.25	14.75	19.6
1984 6/	10.50	13.00	10.50	10.75	9.13	20.00	10.00	9.75	13.25	14.75	14.8 7/

Sources: Central Statistical Office, Quarterly Digest of Statistics
Reserve Bank of Zimbabwe, Quarterly Economic and Statistical Review

1/ Maximum 12-month deposit rate and minimum lending rate
2/ Tax-free interest rate
3/ Non-fixed deposit rate is presently 7.75%
4/ Rate on loans over Z$12,000; under Z$12,000 the rate is 12.5%
5/ Calculated as the mean of the averages of 12 monthly figures of the consumer price indices of urban high- and low-income families
6/ First six months
7/ First nine months

their total assets declined significantly between 1980 and 1983 but rose again in 1984 to Z$38.7 million, presumably in response to higher rates of return on approved securities (Table I-3).

The group's rather sluggish rate of growth in total assets (Table I-1) is primarily attributable to disappointing price levels for Zimbabwe's exports in international markets and reduced foreign exchange allocations for commerce and industry, thus reducing trade-related financing needs.

4. Discount Houses

There are two discount houses which service the money market. These include:

BARD Discount House Limited
The Discount Company of Zimbabwe

The discount houses, modeled along the lines of London institutions, accept call money from various financial and nonfinancial institutions and invest the funds into a wide range of financial assets mainly with short maturity: Treasury bills, Agricultural Marketing Authority bills, bankers acceptances, negotiable certificates of deposit and short-term public sector issues. Between 1980 and 1984, the discount houses controlled a relatively stable 2 percent of the country's financial resources (Table I-1).

Longer term financial vehicles such as Tobacco Authority bills are discountable for up to four months. An additional longer-term instrument, the negotiable certificate of deposit (NCD)1/, has an active secondary market which is managed by the discount houses. In addition to maintaining an active secondary market in NCDs, the discount houses maintain markets in Treasury bills, bankers acceptances, Agricultural Marketing Authority bills, and the stocks of central government, municipal governments and the Electricity Supply Commission, which generates substantial turnover of these financial instruments. Such expertise in the maintenance of secondary markets could be put to use in the event of the creation of a particpating mortgage bond scheme or related secondary mortgage market scenario aimed at generating resources for housing finance (see Section III-A-6).

1/ NCDs are issued in any denomination with a minimum amount of Z$10,000 or in any multiple of Z$5,000 thereafter. NCDs can be issued by commercial banks, merchant banks and finance houses for periods ranging from three months to five years.

TABLE I-3

Zimbabwe: Holdings of Public Securities by the Private Financial Sector - Summary

(Current Z$ Millions; End of Period)

Investor	Securities 1/					Percentage Change				
	1980	1981	1982	1983	1984 2/	1980/81	1981/82	1982/83	1983/84	1980/4
Commercial Banks	396.6	438.0	559.0	507.8	492.2	10.4	27.6	-9.2	-3.1	24.1
Merchant Banks	38.3	28.7	21.4	19.4	38.7	-25.1	-25.4	-9.3	99.5	1.0
Discount Houses	75.5	28.5	69.1	40.2	50.1	-62.3	142.5	-41.8	24.6	-33.6
Finance Houses	17.0	23.5	20.6	23.1	24.3	38.2	-12.3	12.1	5.2	42.9
Post Office Savings Bank	248.0	286.7	340.2	392.3	471.7	15.6	18.7	15.3	20.2	90.2
Building Societies	192.5	167.9	154.8	145.4	140.0	-12.8	-7.8	-6.1	-3.7	-27.3
Insurance Companies	291.9	303.9	368.2	484.4	522.6 3/	4.1	21.2	31.6	7.9	79.0
Pension and Provident Funds	404.8	482.2	576.4	762.3	848.1 3/	19.1	19.5	32.3	11.3	109.5
Total	1,637.6	1,759.4	2,109.7	2,374.9	2,587.7	7.4	19.9	12.6	9.0	50.8

Source: Tables SA-1 through SA-5

1/ Includes securities of central government, local authorities and statutory bodies, Agricultural Marketing Authority and Treasury Bills and loans to local authorities and statutory bodies.
2/ End of June
3/ Estimate

5. Finance Houses

The financial sector also includes five finance houses or hire purchase companies which provide a range of commercial and retail term finance facilities. The group is comprised of:

FINCOR
Grindlays Finance Limited
SCOTFIN Limited
Standard Finance Limited
udc Limited

Together this group has controlled a relatively stable 3 percent share of the country's financial resources since 1980 (Table I-1). Total assets of these finance houses stood at Z$145.6 million at mid-1984.

In addition to their hire-purchase and lease-hire business, finance houses can provide direct term financing. Such financing is an alternative to that available through commercial banks which is relatively difficult to arrange on a routine basis. These term loans (primarily medium-term) are funded through commercial deposits, which by statute must be deposited for periods of 30 days or more due to the longer-term nature of these institutions their lending operations. Table I-2 illustrates that finance houses' deposit and lending rates were increased significantly in 1981 and as of mid-1984 were 9.13 percent and 20 percent respectively. Although there are no limitations on the rate of interest which can be offered, competition within the group assures that rational ranges are maintained. The finance houses' statutory liquid asset ratio was raised from 15 percent to 20 percent in the second quarter of 1981. Table I-3 depicts these institutions' holdings of approved assets over time and illustrates that their total holdings of these assets has increased to Z$24.3 million since 1980.

6. Post Office Savings Bank

Although the Post Office Savings Bank (POSB) has been in operation for eighty years, its predominance as a deposit taking institution serving the entire country is a relatively new phenomenon. At the end of December 1984, the POSB had a total of 858,000 accounts being served by over 160 offices nationwide, the majority outside of major commercial centers. As illustrated in Table I-1, total assets have increased 111 percent during the 1980/84 period. The POSB is not allowed lending operations to the private sector but is required to invest the bulk of its funds in government stocks.

Tables I-3 and SA-1 through SA-5 illustrate the proportion of the POSB's assets invested in securities of the GOZ, local authorities and statutory bodies over time. These investments represented 71 percent of the portfolio in 1980 and had grown to 82 percent by mid-1984. The POSB's other assets consist primarily of call money with the discount houses and deposits with commercial banks.

7. Building Societies

Zimbabwe's three building societies receive deposits from the public and provide mortgage finance primarily for residential development and some commercial building construction. This financial sector is composed of:

Beverley Building Society
Central Africa Building Society
Founders Building Society

The building society movement in Zimbabwe is over thirty years old and is governed by legislation contained in the 1951 Building Societies Act which was last revised in 1965. Interest rates on both deposits and mortgages are regulated, as are mortgage terms. Table I-2 illustrates maximum allowable deposit and lending rates in effect at mid-1984. The building societies are allowed to offer 9.75 percent on a 12-month fixed deposit, and lending rates for residential and commercial properties are 13.25 percent and 14.75 percent respectively, for a period up to 25 years.

Deposits with the building societies, which are essential in order for the societies to grant mortgages, have stagnated since 1980. This development is primarily related to the unattractiveness of allowable deposit rates relative to other institutions, most notably, the POSB. Table I-1 depicts the steady decline in the share of the country's total financial assets held by building societies from 13.3 percent at the end of 1980 to 8.7 percent at the end of June, 1984. Building societies are required to maintain 15 percent of their assets in liquid (under 6-year maturity) government and quasi-government securities; Table I-3 depicts the magnitude of these public holdings. Tables SA-1 through SA-5 delineate these holdings over the 1980-84 period.

8. Insurance Companies

At the end of 1982, there were 48 direct insurers registered to operate in Zimbabwe including both life and non-life companies which control in excess of 15 percent of the country's financial resources (Table I-1). The industry is represented by international firms as well as Zimbabwean companies and offers a full range of personal and commercial insurance to a rapidly growing number of individuals and firms. The industry's share of Zimbabwe's total financial resources has remained relatively constant during the 1980-84 period althought the assets of the industry have grown at an average annual rate of 14 percent since 1980 (Table I-1). Assets are estimated to increase by approximately 25 percent during 1985.

Although the insurance industry is inherently conservative in its investment policy, it has been obliged to become more so as a result of an increase in the industry's statutory requirement on the ratio of approved assets (stocks, bonds and bills issued by the GOZ, municipal governments and parastatals) held in its investment portfolio. The requirement for life insurance companies has been increased in two steps from 35 percent to 60 percent (20 percent to 30 percent for non-life insurance companies) since 1980. Table I-3 illustrates that as of mid-1984, insurance company holdings of approved assets totalled Z$522.6. Tables SA-1 through SA-5 delineate the yearly approved asset holdings of the insurance industry between 1980 and 1984.

9. Pension, Provident and Retirement Annuity Funds

There were 1,222 registered pension, provident and retirement annuity funds at the end of 1982. Of these, 76 pension and 26 provident funds were self-administered and 1,105 pension and provident funds and 15 retirement annuity funds were administered by insurance companies.

These funds controlled over 20 percent of the nation's financial assets as of mid-1984 (Table I-1). These assets have grown at an average annual rate of 18 percent during the 1980/84 period as a result of steady increase in the number of contributing members and the attractive returns earned by the funds' cumulative assets. Assets are expected to increase by at least 20-25 percent during 1985. As in the case of life insurance companies, the pension funds are required to hold 60 percent of their assets in government and quasi-government securities. Tables AI-1 through AI-5 depict the magnitude and growth of these approved assets held by the pension funds since 1980. At mid-1984, the pension and provident funds total portfolio of approved assets stood at Z$848.1 million (Table I-3).

10. Agricultural Finance Corporation

There are several institutions that are designed to channel funds from the GOZ (or capital subscription by the private sector) to specific areas of economic activity, particularly agriculture and industry. These institutions include the Agricultural Finance Corporation (AFC) the Industrial Development Corporation, the Zimbabwe Development Bank, and Ipcorn Limited. However, the most important of these entities is the AFC which is owned and funded entirely by the GOZ.

An institution to provide finance to various components of the agricultural sector has existed in one form or another since the 1930's. In an effort to centralize agricultural sector finance, the AFC was established in 1971, incorporating all the services provided by previous organizations. The AFC is primarily oriented towards supporting the country's small-scale farmers by providing variable term loans at fixed interest rates. During the 1981/82 season, the AFC provided assistance to more than 28,000 small producers. Commercial banks, on the other hand, cater to the needs of larger commercial farmers and finance is provided by merchant banks to tobacco and other export crop producers. Agricultural equipment purchases are mostly financed by the finance houses.

As illustrated in Table I-1, the AFC's share of the nation's financial resources has remained at a relatively steady 3 percent since 1980. During the 1980-84 period, assets of the AFC increased at an average annual rate of 16 percent. A predecessor to the AFC, the Land and Agricultural Bank was involved in a housing finance scheme prior to its merger with the AFC. Although discontinued, mortgages from that program are still carried on the AFC's books.

C. Financial Sector Trends

Five years of independence have brought substantial changes to Zimbabwe's economy, private sector and financial system. Considerable pressure has been brought to bear upon the financial system forcing alterations in response to the opening of the economy to a recessiondepressed world market, the intervention of an enlarged public sector with a myriad of new operational controls and GOZ's desire to provide development opportunities for every level of the black majority population.

While the demands of the more competitive environment brought about by the system's dealings with the outside world are controllable due to the dynamic nature of the system, the growing financial needs of the public sector mark a fundamental shift away from this sector's earlier pattern of operation. The GOZ's large-scale social services and other programs together with the growth of state-owned enterprises have resulted in soaring expenditures and significant revenue shortfalls. The GOZ's subsequent dependence upon the financial sector to supplement these shortfalls has serious implications for both the RBZ and for financial intermediaries. The building societies' ability to mobilize resources for housing finance has been particularly hampered by the new financial environment.

This section attempts to identify the trends that have emerged from this new environment and what impact these may have for the mobilization of private resources to finance residential construction.

1. The Reserve Bank of Zimbabwe

Numerous interventions in the market on the part of the RBZ have been brought about almost entirely as a result of GOZ revenue falling short of its expenditures. Beginning in 1980 with increased minimum wages and other changes in the economy, the money supply almost doubled by the end of 1981. With the GOZ continuing its policy of far reaching social programs and expenditures continuing to exceed revenue, the GOZ has found it increasingly necessary to resort to borrowing to finance its deficit. Probably the most significant cause of money supply growth in recent years has been an increased rate of lending to the GOZ with the resultant generation of inflationary pressure.

While the relationship between growth of the money supply and inflation is complex, involving varying degrees of influence and delay between cause and effect, the extent to which inflation actually results will depend on the manner in which the resources loaned to the GOZ are spent. Since the majority of these funds go toward the financing of recurrent costs (see Section III-B-2 below), GOZ deficit spending leads directly to inflation.

Due to a finite amount of financial resources available, the two RBZ-directed interest rate increases have primarily served to enhance the competitive position of the GOZ in its efforts to borrow from the public to fund its deficit. However, the GOZ's large expenditures have forced it to turn not only to private banks to fund the deficit but also to the Reserve Bank. Since 1980, RBZ loans and advances to central government and statutory bodies rose by 725 percent to Z$403.5 million in mid-1984. Likewise, the increases since 1980 in the statutory approved asset ratio, the statutory liquid asset ratio and the statutory reserve ratio have inhibited the financial sector's operation by crowding out private sector investment, thereby allowing the GOZ access to resources to fund its deficits (see Section III-B-2 below). In addition to raising the statutory approved asset ratio for insurance companies and pension funds, the RBZ recently increased the yields on government stocks by up to .9 percentage points depending on maturity, thereby further encouraging cash to be drawn out of the private sector.

With the 1984/85 budget deficit estimated at Z$648 million, an increase of nearly 3 percent over 1983/84 levels, the GOZ's competition for private resoures appears likely to continue. This is especially true in light of recently enacted Usury legislation, presumably designed to more tightly control competition for private resources.

2. <u>Commercial Banks</u>

The rapid growth in total assets of the commercial banks since 1980 has resulted in a subsequent increase in the bank's holdings of approved assets (Tables SA-1 SA-5). The increase in the dollar value of these assets since 1980 is primarily attributable to additional credit extended to the Agricultural Marketing Authority (AMA). The sharp increase in advances to the AMA in 1981 was for the accumulation of maize stocks. Credit to the AMA continued to increase as it resorted to the banking system to finance the trading losses of its subsidiary agricultural marketing boards, resulting from the underprovision of GOZ subsidy payments to the boards for the 1982/83 season's losses and because of delays in adjustment of the boards' selling prices for 1983/84. Due to these increases in loans to the AMA, the proportion of government stocks and bonds in the banks' portfolio declined during the 1980-84 period.

In an effort to promote GOZ financing outside the banking system, yields on government stocks were increased during the fourth quarter of 1983 and this action was followed by an increase in the statutory requirement on the ratio of approved assets (government and quasi-government securities and loans) held by insurance companies and pension funds from 50 percent to 60 percent. To meet the higher statutory requirement, the insurance companies and pension funds were forced to change their portfolios by reducing assets, especially deposits with commercial banks. This action was responsible for an abrupt liquidity squeeze in the money market which drove the 90-day NCD rate up to 15.5 percent in December 1983. To counter this liquidity squeeze, the monetary authorities temporarily lowered the commercial banks' stautory liquid asset ratio from 35 percent to 30 percent. By May 1984, however, the authorities had again raised the ratio to 40 percent. The new policy undoubtedly pushes the banks into a tighter position, primarily to the benefit of GOZ short-term borrowers such as the Treasury and the AMA.

3. Merchant Banks

Trade and loan finance is the merchant banks' main raison d'etre. Their specialized functions bear directly on the financial needs of businesses and, therefore, their financial health is a function of the business environment. The opening of the economy to the recessiondepressed world market with the resultant decline in Zimbabwe's exports has had a serious impact on business turnover, thus affecting the demand for working capital finance. The banks' investments in the mining sector has not provided the envisaged attractive returns due to depressed world commodity prices, although the devaluation of the Zimbabwe dollar has, to a large extent, helped the metals industry.

The foreign exchange squeeze and cutbacks in capital projects have adversely affected the group and is likely to continue to do so in the medium-term. Foreign exchange allocations to industry and commerce have declined 60 percent in real terms since independence. This restraint has reduced imports, which the group would normally have financed, of badly needed raw materials, spare parts and new machinery with which to modernize the country's aging capital stock.

Investment authority for loans, new private stock issues and capital restructuring has recently been shifted from the RBZ to the Treasury (Ministry of Finance, Economic Planning and Development) where decisions have been delayed. This development has not been considered helpful to the operation of the merchant bank group.

Growth of the merchant bank group will be dependent upon the future size and composition of the private sector and especially the demand for new equity finance and medium-term investment.

4. Discount Houses

The main function of the discount houses are to provide liquidity for the banking system. Banking institutions leave money at call with the discount houses which earns interest and forms part of their statutory liquid assets ratio. The discount houses also act as dealers in various securities.

By the end of 1983, the rate of growth of the money supply was marginally higher than the years before but this trend reversed itself and by September 1984, it was 32 percent higher than the previous year. The primary reason for this growth was the GOZ's payment of Z$230 million forthe foreign securities pool (see Section III-B-3). The RBZ's announcement that blocked funds may be used to purchase external bonds (also see Section III-B-3) caused a further flow of funds into commercial bank demand deposits, much of which was in turn kept on call with the discount houses. Banking sector call deposits with the discount houses increased from Z$80 million to Z$120 million between July and September 1984. However, the RBZ subsequently neutralized 75 percent of this payment from the foreign securities pool by issuing Z$173 million in non-rediscountable and non-transferable bills. Market liquidity was further reduced by a 5 percent rise in commercial banks' statutory liquid asset ratio.

During the 1983-84 period, some Z$370 million was raised by the RBZ on behalf of the GOZ by various stock issues. This provided the discount houses dealing opportunities to match these securities with investors in the market.

The continued role and expansion of the discount houses will depend on public/private trade finance ratios, the nature of private sector finance structures and policies regarding government and quasi-government borrowing.

5. Finance Houses

The finance houses cannot accept deposits from the public for less than 30 days and their depositors include the discount houses, the building societies, insurance companies, municipalities and private individuals.

Finance houses include both NDCs and fixed deposits as their main source of finance. They hold both AMA bills and, to a greater extent, government stock as part of their prescribed liquid assets which presently stands at 20 percent of total.

During the past number of years, these institutions have begun to favor lending to productive sectors over hire-purchase consumer durable financing although the latter is still an important function. However, the increasing levels of sales tax, especially on consumer durables, has significantly cut demand for leasing and thus negatively affected finance house activities.

6. Post Office Savings Bank

At the end of December 1984, the POSB had a total of 842,375 savings (non-term) accounts with a total value of Z$363.3 million and 15,160 fixed (term) accounts with a total value of Z$210.7 million. Table I-4 depicts the structure of these POSB accounts and their respective principal values.

The data in Table I-4, which is characteristic of several other points in time, strongly suggests that a significant majority of account holders use their savings accounts as current (or demand) accounts. As of the end of December 1984, a point in time when the month's balance would have been drawn down, 77 percent of these accounts had principal balances less than Z$100. The use of these accounts in this manner can be traced to the fact that commercial banks charge over Z$100 per year for personal banking services. Rather surprisingly, this large proportion of savings accounts represents only 3.2 percent of the total principal balance of all accounts. Over 91 percent of all savings accounts had principal values under Z$500. Fixed accounts, on the other hand, represent a mere 2 percent of all POSB accounts. On the basis of the data presented in Table I-4, it can be assumed that saving is not a high priority with the vast majority of POSB account holders in spite of the tax-free interest offered.

Although the balances of these low principal accounts are quite volatile and are therefore of little use for investment purposes, the proportion of the total value of all accounts represented by these accounts under Z$500 is rather negligible. It is the relatively small number of account holders whose accounts represent nearly the total value of all deposits who have been attracted to the POSB by its tax-free interest rates. This is not surprising since a taxpayer in the highest tax bracket would receive an effective yield of 26 percent per year from a POSB fixed account. This phenomenon has alowed the POSB to increase the asset value of its portfolio by an annual average rate of 22 percent since 1980 (Table-I-1).

Recent increases in the tax-free deposit rates offered by the POSB from 7.5 percent to 8.5 percent for savings deposits, and from 8.5 percent to 10.0 percent for fixed deposits (Table I-3) together with an increase in ceilings on deposits from Z$20,000 to Z$45,000 for companies and from Z$50,000 to Z$100,000 for individuals should ensure that POSB deposits will continue to rise bouyantly. Such a probability will continue to adversely affect the buliding societies' supply of finance.

7. Building Societies

The strongest challenge to the building society movement has come from the GOZ-operated POSB. During the 1980-84 period, POSB deposits increased by nearly 90 percent while those of the building societies increased by only 7 percent during the same period (Table I

TABLE I-4

Savings and Fixed Accounts of the Post Office Savings Bank

(Current Z$ Thousands; End of December 1984)

Savings Accounts			Fixed Accounts		
Principal Less Than	Number of Accounts	Principal Value	Principal Less Than	Number of Accounts	Principal Value
Z$ 5	164,717	427.3	Z$ 200	72	845.2
20	301,121	2,905.0	1,000	1,823	8,158.9
100	182,636	8,438.2	5,000	3,435	14,097.4
500	118,533	26,273.6	10,000	2,096	31,474.7
1,000	27,318	19,053.8	15,000	2,906	16,680.2
5,000	33,508	72,958.2	20,000	1,018	23,611.8
10,000	6,704	46,607.6	25,000	1,129	12,286.5
15,000	3,064	36,637.1	30,000	466	30,120.3
20,000	1,526	25,971.6	40,000	937	13,217.6
30,000	1,471	35,458.5	50,000	309	26,328.4
40,000	661	22,391.3	60,000	516	10,948.4
50,000	423	18,789.5	70,000	175	7,937.5
100,000	693	47,421.6	80,000	109	9,322.7
			100,000	169	5,622.9
Total	842,375 1/	363,333.3 2/		15,160 3/	210,652.5 4/

1/ 1,035 company accounts
2/ Value of company accounts: Z$13.7 million
3/ 598 company accounts
4/ Value of company accounts: Z$10.4 million

Source: Post Office Savings Bank internal documents

-5). Likewise, the POSB's total assets rose by 111 percent during this five-year period while those of the building societies rose by less than 9 percent (Table I-1). This phenomenon was no doubt induced by the POSB's more attractive tax-free interest rate.

Besides unattractive deposit rates, other factors, primarily regulatory in nature, have adversely impacted upon the building societies in recent years, draining their resources and increasing their operating costs.

The 1981 increase in both deposit and lending rates reduced the operating margins of the building societies since the additional cost of interest paid on deposits and shares (24+ month fixed deposits) exceeded the returns from the societies' collective assets. Due to the fact that approved assets constituted approximately 32 percent of the societies' collective portfolio (12 percent in excess of the statutory requirement) at the time of the rate increases, the market value of these assets declined significantly thus affecting the revenue derived from them and forcing a marked decline in the societies' level of required liquidity. The net short-run result of these rate changes was to reduce lending activity with a resulting negative impact upon net income.

The 1981 mortgage rate increases (the overall increase to 13.25 percent was accomplished in three stages during the year) generated a loan arrears problem which until only recently has become more manageable. Arrears increased from 2.2 percent of total mortgage bonds held in 1980 (686 of 31,571) to 7.4 percent in 1984 (2,225 of 29,946). As a result of the GOZ's guarantee of mortgage bonds, this sharp rise in the arrearage ratio has not led to a corresponding increase in losses due to foreclosure. Nevertheless, the rise in the arrearage ratio has led to increases in collection and legal costs.

The Building Society Act requires the group to transfer 10 percent of their annual surplus (net income) to their statutory reserve prior to the payment of interest on share capital. Due to reduced margins, a high level of overhead costs and other factors which will be discussed below, surpluses have declined in recent years and the societies have been compelled to draw down their general reserves to comply with GOZ regulations. The level of statutory reserves stood at Z$24.4 million at the end of 1983 in addition to Z$9.9 million in general reserves. It can be argued that building society assets are relatively less risky than the assets of other financial institutions since the risk of holding mortgages is reduced by the statutory variable interest rate, thereby placing the building societies in a position to require less reserves than other financial institutions.

Prior to March 1984, the building societies held over Z$55 million in blocked funds of individuals who had emigrated from Zimbabwe. In March, these assets were required to be tranferred to the RBZ for the purchase

TABLE I-5

Zimbabwe: Savings with Financial Institutions 1980 - 1984 1/

(Current Z$ Millions; End of Period)

Institution	1980	1981	1982	1983	1984 2/	Percentage Change 1980/81	1981/82	1982/83	1983/84	1980/84
Commercial Banks	441.1	600.3	800.0	831.3	884.4	36.1	33.3	3.9	6.4	100.5
Merchant Banks	213.0	191.3	227.2	198.4	225.5	-10.2	18.8	-12.7	13.7	5.9
Finance Houses	109.8	155.7	146.4	170.6	179.0	41.8	-6.0	16.5	4.9	63.0
Building Societies	556.1	559.0	587.6	591.4	595.0	0.6	5.1	0.6	0.6	7.0
Post Office Savings Bank	248.5	295.6	367.1	417.5	469.2	19.0	24.2	13.7	12.4	88.8
Total	1,568.5	1,801.9	2,128.3	2,209.2	2,353.1	14.9	18.1	3.3	6.5	50.0

Source: Reserve Bank of Zimbabwe, Quarterly Economic and Statistical Review

1/ Savings broadly defined as all deposits with financial institutions other than demand deposits
2/ End of June

of GOZ external bonds resulting in a drain on the societies' resources. Although the RBZ has been recycling a portion of these funds back to the building societies in the form of 24-month fixed deposits, these funds represent a forward commitment and cannot be used for mortgage purposes.

In a related action, the monetary authorities now require all individuals applying for emigrant status to liquidate their assets and invest the proceeds in GOZ 12 year, 4 percent interest external bonds. The rather serious implication of this new regulation is that building society members who in the future decide to emigrate will be forced to liquidate their accounts causing a further drain on the societies' resources.

Further pressure on the building societies came under the aegis of the Registrars of Insurance Companies and Pension and Provident Fund ruling that 60 percent of insurance company and pension fund assets be placed in public sector investments. To meet the higher statutory requirement, insurance companies and pension funds were forced to reduce or, in some instances, remove assets deposited with the building societies. This action had the doubly negative impact of taking away the insurance companies' and pension funds' investment making powers and excluding the societies from a sizeable sum of potential deposits. Fortunately, the building societies' statutory liquid asset ratio was lowered from 20 percent to 15 percent in March 1984 thus alleviating some of the liquidity squeeze caused by these actions.

The current difficulties facing the building societies are primarily the result of GOZ financial policy. Regulated ceilings on taxable interest rates paid on deposits is the major bottleneck in attracting deposits, especially in light of the tax free competition from the POSB. Without a higher level of deposits, the amount of mortgage credit that can be provided through the use of recycled capital is extremely limited.

8. Insurance Companies

The serious implications of the monetary authorities' two decisions to raise the insurance companies' holdings of public sector securities is that these actions are restraints on investment decisions and restraints on maximizing returns.

The insurance industry is essentially a long-term investor and apart from statutory investment in public sector securities, the industry's portfolio consists of property, equity, corporate debentures, money market funds and some direct industrial term loans. As a long-term investor concerned about these non-public assets' performance, the insurance industry is sensitive to underlying trends in the economy which affect their investments and investment decisions. Decisions by the monetary authorities to raise the insurance companies' holdings of public sector securities thereby promoting GOZ financing outside the banking system have distorted the investment allocation process. The long-run viability of the industry itself is affected by the inflationary pressure brought to bear on the economy by private sector financing of the GOZ deficit and the subsequent growth of the money supply. The risk here is that the negative investment returns due to inflation will erode the industry's assets over time. Even with higher yields on public sector stock (yields were increased by up to 0.9 percent in September 1983) returns are presently negative due to the high rate of inflation present in the economy.

Despite reports of an imminent softening in the demand for commercial property (especially large office buildings) which could free up a portion of the industry's revenue earmarked for non-public assets, the industry will still need a strong regeneration of productive investment, a return of private sector confidence and control over the current causes of inflation (including the GOZ deficit and wage policy) to ensure longrun investment security. Of course, economic growth and stability are equally essential for such security.

9. Pension, Provident and Retirement Annuity Funds

Much of what was discussed above in regard to the insurance industry equally pertains to the pension, provident and retirement annuity funds. The funds are essentially long-term investors whose long-run viability depends on the ability of the funds to protect the financial interests of their contributors. The monetary authorities' decision to raise the statutory ratio of public securities held by the funds is a potential threat to the funds' viability insomuch as these two increases constrain investment choice and return maximization.

II. The Housing Finance Market

A. Introduction

Housing finance in Zimbabwe is characterized by a number of features that are distinct among African nations. On the private side, financing is represented by three building societies, whose degree of competence and level of expertise are equal to similar housing finance institutions in developed countries. These societies, however, are the only source of finance provided by the formal sector, with competition for providing credit occuring among the societies, not from other financial institutions.

The private housing finance sector is also characterized by strong Government of Zimbabwe (GOZ) controls and regulations, which inhibit its growth. As a result, the ability of the housing finance sector to meet the need and demand for housing is severely constrained. The growing role of the GOZ, with its concurrent need to finance its budget deficit, mostly from domestic savings, has had a major impact on the availability of housing finance. The percentage of GDP channeled to the construction of new housing through the formal sector was 0.67 percent in 1984, or two-thirds of one percent. As a percentage of total government expenditures, investment in new housing was slightly higher, 1.8 percent, or slightly less than two percent. If informal housing finance, which cannot be quantified, and building society financing of existing housing, were included, the above percentages would be higher.

On the positive side, GOZ policy has encouraged home ownership through the sale of rental housing owned by central and local governments and the private sector to the occupants of these homes. This policy is furthered by the active implementation of a Housing Guarantee scheme which greatly facilitates the purchase of housing for the growing urban middle income group. For the last five years, however, new home construction has been quite low, indicating that the housing stock has deteriorated, not improved.

B. Overview of the Primary Housing Market

The primary housing market can generally be segmented into two distinct groups, at least with respect to the urban areas. Middleand upper-income families generally locate in what are termed low-density areas, and they live in single family detached housing. Funds to purchase housing at this level are obtainable from the building societies. Lower income families live in the high density areas which often consist of substandard housing and/or facilities. Access to housing finance for this group has been principally through government channels. In the past, such government financing was by way of direct funding derived from local authority revenues and borrowings, while today, resources flow only from the central government, with implementation carried out by the local authorities.

Financial resources for the primary market have been severely strained since independence. In the last five years, the GOZ has provided Z$152 million in below market rate loans to local authorities for the construction of low-income housing. This permitted the construction of approximately 39,700 units, many of which (about 12,500) consisted of serviced stands (sites), and which obligated the purchaser to obtain financing for the construction of a dwelling from other sources. Funds raised internally by local authorities, which provided additional lowincome housing before independence, have virtually dried up as a source of housing finance.

Private sector financing for the primary market has been relatively stagnant in the past five years. The three building societies have not been able to capture additional domestic saving which would permit them to increase the flow of private capital to the housing market. The societies have been providing mortgage loans mainly from reflows from its existing loan portfolio. Lack of new housing construction for middle-and upper-income families has confined the societies to financing purchases of homes from the existing housing stock. This is primarly due to the emigration of middle- and upper-income groups since independence, at least with respect to the provision of housing credit.

Since independence, there has been some shifting in market segmentation. Whereas previously the building societies financed housing mainly for the white community, today the vast majority of the societies' borrowers are blacks. Moreover, the societies are serving a lower income group albeit mostly middle income than before independence, at least with respect to the provision of housing credit.

TABLE II-1

Total Housing Investment
(Current Z$ Millions)

	1982/83 1/	1983/84	1984/5
Public Sector: 2/	37.9	39.8	37.9
Private Sector 3/	91.5	72.1	-
Total	129.4	111.9	-

1/ Calendar year for the private sector.
2/ Consists of budgetary allocation to the Ministry of Construction and National Housing to implement GOZ housing program.
3/ Building Societies only. Data on housing provided or financed by private companies for employees is not available.

Source: Ministry of Construction and National Housing and Building Societies.

C. Private Sector Finance Activities

1. The Building Societies

Private sector home financing from a institutional standpoint is the exclusive domain of the building societies.1/ The societies do not have any competition for the provision of housing credit from any other private sector financial institutions. However, competition for financial resources to supply housing credit is strong and it has a major impact on the capability of the societies to mobilize funds, as will be discussed later.

Building societies in Zimbabwe were modelled on the British concept. Under this concept, the features of a mutual society, where depositors hold voting rights, and a stock society, which ownership is vested in non-savings depositors, are merged. Building society savings are divided into two categories: savings deposits and share capital. A savings deposit (pass book savings), either fixed or at sight, does not give the depositor voting rights, although interest is earned on savings. Depositors in up to 4-year fixed certificates, called share capital, hold voting rights and receive a fixed interest rate, or dividend, on shares or certificates. In theory, the certificates may not be redeemed on less than six months notice, although to encourage the inflow of capital to the societies, this rule is flexibly applied. The societies are governed by Boards of Directors who are elected for staggered periods of time by holders of share capital.

As illustrated below, the three building societies in Zimbabwe maintain 79 branches, mostly in urban areas, although many population centers not defined as urban are also served. While the figure fluctuate, the three societies estimate that the number of savings accounts approaches 550,000.

Building Society	# of Savings accounts		# of branches
Central Africa Building Society	369,800	(as of 1/31/85)	48
Beverley	120,000	(appx) (as of 3/31/85)	15
Founders	58,000	(appx) (as of 1/31/85)	16
Total	547,800		79

Source: Building Societies

1/ Merchant Banks provide one or two loans a year of upper income residences, while some sales of housing are financed by the sellers giving a purchase money mortgage.

By the end of the last operating year, (books close on June 30 each year), total assets of the three societies stood at Z$649.9 million, while savings and fixed deposits and share capital reached Z$593.1 million (Table II-2). The mortgage loan portfolio totaled Z$416.0 million or 64 percent of total assets (Table II-3). GOZ regulations require that building societies place 15 percent of assets in approved liquid investments (up to a 6 year term) which is reflected in the fact that assets in liquid investments totaled Z$113.3 million or 17.4 percent of assets. The regulations also require the societies to place 10 percent of net income before payment of dividends on share capital into the statutory reserves. The lack of growth in the system as well as low surplus margins, is forcing the societies to transfer funds from the general reserve account to statutory reserves in order to meet this requirement. The impact of this regulation on the societies ability to continue to attract share capital is potentially damaging.

In their last operating year, all the societies operated in the black, although margins were narrow. Collectively, the societies had revenues of Z$77.5 million and expenses and interest payments (dividends) on share capital of Z$76,6 million, leaving profits before reserves of Z$868,000 (Table II-4). Since this amount was insufficient to meet statutory reserve requirements of Z$3,292,000, funds from general reserves had to be drawn down.

TABLE II-2

Building Societies FY 1984 Balance Sheets
(Current Z$ Thousands)

ASSETS	CABS	Beverley	Founders	Total
Loans:				
Mortgage Loans (Advances)	241,867	93,083	81,029	415,979
Other Loans	34,120	17,705	13,050	64,875
Residential Properties	773	193	230	1,196
Fixed Assets	16,218	9,334	6,298	31,850
Sundry Debts	920	328	193	1,441
Investments	79,334	12,578	21,394	113,306
Cash/Short term deposits	7,134	10,502	3,604	21,240
Total Assets	380,366	143,723	125,798	649,887
LIABILITIES				
Share Capital	176,318	59,907	56,631	292,856
Deposits:				
Fixed Deposits	20,831	8,056	8,579	37,466
Savings Deposits	151,031	61,883	49,818	262,732
Accrued Interest	3,602	1,537	1,732	6,871
Creditors & Provisions	8,017	4,183	771	12,971
Reserves:				
Statutory Reserve	16,805	5,621	5,250	27,676
General Reserve	3,411	1,500	2,962 1/	7,873
Unappropriated Surplus	351	26	55	432
Total Liabilities	380,366	143,723	125,798	649,887

1/ Includes Z$2,512,000 of capital reserve resulting from revaluation of property.

Source: Building Societies' 1984 Annual Reports

TABLE II-3

Building Societies' Loan Portfolio

(Current Z$ Thousands; End of June 1984)

	Beverley Building Society	CABS	Founders Building Society	Total
Loans less than Z$12,000				
Number	2,850	7,881	3,593	14,324
Loan Balance	21,938	64,322	26,133	112,393
Proportion of Total	23.6	26.6	32.6	27.5
Loans between Z$12,001 and Z$20,000				
Number	2,198	6,110	2,066	10,365
Loan Balance	33,614	93,680	32,106	159,400
Proportion of Total	36.1	38.8	39.6	38.1
Loans between Z$20,001 and Z$40,000				
Number	1,010	2,580	782	4,372
Loan Balance	26,134	66,503	20,550	113,187
Proportion of Total	28.1	27.5	25.4	27.0
Loans over Z$40,000				
Number	150	243	42	435
Loan Balance	11,397	17,362	2,240	30,999
Proportion of Total	12.2	7.1	2.8	7.4
Total Loans	6,199	16,814	6,483	29,496
Total Loan Balance	93,083	241,867	81,029	415,979

Source: Building Societies

TABLE II-4

Building Societies FY 1984 Income Statements

(Current Z$ Thousands)

Income	CABS	Beverley	Founders	Total
Interest on Loans	36,386	17,066	12,329	65,781
Other Income	8,912	485	2,355	11,752
Total Income	45,298	17,551	14,684	77,533
Expenses and Capital				
Interest on Deposits	13,650	6,013	4,792	24,455
Management Expenses	10,594	4,600	3,574	18,768
Depreciation	956	327	134	1,417
Sub-total Expenses	25,200	10,940	8,500	44,640
Dividend on Share Capital	19,292	6,517	6,216	32,025
Transfer to(from) Reserves:				
Statutory	2,010	662	620	3,292
General	(1,204)	(300)	(544)	(2,048)
Unappropriated Surplus	806	26	55	(376)
Total Expenses and Capital	45,298	17,551	14,684	Z$77,533

Source: Building Societies' 1984 Annual Reports

As illustrated in Table II-3, the loan portfolio of the three societies consisted of 29,496 mortgages with a value of Z$415,979,000. The average loan balance was $14,100. Approximately 27.5 percent of the loan portfolio consisted of loan balances of less than Z$12,000, while 7.4 percent of the loan were in excess of $40,000.

Table II-5 indicates that over the past 5 years, the building societies have originated 24,539 loans, virtually all of which, as stated earlier, were used for the purchase of existing homes, not for the construction of new dwellings although a portion was used for home improvement. The total loan amount was Z$350 million, of which 72 million for 4,921 loans were originated in 1983/4 alone. The average loan size over that entire period remained in the Z$14,000 range, virtually stagnant. The Consumer Price Index increased by 79.2 percent during that same period, indicating that the building societies are definitely reaching a lower income group today than on the eve of independence.

Cost of Funds vs. Return on Assets

Prior to independence, the economy of Zimbabwe was to a large degree sheltered from outside financial influences. Interest rates on deposits and on loans were much lower than rates in other countries, in spite of the fact that Zimbabwe functioned as a market economy. For example, in 1980, building societies paid only 3.5 percent on savings deposits (compared to 5.25 percent in U.S. savings and loan associations), although this was competitive with rates offered by other financial institutions in the country. The mortgage lending rate offered by the societies varied from 7.25 percent to 8.5 percent depending on the size of the loan and the type of property mortgaged. The spread of 3.75 percent to 5.0 percent at that time was more than adequate, particularly given the structured nature of the system. After independence, Zimbabwe's economy opened up, and all interest rates were adjusted upward to reflect worldwide economic competition. In 1981, rates on savings deposits jumped to 7 percent, then increased once again to 7.75 percent, today's rate. Interest rates on mortgage loans increased in 1981 to a range between 12.5 percent to 14.75 percent, where they have remained.

With such an increase in mortgage interest rates, it would be assumed that the societies would have been stuck with a portfolio of low-yielding mortgages. Instead, the GOZ has permitted the societies to increase the interest rate on existing loans to the permitted ceiling. This has prevented the asset/liability mismatch that, for example, has caused such severe hardships for the U.S. thrift industry. The adjustment on rates for existing mortgages was followed 3 months later by the increase in savings rates, causing some losses to the societies, however, the societies were able to weather the changes.

Today, the cost of money to the societies averages about 9.45 percent, reflecting the range of interest rates from the lowest 7.75 percent rate paid to savings depositors to the 11.25 percent rate paid on share capital. With mortgage loans varying between 12.5 percent (for residential loans under Z$12,000) to 14.75 percent (for commercial loans), the average return on investments is 13.60 percent. This has permitted a spread of between 4.04 and 4.25 points, depending on the society.1/

1/ For comparative purposes, the parastatal Agricultural Finance Corporation had a spread of 4.32 in the year ending June 30, 1984.

TABLE II-5

Building Society Mortgage Loans 1980 - 1984

(Current Z$ Thousands)

Year 1/	Building Society	No. of New Loans	Total Loaned	Average Loan Size	Increase in Average Loan Size	Increase in CPI
1980	CABS	2,671	31,218	11,690		
	Beverley	931	14,100	15,145		
	Founders	714	12,982	18,180		
	Total	4,316	58,300	13,510		
1981	CABS	2,728	34,879	12,785		
	Beverley	1,157	18,800	16,250		
	Founders	1,162	16,784	14,445		
	Total	5,047	70,463	13,960		
1982	CABS	2,416	34,631	14,335		
	Beverley	426	5,100	11,970		
	Founders	1,084	17,269	-		
	Total	3,926	57,000	14,520		
1983	CABS	4,204	63,584	15,125		
	Beverley	1,182	13,900	11,760		
	Founders	930	14,058	15,116		
	Total	6,316	91,542	14,495		
1984	CABS	2,741	45,418	16,570		
	Beverley	1,208	12,100	10,015		
	Founders	985	14,625	14,850		
	Total	4,934	72,143	14,620		
1980/84	Total	24,539	349,448	14,240		

1/ Year ending June 30

Source: Building societies

In most financial institutions, this spread would provide a sizable profit margin, however, as reflected in the 1984 operating statements, profits before reserves totalled Z$868,000 for all three societies which was only .13 percent of assets. The high administrative and operational costs of the societies consumed this supposedly wide spread. The reason why profits before reserves were low can be attributed principally to the costs of maintaining so many small savings accounts. The analysis of Central Africa Building Societies' (CABS) savings accounts in Table II-6 indicates that 81.3 percent of all accounts as of March 31, 1984, totalled less than Z$300, including 64.2 percent under Z$100.2/

While CABS's savings accounts under Z$300 constitute 81.3 percent of all accounts, they represent only 12.9 percent of the total amount in savings. Yet savers in this category also represent 79.1 percent of withdrawals, which, while in line with their representation in the society as a whole, indicates the high cost of servicing an account under Z$300. At an average estimated cost of Z$1.13 per transaction, it is impossible for CABS to even break even in savings operations, in spite of the fact that it probably earns a small margin on accounts over Z$300. The magnitude of the small savings accounts poses a high cost on the societies operations.

The reason for this problem is the fact that many savers use the Building society as a current account. Commercial banks generally charge a minimum of Z$100 per year to maintain a checking account, which is prohibitive for low-income families. Moreover, commercial banks do not pay interest on checking accounts. While an interest rate of 7.75 percent on a Z$300 savings account does not add up to much over a year's time, it is an added inducement to bank at a building society. This is not necessarily a call for reform of this situation so as to permit building societies to improve savings operations earnings, rather it is a reflection of the benefits that the building societies provide to the nation, particularly to low-income families. Nevertheless, it is clear that the subsidization of low-income savers must be counterbalanced by increased earnings in other operations, probably the lending side. The spread between the cost of money to the societies and the return on its mortgage portfolio provides this compensation. Neverthless, the compensation is small, as reflected in the overall small surplus in 1984, as well as for previous years.

2/ Again for comparative purposes, the return on assets for all U.S. savings and loans in 1984 was an estimated .15 percent, which is considered a very poor return.

TABLE II-6

Analysis of Savings Accounts

Central Africa Building Society - As of 3/31/84

	Size of Principal		
	Less than Z$100	Z$100 - 300	Over Z$300
Number of Accounts	237,468	63,405	68,895
Percentage of Account	64.2	16.7	19.1
Average Yearly Balance	Z$7,373,000	Z$11,145,000	Z$125,849,599
Percentage of Balance	5.1	7.8	87.1
Number of Withdrawals	195,002	45,121	63,654
Percentage of Withdrawals	64.2	14.9	20.9

Source: Central Africa Building Society

Tax Considerations

Two provisions in the tax code have a significant impact on building societies. The first is positive in that profits, if any, are not subject to corporate income taxes, and therefore any surplus income is ploughed back into the societies to further their growth and development. However over the past few years, profits on net income after dividends have been insufficient to meet statutory reserve requirements, so the tax-free benefits on surplus have not been enjoyed.

The second tax provision has a negative impact on the societies. Interest paid on savings deposits and share capital are taxable, with the amount of individual tax paid contingent on the recipients income tax bracket. There is nothing untoward about this arrangement except that the principal competitor to the building societies is the Post Office Savings Bank (described in the previous section) which offers a tax free interest paid on savings deposits. This puts the building societies in a much inferior position to attract pure savers. For a saver in the highest income bracket (63 percent), a tax free interest rate of 10 percent at the POSB is equivalent to a 26 percent return on investment (deposit). Accordingly, it is quite clear why the growth in deposits and shares in building societies has been relatively stagnant over the past few years.

Trends and Prospects

The relatively comfortable and cozy environment in which the building societies operated prior to independence was converted rapidly to one of acute competition and change in the post independence years. On the whole, the societies have been able to cope and they have continued to operate in the black. But unless there are some significant changes in the regulatory and control areas, the trends will be less and less favorable. An analysis of the societies' consolidated balance sheets in Table II-7 will help to explain what has happened and what may continue to happen. On the asset side of the balance sheet, mortgage loans grew from Z$359 million at the end of 1980 to $408 million in 1983, a Z$49 million increase, indicating that the growth rate in mortgages over that three year period was only 13.6 percent, or an annual growth rate of slightly over 4 percent. In the first six months of 1984, mortgage loans increased to Z$416 million or Z$8 million, which translates into an annual rate of less than 4 percent. When compared with the annual rate of inflation of almost 20 percent over that same period, it is clear that the societies are not even matching the inflation rate. In short, the societies are regressing. Total assets over that same six month period grew by 9.4 percent, which indicates that the societies are somewhat reducing their proportional holdings of other assets in order to provide more funds for mortgage loans.

TABLE II-7

Building Societies' Consolidated Balance Sheet (Current Z$ Thousands)

	1975 1/	1978	1980	1981	1982	1983
Assets						
Loans:						
Mortgage Loans	265,847	316,087	359,172	371,637	375,882	4,077,922
Other Loans	4,286	3,899	5,254	4,871	4,994	5,840
Residential Properties	67	1,114	1,754	1,454	1,346	1,334
Fixed Assets	10,225	11,071	13,952	17,628	21,503	30,040
Sundry Debts	148	211	872	635	952	845
Investments	48,600	104,292	191,992	165,947	136,445	144,659
Cash/Deposits	25,130	31,192	23,991	43,609	82,260	61,530
Total Assets	354,363	467,866	596,287	605,781	643,382	652,040
Liabilities						
Share Capital	179,143	194,176	224,808	258,627	271,273	285,683
Deposits:						
Term	38,302	78,624	110,010	68,104	53,481	43,686
Passbook	108,887	162,832	221,265	232,302	262,872	262,072
Accrued Int.	4,620	6,189	8,506	13,111	18,445	19,449
Creditors & Prov.	830	2,533	2,837	4,312	6,258	5,240
Reserves:						
Statutory	9,719	13,748	16,832	18,495	21,143	24,384
General	5,997	7,790	10,019	10,672	8,757	9,922
Unap. Surplus	1,263	2,533	2,837	4,312	6,258	5,240
Total Liabilities	354,363	467,866	596,287	605,781	643,382	652,040

1/ Year ending December 31

Source: Report of the Registrar of Building Societies, December 31, 1983

An analysis of the liability side of the balance sheet indicates why the amount of mortgage loans has not grown. Deposits and share capital growth have been minimal. Fixed and deposit savings actually decreased from Z$331 million at the end of 1980 to Z$306 million at the end of 1983. This was offset by the growth in share capital from Z$225 million in 1980 to Z$286 million in 1983. Overall housing finance resources (deposits and share capital) grew by only Z$36 million or 6.5 percent over the three years, while the increase in housing finance resources actually was less than the increase in mortgage loans. Inflation and the low rate of growth in the building societies with respect to other institutions has brought about disintermediation. And while it cannot be proved, both the GOZ and the private sector attribute the stagnation of savings in the societies principally to the tax advantage available to savers in the Post Office Savings Bank.

Other factors support the downward trend in their fortunes. The regulation that requires the societies to contribute to statutory reserves prior to distributing dividends will, if not corrected, force one or more of the societies to fail to meet the full dividend payment on share capital. If that occurs, a run on that society or all societies could not be ruled out. Failure to rectify this situation would eventually lead to dissolution of the system. Also margins are very thin, and interest rates, both for savers and borrowers may have to be adjusted, or preferably, permitted a greater degree of flexibility to prevent margins from disappearing altogether. While it is important to keep interest rates on loans as low as possible, the building societies must be allowed to compete in order to attract funds.

Prospects for the building societies to provide more housing finance is contingent on the GOZ. If no changes are forthcoming, then the building society movement will increasingly become a lesser player in the housing finance market. On the other hand, if the government permits the societies to compete fairly with other financial institutions and to earn a fair return on investments, then the societies will once again become a major supplier of housing. One trend which should enhance the prospects of the societies is the willingness, albeit tentative, of the societies to serve lower income families. Clearly, greater efforts on the part of the societies to reach low-income families would be the quid pro quo for concessions from the GOZ on the matters of fair competition and improving earnings.

On the other hand, the societies are exploring new ways to increase their services as well as generate additional sources of revenue. These potential innovations, which may or may not be implemented, include:

- Offering free checking privileges on savings accounts, in return for a lower interest rate and a minimum balance.

- Selling a portion of the loan portfolio to generate additional funds for new mortgage loans.

- Taking on a developmental role in the provision of new housing solutions up to the recently approved guarantee limit of Z$24,000 for new houses.

- Collaborating with local authorities in the collecting of fees and payments, including mortgage payments, so as to reduce the cost of collections to the societies.

- Increasing the use of computers to reduce operating costs and provide for greater effeciencies, particularly, if and when, the societies begin to increase levels of operations.

2. <u>Other Private Sector Inputs</u>

The building societies so dominate private sector housing finance activities that it is hardly worthwhile even mentioning the other minor players. However, one other unorganized group does play a role, although this role is exceedingly difficult to quantify. This pertains to the provision of employee housing by commercial, industrial and agricultural establishments. Housing finance assistance by employers generally takes one or more of the following forms:

- Company housing, either rent free or at a subsidized rental rate.

- Company loans to either buy a house or to finance the down payment or deposit.

  A company guarantee, usually in the form of a company co-sign, to assist the employee to obtain a building society loan.

- A monthly housing allowance, in lieu of company housing, to permit an employee to buy or rent a dwelling.

No statistics exist which provide information regarding either the number of workers who live in housing financed in part or whole by employers, or the amount invested to date or investments on an annual basis. It is probable, however, that reliance on employer assistance is less likely today than prior to independence. Present GOZ policy in many cases prevents a company from evicting an employee if that employee leaves the employment of the company. Therefore, there is no incentive for an employer to continue to provide company housing as a fringe benefit if prospects are likely that the housing may eventually be occupied by ex-employees. Moreover, in some areas, GOZ building standards increase construction costs to the point where company housing is not an economical alternative solution. Finally, there is increasing pressure on companies to freeze or lower rents in cases where employees are provided company housing resulting in rising subsidies. Naturally, this is a major disincentive to employers to provide more housing or even improve existing housing.

Probably the single largest supplier of company housing is the mining industry. Due to the often remote location of the mines, or to the fact that mines are not located in or near established communities, mining companies are obliged to provide housing for its workers, which is now obligatory by statute. Whereas this once took the form of housing for single males, increasingly families have begun living together at mine sites, and that is the norm today. At present, some 55,000 miners working in registered mines are provided company housing, often at rentals substantially lower than comparable housing in the closest communities. Since the number of persons employed in the mining sector is not increasing, the stock of mining company housing has remained stagnant, although improvements in dwelling conditions are continuing to be made. The Chamber of Mines estimates that mining companies have invested Z$44 million in housing over the years although no data is available on a yearly basis. While mining companies would prefer to sell company dwellings to their workers in conformity with GOZ policy to encourage ownership, the dilemma is that the land where the mining concessions are held cannot be transferred in the same way land held on a free hold basis can be transferred. This effectively prevents the sale of the dwellings to the workers.

In the past, other financial institutions, such as insurance companies and pension funds made direct loans to municipalities for the financing of housing. Although no data on the magnitude of this past activity are available, loan balances on various institutions' balance sheets indicates that the number of loans and the amount involved was relatively small. Official statistics show that outstanding balance on loans to local authorities from private domestic sources for all purposes totaled Z$63 million as of June 1984. At the same time, the GOZ has not approved any new loans to the local authorities for housing purposes since Independence. The general impression is that private sector financial institutions are not planning a role in the provision of housing finance, unless of course, government policy is either reversed or the returns on loans to municipalities are enhanced. The one exception, which many hope will become common, is the expected granting of building society loans to low income families under the IBRD/CDC/GOZ project.

In many countries, credit unions play a role in housing finance, generally through the provision of loans to a cooperative member to complete the down payment or to buy building materials. However, in Zimbabwe credit unions do not exist. The Zimbabwean alternative to credit unions is the saving club, which as yet does not offer loans to savers.

D. Government Housing Finance Activities

1. Role of Government Ministries and Authorities

A number of GOZ agencies intervene directly or indirectly in the provision of finance to the housing sector. Primary is the Ministry of Construction and National Housing (MCNH), which, along with its expected ministerial role as the nation's rector agency for housing, manages several GOZ programs which channel funds to the housing sector. The two major programs, which will be discussed in detail below, are the National Housing Fund (NHF), which channels funds to Local Authorities (LAs) for the development of housing schemes, and the Housing and Guarantee Fund, which administers the guarantee scheme for the purchase of housing and manages the stock of rental housing in its portfolio.

Through its budgetary power, the Ministry of Finance, Economic Planning and Development (MFEPD) allocates GOZ funds both to cover the MCNH's administrative expenses as well as to provide loans to LAs through the National Housing Fund. The MFEPD also must approve private sector loans, if any, to local authorities. The Ministry of Local Government and Town Planning must approve the LAs' plans and finance requests for government assistance through the NHF. Finally, LAs, which include urban and rural councils, finance housing schemes with funds from GOZ loans, from tax revenues and business ventures, and, previously, from private sector loans.

2. The National Housing Fund

The NHF was established in January, 1982, by the amalgamation of two separate housing funds the Local Government Areas Building Fund and the Provincial Building Fund. All assets and liabilities of those two funds were taken over by the NHF. The principal purpose of the NHF is to function as a financial intermediary for GOZ loans to LAs for the development and sale of low-income housing solutions. These GOZ loans are provided annually from central government budget allocations which are derived in part from external loans.

To take a step backward, the GOZ, in its 1982/85 Transitional Plan, targeted a relatively large amount of money for housing which was a reflection of its awareness of the urgent need to increase and improve the nation's housing stock. Over that three year period (July 1982 to June 1985), GOZ planners estimated that Z$469 million in GOZ funds was required for investment in urban and rural housing. Table II-8 illustrates that actual budget allocations over that three year period, as reflected in the Estimates of Expenditures, was significantly less only Z$138.2 million. Due to budget constraints, allocations were further decreased and in fact, actual disbursements over that three year period, including estimates for the current fiscal year, total only Z$115.6 million, or 24.6 percent of the funds that were originally intended by the Transitional Plan to be invested in housing schemes.

In spite of lower than desired levels of GOZ loans to the NHF, the figures are in excess of levels in those years previous to FY 1983. In 1981 and 1982, Z$17.4 million and Z$19.0 million, respectively, were disbursed in housing loans from the NHF.

TABLE II-8

National Housing Fund Investments 1980/81 - 1984/85

(Current Z$ Millions)

Year	Transitional Plan 1982/85	Budgetary Allocations	Actual Disbursements	Disbursements as a % of 1982/85 Plan
82/83	108.0	59.5 2/	37.9 3/	35.1
83/84	149.6	31.7	39.8	26.6
84/85 1/	211.4	47.0	37.9	17.9
Total	469.0	138.2	115.6	24.6

Source: Ministry of Construction and National Housing

1/ Estimate

2/ Budget reduced during year by Z$25 million by MFEPD

3/ Data from the GOZ's Estimate of Expenditures vary slightly from these figures due to subsequent yearly revisions prepared annually by the MCNH.

The data in Table II-9 indicate that although GOZ disbursements to the NHF for LA housing schemes was decidedly less in 1981 and 1982 with respect to subsequent years, a significantly larger number of solutions were provided. The general explanation for this situation is that LAs were previously developing very minimal solutions at a low cost, which permitted the available funds to be spread among more families. Inflation of costs accounts for only a part of this difference.

TABLE II-9

GOZ Housing Investments - 1980/81 - 1984/85

Year	No. of Disbursements (Current Z$ Millions)	No. of Solutions	Average Cost of Solution (Current Z$ Millions)
1980/81	17.4	12,075	1,440
1981/82	19.0	14,143	1,345
1982/83	37.9	5,460	6,940
1983/84	38.9	3,054	12,740
1984/85	37.9	5,000 1/	7,580 1/
Total	152.0	39,732	3,825

1/ Estimate

Source: Ministry of Construction and National Housing

The only source of funds at this time for the NHF is GOZ loans. These loans are made at an interest rate of 9.75 percent annually to be amortized over a 30 year period. Table II-10 illustrates that at the end of June 1984, total loans outstanding to NHF lenders was Z$195 million, to which will be added an estimated Z$38 million in new loans in 1984/85 less approximately Z$5 million in loan repayments. Of the NHF's Z$195 million outstanding balance, Z$134 million was owed to the Zimbabwe Government, with the remainder owed to private sector financial institutions and the City of Harare.

TABLE II-10

Outstanding Balance, Capital Loans
National Housing Fund
(Current Z$ Thousands; End of June 1984

Lender	Balance
GOZ	133,886
Building Societies	36,756
Insurance Companies	11,492
City of Harare	10,718
Finance Houses	2,730
Total	195,582

Source: Ministry of Construction and National Housing

While non-central government loans comprise approximately one-third of the NHF's Capital Account, no loans have derived from those sources over the past few years. As a result, the proportion of capital attributable to GOZ lending has risen accordingly. In FY 1984, total NHF liabilities, nearly all of which consist of capital loans, increased by Z$25.8 million over the previous year, due to GOZ loan contributions (Table II-11).

As mentioned earlier, NHF uses GOZ loans to on-lend to Local Authorities for housing schemes. As depicted in Table II-11, loans to Local Authorities in FY 1984 showed an increase of Z$14.7 million over FY 1983, while work in progress on new solutions showed a rise of Z$9.5 million. This total increase of Z$24.2 almost equaled the Z$25.8 million in GOZ loans for the same period, which demonstrates the pass-through nature of the NHF as a financial intermediary.

TABLE II-11

National Housing Fund Balance Sheets
(Current Z$ Thousands; End of June)

	1984	1983	Change
Assets			
Cash and Deposits	3,206	7,705	(4,499)
Other Current Assets	9,659	5,042	4,617
Loans to local authorities	158,863	144,146	14,717
Other Loans	4,569	4,120	449
Work in Progress	18,024	8,488	9,536
Other Assets	2,776	1,761	1,015
	197,097	171,262	25,835
Liabilities			
Capital Loans	195,023	169,391	25,632
Other Liaibilities	2,074	1,871	203
	197,097	171,262	25,835

Source: Ministry of Construction and National Housing.

The NHF has a GOZ mandate to operate on a self-sufficiency basis, and to a large degree, the NHF has approached that objective. However, as Table II-12 indicates, the NHF's total income was inadequate in both FY 1983 and FY 1984 to cover expenses.

TABLE II-12

National Housing Fund Income Statement
(Current Z$ Thousands; End of June)

	1984	1983
Income		
Interest on Loans to L.A.'s	13,456	-
Other Interest Income	2,230	-
Other Income	71	-
Total	15,757	13,692
Expenditures		
Interest Paid	17,196	-
Property Maintenance	7	-
Other Expenses		-
Total	17,203	13,976
Deficit	(1,446)	(284)

Source: Ministry of Construction and National Housing.

It is clear that the cost of funds to the NHF is greater than the return on assets or loans to borrowers. One explanation is that interest rates on earlier loans to the local authorities have not been adjusted upward to reflect increases in the cost of capital to the NHF, as, for example, were interest rates on building society loans. An increasing portion of NHF's capital account consists of GOZ loans at 9.75 percent, while many loans to the LAs are carried at much lower rates. Government is aware of this problem, and in fact made a grant to NHF in FY 1983 of Z$777,000 to help reduce the deficit. This accounts for the fact that the deficit as reflected on the income statement was significantly lower in FY 1983 than in FY 1984. Had the GOZ not made that contribution, the deficit that year would have totaled Z$1.06 million, rather than Z$280,000. Regardless, continuation of this deficit situation is jeopardizing the success of the NHF. Whether interest rates to LAs on existing loans can be raised, particularly given the precarious financial situation of many authorities (as will be discussed later) is speculative. GOZ may have to continue providing an annual contribution to NHF to cover the deficit.

Another qualification to the self-sufficiency situation is that the NHF's administrative expenses are covered by the GOZ's housing vote or budgetary allocation to the MCNH for administrative expenses. In 1984, administrative costs allocated to the NHF by the MCNH were Z$77,471, almost exclusively for salaries and wages of full and part-time MCNH employees. If those expenses, plus other overhead expenses not calculated, were added to the operational costs of the NHF, the deficit would have been higher.

Arrears from some LAs are causing concern among NHF staff. Table II-13 illustrates that as of December 31, 1984, LAs were in arrears to the NHF by Z$10,577,000, with Z$7,689,000 more than 90 days in arrears. Of this 90-day arrearment, Z$6,194,000 was attributable to the Chitungwiza Town Council, as a result of a dispute between the GOZ and the Town Council over damages to a number of NHF financed houses. The remaining Z$1,495,000 in 90 day arrears was distributed between Urban Councils (Z$454,000) and Rural Councils (Z$1,041,000). As a percent of NHF's loan portfolio, LAs' bad debt (less Chitungwiza) is less than 1/2 of one percent. Some of this debt is being rescheduled and capitalized and is therefore not yet reflected on the NHF's financial statements. None of this debt has been written off, nor are there any plans to do so. Nevertheless, if this problem persists, and the LAs' weak financial position suggests that not only will it persist, but grow, then it could pose serious problems for the NHF and the GOZ.

TABLE II-13

Local Authorities Loan Arrears to National Housing Fund

(Current Z$ Thousands; End of December 1984)

	90 Days	60 Days	30 Days	Total
Municipalities/ Town Councils, of which:	6,648	1,560	990	9,198
Chitungwiza	(6,194)	(1,159)	(631)	(7,984)
Rural Councils/ Local Boards	1,041	174	164	1,379
Total	7,689	1,734	1,154	10,577

Source: Ministry of Construction and National Housing

In summary, the National Housing Fund has been limited in carrying out its functions as the major supplier of finance for low-income housing. Its dependence on the GOZ, and in turn on the GOZ's dependence on external loans for housing, has prevented the NHF from making more than a meager impact on the housing deficit. Until the NHF is able to generate additional resources for housing finance, its effectiveness as the primary supplier of low-cost housing funds will be restricted.

The NHF will continue to have to turn to the GOZ to cover its operational deficits, unless interest rates to borrowers are adjusted. Moreover, to truly reflect the financial condition of the NHF, all administration and operations should be included in the cost of administering the fund. Until that charge occurs, it is incorrect to refer to the NHF as a self-sufficient operation.

The problem of arrears must be addressed, either by insisting that LAs make timely payments or by recognizing that some LAs are not in a position to pay, and therefore having the GOZ make up the shortfall between what the authorities can pay and what is owed to the NHF. Assuming the GOZ's intention is that NHF, or any such successor operation, play a role in the housing finance system, it would behoove the GOZ to rectify this situation. It is doubtful that the NHF would be permitted to attach any assets of delinquent local authorities to cover non-payment of loans.

3. The Housing and Guarantee Fund

The Housing and Guarantee Fund (HGF), not to be confused with the National Housing Fund, is the lesser known of the two funds, even though its guarantee functions have aided thousands of Zimbabweans to obtain housing and it is certainly better known to the public at large for that very purpose. The HGF actually operates two separate yet interrelated programs: 1) a guarantee scheme whereby a portion of a mortgage loan obtained from a private financial institution is guaranteed for repayment, and 2) a rental housing ownership and management scheme. Since the housing operation resulted from the implementation of the guarantee scheme, it would be more appropriate to begin this discussion by focusing on the latter.

The Guarantee Scheme

This scheme was established as far back as 1953, although the bulk of its activities have evolved over the past ten years, with considerable activity since Independence. In U.S. housing parlance, it is more akin to the Veterans Administration Guaranty Loan Program than the Federal Housing Administration's Insurance Program. Essentially, the GOZ, acting through the Ministry of Construction and National Housing, guarantees a top portion of a loan obtained under specified criteria from a financial institution, usually a building society. Under the present set-up, two types of loans are guaranteed. For civil servants, the fund will guarantee the first 30 percent of the loan, with the building society assuring repayment for the remaining 70 percent. This is called the 100 percent Scheme. With this guarantee, a public servant is able to obtain a loan equal to the purchasse price of the dwelling unit. At present, loans up to Z$50,000 for certain civil servants may be secured, although for Ministers, Deputy Ministers and certain parliamentary officials, the ceiling is Z$70,000, under certain conditions. In return for this guarantee, the public servant signs an agreement giving the GOZ a first lien on his/her pension in the event of default. Moreover, the GOZ deducts monthly payments directly from the guarantor's paycheck to be forwarded to the lender.

The other loan program, which is for the general public, is somewhat more restrictive. It is referred to as the 90 percent Scheme, in that non public servants may obtain a loan guarantee if they are able to make a down payment or deposit equal to 10 percent of the purchase price. The GOZ then guarantees the top 20 percent of the loan, with the building society, as in the case of the 100 percent Scheme, taking the remaining 70 percent risk. Under this 90 percent Scheme, the maximum purchasing price is Z$17,000, with a maximum loan of Z$15,300 (90 percent). Monthly payments may not exceed 22.5 percent of the purchaser's salary, or in the event of joint purchasers, two or more salaries.

In all cases, it is the responsibility of the borrower to obtain the mortgage loan. The building society's analysis of the borrower's credit worthiness and ability to repay the loan, if approved, is accepted at face value by the HGF. The HGF does not conduct an independent analysis of the borrower, nor do they appraise the property. In turn, the borrower must pay all up-front costs associated with purchase of a home, i.e., taxes, stamps, recording, etc., as well as pay a commission to the HGF for issuing the guarantee, which is 1/2 of 1 percent of the amount of the loan or 3 percent of the maximum liability of the HGF whichever is less. For a Z$15,300 loan, the commission is Z$76.50.

The Minister of Construction and National Housing has considerable leeway to vary the percentage of the loan guaranteed by the government. Recently, up to 100 percent of some loans has been guaranteed. This generally occurs when low income families need additional help to purchase homes they occupy as renters. Usually these loans are in amounts less than $2,000.

Table II-14 illustrates that during the 1980 1984 period, the number of building society loans guaranteed under this program totaled 10,712, of which 48 percent were given to public servants and the remaining 52 percent to the general public. A total of Z$142.6 million in loans were covered under this program, with the HGF committed to guarantee Z$38.4 million of that amount. It should be pointed out that the government's liability for a guarantee is withdrawn when the amount of principal reaches the 70 percent mark. For example, on a Z$10,000 loan, the guarantee is withdrawn when the outstanding balance of the loan drops to Z$7,000. This action also reduces the GOZ's contingent liability. As of June, 1984, the contingent liability of the NHF stood at Z$31.5 million, which was not funded.

TABLE II-14

Housing and Guarantee Fund Loan Guarantees
(Current Z$)

Year	No. of Guarantees	Loan Amount	Amount Guaranteed
	90 Percent Guarantees		
1980	1306	12,549,787	2,788,563
1981	902	8,775,675	1,949,955
1982	684	6,640,979	1,475,626
1983	1497	17,154,302	3,811,686
1984	1168	11,163,713	2,480,577
Subtotal	5,557	56,284,456	12,506,407
	100 Percent Guarantees		
1980	1432	$19,864,879	$5,959,947
1981	921	17,038,310	5,111,493
1982	795	13,091,036	3,927,311
1983	1042	18,267,814	5,480,345
1984	965	18,049,272	5,414,782
Subtotal	5,155	86,311,311	25,893,878
TOTAL	10,712	142,595,767	38,400,285

Source: Ministry of Construction and National Housing

Foreclosures on guaranteed loans totaled 66 between 1979 and 1984 (Table II-15). The price the HGF paid to the building societies for these units more or less equaled the appraised value of the properties, indicating that no losses, at least on paper, occurred from foreclosures. Sale of these units at a future date may even bring about a profit to the fund.

TABLE II-15

Housing and Guarantee Fund Loan Foreclosures
(Current Z$)

Year	No. of Properties	Purchase Price	Appraised Value
1980	10	99,201	105,350
1981	2	21,784	21,000
1982	13	135,254	134,150
1983	17	203,982	204,150
1984	24	262,001	264,320
Totals:	66	722,222	728,970

Source: Ministry of Construction and National Housing

As depicted in Table II-16, the only income accruing to the Guarantee Scheme is derived from the payment of commissions, which in FY 1984 totaled Z$65,523, up about Z$5,000 from FY 1983. For those same two years, expenditures for bad and doubtful debts the only expenditure were less than income from commissions, leaving a net surplus. However, that surplus is being applied to losses from earlier years, which left the Guarantee Account in a deficit position of Z$56,500 at the end of FY 1984.

TABLE II-16

Housing and Guarantee Fund Income Statement

(Current Z$; End of June)

Guarantee Account	1984	1983
Income		
Commission	65,523	60,531
Less:		
Expenditures		
Provision of bad debts	41,028	27,913
Net income	24,495	32,618
Less:		
Deficit carried forward from previous year	(81,046)	(113,664)
Balance	(56,551)	(81,046)

Source: Ministry of Construction and National Housing

The value of the Guarantee Scheme to Zimbabwe and Zimbabweans has been immeasurable. Since building society policy does not permit the granting of loans at more than 75 percent of the purchase price, for non-guaranteed loans, thousands of families would not have been able to afford homeownership. Moreover, since many building society residential loans today have a GOZ guarantee, this has helped assure the flow of building society assets to the housing market, something that would not have occured since independence due to the softness of the market in the higher income brackets, the traditional building society market.

One sour note will be sounded here. The provision of 100 percent loan to value guarantees and to a lesser degree 90 percent guarantees, do not encourage savings, and without appreciable savings, a housing finance system cannot meet the demand for housing loans.

The Housing Scheme

During the life of the HGF, the fund has accumulated a number of real properties, many of which were the result of foreclosures on guaranteed loans. When the HGF takes title to a piece of property, that property is repaired, if necessary, and rented to GOZ employees. Infrequently, a property is sold, generally to a GOZ employee. At the end of June 1984, the value of the Funds residential properties has reached Z$7.2 million.

Table II-17 illustrates that operation of the housing section of the HGF has been a surplus generating operation for the GOZ. Rentals from these properties generated Z$629,000 before expenses in 1984. Based on the book value of the properties, the return to the fund before expenses was 8.7 percent. Overall, the housing accounts earned Z$446,775 in 1984, an increase of almost Z$100,000 over the previous year. While no breakdown is available, the MCNH estimates that the cost of administering the fund's housing account amounted to Z$402,709, which was covered by operational income.

The Housing and Guarantee Fund represents a positive government activity. The financial condition of the fund itself is good, and as long as rents are collected, the net income for the housing account should offset any losses in the guarantee account. Both accounts operated in the black in 1984, although lack of information on the administrative costs of the HGF prevents one from determining if the FY 1984 surplus of Z$24,495 was sufficient to cover those costs.

TABLE II-17

Housing and Guarantee Fund Income Statement
(Current Z$; End of June)

Housing Account	1984	1983
Income:		
Rentals	628,818	602,762
Interest on loans and investments	261,741	217,238
Other income	41,947	40,762
Total income	932,506	860,355
Expenditures:		
Interest paid	167,782	169,710
Property maintenance	179,750	87,716
Other expenses	99,243	92,193
Profits on disposal of properties	-	72,619
Total expenditures	446,775	349,762
Net income	485,730	510,593
Plus:		
Surplus carried forward from previous year	4,289,302	3,706,090
Accumulated Income	4,775,032	4,289,302

Source: Ministry of Construction and National Housing

4. Ministry of Construction and National Housing Administration

The GOZ makes an annual appropriation to the MCNH to carry out its assigned functions, including the administration of the two funds. This allocation is in addition to the funds loaned to the NHF for housing schemes in conjunction with local authorities. Administrative expenses of the MCNH have been increasing over the past three years, all of which is attributed to salaries. Table II-18 indicates that the total increase between the end of FY 1983 and the end of FY 1984 was 29 percent, but due to inflation, the net increase was only 10 percent. It is difficult to say if this rise, resulting from additional staff, is warranted without carrying out a management audit. The general feeling among MCNH staff is that the ministry is understaffed.

TABLE II-18

MCNH Administrative Expenses (Housings Administration Only)

(Current Z$ Thousands; End of June)

Item	1983	1984
Salaries and Wages	$872.9	1,225.2
Subsistence and Transport	137.7	224.8
Incidental Expenses	267.9	231.1
Furniture and Equipment	31.4	12.7
Total	1,309.9	1,693.8

Source: Ministry of Construction and National Housing

Nevertheless, income from the two funds helps to defray some salary expenses. Analysis of government contributions plus net income from the Housing and Guaranty Fund for FY 1984 alone indicate that the total nonreimbursable costs to the GOZ for its housing programs was slightly over Z$3 million (Table II-19). Reduction in the NHF deficit, which accounted for roughly half this expense, would have a major impact on the Ministry's administrative expenses and costs.

TABLE II-19

MCNH FY 1984 Total Administrative Costs
(Current Z$)

Government Allocation		1,693,800
Plus: NHF deficit		1,446,000
Sub-total		3,139,800
Less: HGF surplus of which:		
Guaranty account	25,495	
Housing account	44,066	(69,561)
Net Cost		3,070,23

Source: Ministry of Construction and National Housing

5. Local Authorities

Within the housing context, the principle role and responsibility of the local authorities (LAs) consist of the development and administration of low-income housing in their political jurisdictions. This role includes the allocation and management of LA owned rental housing, and more recently, the administration of formerly owned rental housing which had been sold to its owner-occupants. Currently, the LAs are almost exclusively developing new low-income housing for sale only.

Financing these housing schemes has always been, and continues to be, the main bottleneck in the supply of sufficient numbers of dwelling units to meet the demand. Funds have traditionally been raised from three principal sources:

- loans from the GOZ, appropriated from the annual budget;
- loans from private sector financial institutions such as building societies, insurance companies, pension funds, etc.; and,
- locally generated revenues from taxes and/or LA business ventures.

Loans from the central government have consistently formed the bulk of financial assistance to local authorities. This was true in the preindependence days as well as today. As discussed in the section on the National Housing Fund, the loan balance from this source now totals Z$195 million (end of June 1984). Loans made by the GOZ are for a period of 30 years, and currently carry an interest rate of 9.75 percent, although earlier interest rates reflected the lower rates prevailing at the time the loans were granted. This is clearly a below-market interest rate, given that mortgage loans from the private sector (i.e., the building societies) are offered at a minimum of 12.5 percent, which is the market cost of money, albeit government set, for this economic activity. The Treasury provides the money to the National Housing Fund at 9.75 percent, which in turn passes the money pari passu to the LAs. The LAs loan the money to home-buyers at the same rate, although in some cases, a fee is added to the monthly loan payment to cover administrative costs. The Harare Municipal Government charges a flat Z$3.85 per month per loan to help defray loan administration costs.

Over the past three years, the GOZ has allocated an average of Z$38 million annually to LAs to provide new low-income housing. While this figure is greater than previous years, the amount of housing built is actually smaller (see Section II-2).

Loans from private sector financial institutions directly to LAs (actually, only Harare and Bulawayo Urban Councils had access to this source) have ceased since independence. When this activity was permitted, these two cities not only borrowed from financial institutions with central government approval, of course they were also able to raise funds by issuing local stock (municipal bonds). No plans are afoot to permit Harare and Bulawayo to once again tap the private finance market for housing purposes.

Prior to independence, LAs raised funds locally for housing primarily from two sources. The first source was a services levy on certain employees that was directed to the construction of low-income housing and community services. This levy was repealed at the end of 1979. The second source was the African Beer Fund. Under this program, LAs produced and sold indigenous beer, and allocated up to 50 percent of profits to a revolving fund for the development of low-income housing. Since independence, the central government has levied excise taxes on this beer, which means that roughly 80 percent of the profits end up in the GOZ's central tax coffers, rather than remaining with LAs to develop more housing. Accordingly, revenues from indigenous beer have greatly diminished. The revolving funds established with the Beer receipts continue to provide some roll over monies to fund new housing. In Harare, about Z$1 million annually is generated for new housing in this way, and in all other urban councils, probably another Z$1 million at most is generated. However, the flow of new money from beer profits (after taxes) is severely limited. Also, the interest rate being charged is below the rate of inflation, which indicates that the fund is being decapitilized. With each passing year, revenues from LA sources, both with respect to new flows and reflows, will diminish further to the point where local funds are a negligible source of housing finance. Only if LAs are authorized new and/or increased taxing, or other revenue generating powers, will this situation be reversed.

One new source of housing finance will soon be available to LAs, albeit indirectly. The building societies, and one in particular, have agreed to make mortgage loans directly to beneficiaries of low-income stands under a World Bank-sponsored project in four urban councils. These four council areas will be able to use financing contributed by the GOZ as a construction account to finance and develop stands. Once the building society provides the take-out or longterm mortgage financing, the councils will be reimbursed for the cost of developing the stands, and these funds can be rolled over to develop new stands. The potential for this activity is appreciable, assuming the building societies have both sufficient funds and the willingness to make this plan work.

III. Resource Mobilization

Mobilizing domestic resources which, in turn, can be channeled to housing credit, is the key to a viable housing development program. Section I of this report covered in full the financial situation in Zimbabwe today and the trends and prospects for increasing the level of current saving, while Section II discussed the housing finance sector in general. This section attempts to address the issue of sources of savings for housing finance, both internally and externally, and it will include a number of ideas on how savings for housing purposes can be enhanced as well as the prospects for tapping these sources.

A. Sources of Housing Finance: Actual and Potential

1. Domestic Savings Generation

As a source of housing finance, domestic savings in Zimbabwe can be additionally tapped <u>only</u> if GOZ makes some policy changes. It is not that savings is so low or that they are virtually non-existant, but rather that the GOZ has instituted policies that inhibit the flow of savings to housing institutions and the various funds, which would make this money available in the form of housing credit. These changes could include, for example, permitting the building societies to compete fairly with the Post Office Savings Bank in attracting savings deposits. If this change is permitted, then some of the savings that has flowed in to the POSB would be withdrawn and placed in the building societies. As will be discussed in Section IV-A of this report, the loss of revenue to the GOZ from the POSB purchase of stock would be offset by the gain in the revenues, although in this case, the taxpayer would lose. A second GOZ policy change might call for increasing the deposit or down payment for GOZ guaranteed loans. For example, a five percent increase in both the 100 percent and 90 percent schemes would have generated an additional Z$1.5 million in 1984. While this would not appear to be significant, it would have permitted the building societies to make about 70 additional loans in 1984.

In addition to these two policy considerations, the GOZ should want to encourage the development of savings clubs. Instilling in low-income families with the savings habit, particularly rural families, would go far toward making the nation more self-sufficient and prosperous. Once incomes rise, in part through maximizing use of the savings clubs, other institutions, perhaps credit unions could be formed which would be able to provide some housing finance.

2. Government Budgetary Contributions

By lending government funds for housing finance to low-income families, rather than making grants, the GOZ is maximizing the use of its scarce funds (scarce in the sense that there are other GOZ mandated priorities that affect budget allocations for housing). Increasing the interest rate, now 9.75 percent, to a figure closer to the "market rate", even though rates are set by GOZ decree, would help prevent distortions in the market. Providing housing loans not at a 30 year term, but in perpetuity, on the condition that these loan funds, now channeled through the National Housing Fund, would remain in the fund and thereby ensure a steady flow of resources for low-income housing. This, in effect, would become a revolving fund, whereby the principal would be constantly rolled over for new houses and only interest repaid to the GOZ. Only in the case of external loans to the GOZ for housing would adjustments have to be made for repayment. In this way, funds loaned by the GOZ for housing purposes, would remain in the housing sector. One caveat here: a 9.75 percent interest rate confronted with a rate of inflation at today's level would slowly decapitalize any revolving fund, even though new funds are flowing into the fund through annual government loan contributions. This is due to the fact that inflation cuts into purchasing power. For example, at an annual inflation rate of 15 percent, Z$1.00 today is worth less than Z$0.50 five years hence, meaning that only half as many houses can be built 5 years from now as today. This is a good reason to fix interest rates at levels equal to or in excess of the rate of inflation in order for the fund to maintain its value.

3. Redirecting Funds from Other Financial Institutions

Some thought has been given to the establishment of a National Provident Fund whose assets would be invested in low cost housing. In fact, this has been tried in a number of developing countries, and in general, it can be effective in generating funds for housing. Normally, it has been more logical to establish such a fund in countries where most workers are not covered by a provident or pension fund and/or where private sector housing finance involvement is minimal, which is certainly not the case in Zimbabwe. Where it is not an effective solution, fund mismanagement is common, and benefits in the form of housing loans generally accrue to only a small number, usually the most affluent, of the contributors. This is not the place to discuss the feasibility of establishing a National Provident Fund, or even another fund to cover those workers who do not have coverage. Instead, it can be argued that the present system should be used better to provide housing opportunities for low-income families.

As discussed in Section I, life insurance companies and pension/provident funds must invest 60 percent of their assets in approved government and quasi-government securities. In the first half of 1984 alone, an additional Z$124 million from those two sources were placed with the GOZ, and indications are that that amount will grow steadily over the years, probably exceeding the rate of inflation. If, for example, only 10 percent of those investments were redirected to the housing finance market, then an additional Z$12.4 million would flow into housing. It is acknowledged that taking such a step would imply a major policy decision by the GOZ, and that the macroeconomic implications are considerable. Nevetheless, this would not only generate an immediate flow of funds to the housing market, but it would also constitute a steady and reliable source, particuarly from pension funds.

4. External Sources

In the past few years, the GOZ has begun to rely on external loans (and a few small grants) for housing development, something that was not previously done. These external funds have flowed from two main sources: USAID's Housing Guaranty Program and the World Bank (IBRD), in conjunction with the Commonwealth Development Corporation (CDC). When currently approved loan programs from those two institutions are completed, US$116.6 million (Z$185 million) in external loans will have flowed into the Zimbabwean housing market (US$64 million from USAID, US$43 million from IBRD, and US$9.6 million from CDC). If schedules are kept, these monies will have been disbursed by 1989, having started, with the first USAID loan, in 1983. Disbursements have not been, nor will they be constant over that period, but for arguments sake, the average disbursement over the six years can be considered to have been US$20 million annually. It would appear therefore, that if GOZ allocations remain at the current levels, well over 50 percent of all GOZ financing will have been derived from external assistance during this 6 year period, which is a very high proportion, when compared with other developing countries.

The IBRD and USAID probably provide 90 percent of all external low cost housing assistance to developing countries. In that respect, the policies of those two institutions are crucial in determining the prospects for continued housing assistance from external sources in general. Without going into details, those two institutions have made it clear that they do not see it within their mandate to finance all the housing requirements of any developing country. Their policies are to assist governments in developing their housing sector through the use of external assistance. The World Bank and USAID, while desiring to help developing countries to improve housing conditions, do not provide unlimited funds.

In addition, there are other considerations. Even at a US$20 million annual rate, that is only a fraction of the amount of money needed to make a dent in the housing deficit. There are also external debt considerations which may cause the Treasury to delay or stop the flow of funds from external sources. Regardless, external loans should be considered merely a supplemental housing resource, not as a primary resource.

5. Municipal Finances

In general, the 17 urban councils in Zimbabwe are expanding their range and level of municipal services, yet their revenue resource base has not been expanding at the same rate. Also, with the previous principal source of local funds, the African Beer Fund, drying up, local funds for housing are becoming scarcer. It is unlikely that the LAs are going to be able to dedicate any additional local funds for housing unless they are given additional revenue generating powers.

6. Secondary Mortgage Sources

In a manner of speaking, the idea that life insurance companies and pension funds invest a percentage of their required reserves in financial instruments that in turn will be channeled to the housing finance market, is an application of the secondary mortgage concept. In fact, if this occurs, the insurance companies and pension funds would be functioning as second-tier mortgage market institutions. If the mortgages held by those institutions, or alternatively, the paper that is backed by those mortgages, are sold to another party, then, in fact, a secondary mortgage market will be initiated. The key to the establishment of a true secondary mortgage market is the availability of liquidity, that an institution or institutions are maintaining a market for the mortgage or mortgage backed instrument.

Is this necessary, or even possible, in Zimbabwe? The potential for raising new funds for housing through the sale and purchase of existing mortgages is limited only by the demand for housing finance. The three building societies, which are today the only primary mortgage loan originators, hold approximately Z$416 million (as of June 30, 1984) in mortgages. In theory, the societies could sell their entire portfolio of mortgages if a secondary source to purchase those mortgages existed. With the funds raised from the sale of their mortgage portfolios new loans could be made, and the sale could be repeated over and over, until housing demand was satiated.

If the building societies were in a position to sell their portfolios, who would be the purchasers? Assuming the price was right, life insurance companies and pension funds would by far be the principal buyers, whether the funds were redirected from required reserves or other assets. Of the approximately 1,220 pension funds, provident funds and retirement funds, almost 100 are self administered, while the remaining are administered by insurance companies of which there are 48. Altogether, there are 150 potential major purchasers from among the above institutions. Perhaps there are a few other potential buyers, depending on how a secondary mortgage operation was structured. With three sellers, the building societies, and over 150 buyers, the market would appear to be large enough to warrant the establishment of an institutional framework. On the other hand, if sale of mortgages in one form or another was permitted, it might suffice for a building society to merely place an advertisement in the Financial Gazette in order to attract buyers.

Regardless, an institutional framework does exist in Zimbabwe which possibly could be adapted to cover a secondary mortgage operation. Presently, there are two local discount houses that maintain a market in GOZ financial investments, and commercial paper and bankers acceptances, and in theory a secondary mortgage market operation be established under the auspices of the discount houses.

It would appear that more questions are being raised than answers, but the fact is that there are several possible scenarios. More simply, legislation could be enacted that would permit the building societies to sell a mortgage or a group of mortgages to an interested buyer, whoever that may be. Alternatively, the building societies could issue mortgage participations backed by a part of all of their mortgage portfolio. This latter alternative would have the advantage of permitting the sale of mortgages either in smaller amounts and/or round figures. Additionally, a third party or institution, perhaps the discount houses, could step in to maintain a liquid market, which would, in fact, be the apex of a secondary mortgage market.

B. GOZ Constraints on Resource Mobilization

1. Taxation

During the 1979/80-1983/84 period, total revenue[1/] accruing to the central government increased at an average rate of just over 30 percent per year compared to an average annual rate of growth of Zimbabwe's Gross Domestic Product (GDP) of 16 percent. This margin of growth of revenue over GDP is primarily the result of several tax measures introduced by the GOZ during the period and from the growth of various tax bases. During the 1982/3 fiscal year the proportion of total tax revenue collected by direct taxes amounted to 50.7 percent while those collected indirectly totalled 49.3 percent.

The major taxes affecting resource mobilization in the private sector and hence the availability of resources for housing finance, are the taxes on income and profits of individuals and companies. This single category grew at an annual rate of 27 percent between 1980/81 and 1983/84 and accounted for 46 percent of total tax revenue and 41 percent of total revenue in 1983/4.

The maximum tax abatement (deduction) for single persons is Z$3,600 while that for married taxpayers filing jointly is Z$6,000. For single taxpayers individual income tax is charged at rates ranging from 14 percent for the first Z$1,000 of taxable income to 45 percent for the balance of taxable income above Z$16,000. For married taxpayers filing jointly, income tax is charged at rates ranging from 10 percent for the first $1,000 of taxable income to 45 percent on the balance of taxable income above Z$17,000.

1/ Includes taxes on income and profits, tax on property, taxes on goods and services, tax on international trade, and other taxes, revenue from investment and property, departmental fees and charges and other non-tax revenue.

The effective marginal tax rate of each tax bracket is increased by a surcharge applied to the tax payable. The rate of surcharge for tax years (April through March) 1980 and 1981 was 10 percent, resulting in a maximum effective marginal tax rate of 49.5 percent. The surcharge for the 1982 tax year was raised to 15 percent with a correponding maximum effective tax rate of 51.75 percent. A variable rate of surcharge was introduced for the 1983 tax year ranging from 15-33.5 percent with a corresponding maximum effective marginal tax rate of 60 percent. The range for the surcharge was increased for the 1984 tax year to 20-40 percent resulting in a 63 percent maximum tax rate. However, due to relatively low wages, it can be assumed that the majority of taxpayers would be assessed at the lower end of the surcharge.

While individual income tax is an important source of revenue for the GOZ, contributing over 26 percent to total tax revenue in 1983/84, it would appear that it is paid by a relatively small proportion of all wage earners due to the high level of allowable deductions which determine the level of taxable income. In order to broaden the tax base a Lower Level Employee's Tax (LLET) was introduced in April of 1984 and applies to the remuneration of employees other than agricultural and domestic workers earning more than Z$100 per month not previously affected by tax legislation. The system of collection is similar to the Pay As You Earn (PAYE) system (where tax must be paid to the GOZ within 15 days after the end of the month during which the tax was withheld) except that a 2 percent flat rate applies to total earnings and no deductions are allowed. This new tax, estimated to cover more than half the employees in the country, is expected to yield approximately Z$20 million in the 1984/85 tax year.

Although companies are taxed at a basic rate of 45 percent, surcharges can raise the effective marginal tax rate to 56.25 percent. A branch profits tax of an additional 8 percent is levied on local branches of foreign companies. Company tax revenue, which accounted for over 18 percent of the GOZ's total tax revenue in 1983/4, has declined in recent years as a result of declining corporate profitability. Increased rates of company taxation have been offset by this decline in corporate income.

Other income taxes include the resident shareholders' tax (20 percent of dividend value), the nonresident shareholders' tax (20 percent of dividend value) nonresidents' tax on interest (10 percent of interest value) and the capital gains tax (30 percent of the capital gain value). These taxes accounted for nearly 2 percent of the GOZ's 1983/84 tax revenue.

Accruals and interest received by the building societies stemming from mortgage loans and other investments are exempt from taxes. Likewise, accruals and interest from investments made by pension funds on behalf of their members are also exempt from taxation. However, insurance companies are taxed on a formula basis. For non-life insurance companies, income derived from other than the insurance business itself, e.g. income derived from the investment of surplus funds, is taxable under the normal provisions of corporate taxation. Non-life insurance companies are also subject to capital gains tax in the normal way. Life insurance companies, on the other hand, are taxed under a formula which uses as a base the actuarial liabilities of locally issued life policies. Deductions are allowed for income earned on local investments (both public and private) and these companies are exempt from capital gains tax on investments allowed by the formula.

The net effect of the changes in tax regulations since 1980 has been to substantially increase the tax burden on individuals. During the 1979/80 1983/84 period, the ratio of wages paid in taxes increased by 47 percent and presently the average taxpayer is paying the GOZ 44 cents of every dollar earned. Such a heavy tax burden has had two effects upon savings in Zimbabwe. First, aggregate discretionary income has been significantly reduced during the past five years with the net effect that growth of savings is far below the rate of growth of output, thereby resulting in a rather low average marginal propensity to save. Second, the high rate of taxation has enabled upper income groups to mobilize a rather substantial pool of savings with the POSB where their interest income is free from taxation. However, this pool of resources cannot be tapped for private sector investment since the POSB is required to invest its deposits in public sector securities. As such, the building societies loose out on both accounts the average wage earner has little, if any, discretionary income to save and those with ample discretionary income shelter it under the aegis of the POSB.

2. The Budget Deficit and its Effect on Domestic Savings

Although GOZ revenues increased rapidly during the 1979/80 1983/84 period and outpaced the rate of GDP growth, the GOZ's net budgetary deficit has also been on the rise (Table III-1). For the fiscal year ending June 30, 1984, the country's net budgetary deficit was Z$630 million on total central government expenditure of Z$2,628 million representing 11 percent of GDP. As depicted in Table III-1, the deficit's proportion of GDP had averaged about 9 percent for the 1979/80-1982/83 period.

While a deficit of this magnitude can only imply negative long-term ramifications for the economy including an increasing debt-service burden and inflationary pressures as a result of money supply growth, the most disturbing aspect of the deficit is the GOZ's need to borrow to fund recurrent expenditures. Recurrent expenditures amounted to Z$2,233 million for the 1983/84 fiscal year against revenue of Z$1,997 million leaving a recurrent deficit of Z$236 million. Expressed as a share of total central government expenditures in 1983/84, recurrent expenditures accounted for 85 percent, capital expenditures for 6 percent and net lending 7 percent.

Rap expansion of the GOZ's social services programs with high recurrent cost components has yielded an imbalance in the ratio of consumption to investment. To fund the resulting budget deficits, the GOZ has had to resort to both domestic and foreign borrowing. Domestic borrowing for this purpose during 1983/84 took the form of bank borrowing (31 percent) and nonbank borrowing (61 percent). Foreign borrowing provided the remaining 8 percent.

TABLE III-1

Zimbabwe: Savings and Budget Deficit Ratios

(Selected Years; Current Z$ Millions)

Year	Gross Fixed Capital Formation	Current Acccunt Deficit	Net Savings	GDP	Ratio of Savings to GDP (Percent)	Budget Deficit	Ratio of Deficit to GDP (Percent)
1973	330	15	315	1,450	21.7	NA	NA
1976	409	+5	414	2,064	20.1	95	4.6
1980	525	157	368	3,206	11.5	375	11.7
1981	800	440	360	3,995	9.0	286	7.2
1982	950	533	417	4,465	9.3	340	7.6
1983	850 1/	450	400	4,871	8.2	447	9.2

Sources: Central Statistical Office, Quarterly Digest of Statistics
Reserve Bank of Zimbabwe, Quarterly Economic and Statistical Review

1/ Estimate

The effect of domestic bank borrowing to fund the deficit has had the direct result of increasing the money supply of M2 (notes and coins in circulation, demand deposits and commercial and fixed deposits with less than 30 day maturities) thereby fueling inflation. Reserve Bank of Zimbabwe data illustrate that since the beginning of 1980, the M2 money supply has grown at an average annual rate of over 14 percent, much faster that the GDP growth rate in real terms. Domestic bank borrowing (and subsequent increases in the money supply) would have been of an even larger magnitude had the GOZ not raised the statutory requirement on the ratio of approved assets in the portfolios of insurance companies and pension funds thus enabling the GOZ to channel resources to the public sector by selling securities in the capital market.

As discussed in Section I-C, the GOZ's deficit spending had led to the generation of inflationary pressures in the economy which has rendered real interest rates negative since 1980 (Table I-2). Such a phenomenon has surely contributed to restraining the overall growth of financial savings. While total savings in Zimbabwe's financial institutions grew at an annual rate of less than 11 percent during the 1980-84 period (Table I-5), this growth rate did not keep pace with the 15 percent GDP growth rate for the same period. As a result, financial savings' proportion of GDP has fallen from 49 percent in 1980 to 41 percent in 1984.

The net result of the increasing levels of central government expenditures is a fiscal policy which, for all practical purposes, is devoid of measures to encourage savings. The steep rise in the proportion of income paid in taxes has not been sufficient to keep pace with public expenditures. The resulting reliance upon private financial institutions to fund the deficit has led to the crowding out of private investment financing by the public sector.

Supporting evidence of this crowding out effect can be gleaned from the information in Table III-1, which illustrates a significant decline in savings ratios (gross fixed capital formation net of the current account deficit as a proportion of GDP) since the early 1970s. If the savings ratios are compared with the budget deficit's proportion of GDP, the data indicates that domestic savings is being diverted to finance the deficit and that rather insignificant residual amounts are available for private sector investment. By drawing savings and investment funds away from the productive sectors, the potential for growth and employment is seriously reduced.

3. Recent GOZ Policies Affecting the Financial Sector

The GOZ's monetary policy has been oriented toward restraining excessive demand pressures. In 1981 the bank (discount) rate was raised from 4.5 percent to 9 percent and correspondingly, commercial banks' prime overdraft lending rate was raised from 7.5 percent to 13 percent.

As illustrated in Table I-3, other interest rates including those of the building societies rose in line with these two changes with the result that lending rates became more closely aligned with the inflation rate, through most still remained negative in real terms.

Together with interest rate increases in 1981, the statutory reserve requirement for commercial banks, merchant banks and finance houses was increased from 6 percent to 8 percent for demand deposits and from 3 percent to 6 percent for savings and term deposits. Also during 1981, the finance houses' statutory liquid asset ratio was increased from 15 percent to 20 percent.

During the 1983/84 fiscal year, the GOZ made a concerted effort to promote government financing outside the banking sector to counteract the negative impact upon the economy of larger domestic financing of the budget deficit. As such, in September 1983 yields of government stocks were increased by up to .9 percentage point depending on maturity. At the same time, insurance companies and pension funds were required to increase their portfolio holdings of approved assets from 50 percent to 60 percent (from 25 percent to 30 percent for non-life insurance companies).

As a result of this new regulation, the mix of assets held by insurance companies and pension funds portfolios were changed and some assets reduced, especially those with commercial banks. This action was responsible for an abrupt liquidity squeeze in the money market during which money market rates for non-liquid paper rose to record levels with the 90 day rate on Negotiable Certificates of Deposit (NCD) peaking in December 1983 at 15.5 percent. The NCD rate substantially stabilized at around 9 percent and during the second half of 1984 it fluctuated between 8.75 percent and 10 percent. During the same period, banks and other institutions appeared to be able to meet their liquidity requirements without difficulty and there was little aggressive bidding for funds in the money market.

To ease the impact on the financial sector of Ministerial announcements in February and March 1984 detailing supplementary estimates of expenditure and certain new exchange control measures, the monetary authorities took a number of actions, many of which had an impact on the amount of resources available for private sector investment. First commercial banks' statutory liquid asset ratio was raised to 40 percent in May, an action also affecting the merchant banks. This was followed by the Reserve Bank's issue of nonrediscountable and nontransferable bills. These actions were intended to prevent excess credit from being created.

The monetary authorities then allowed the tax free deposit rates offered by the Post Office Savings Bank (POSB) to increase from 7.5 percent to 8 percent for ordinary savings deposits and from 8.5 percent to 10 percent on fixed deposit accounts. Additionally, ceilings or deposits with the POSB were increased from Z$50,000 to Z$100,00 for individuals and from Z$20,000 to Z$45,000 for corporate bodies. These actions were intended to attract additional funds to the POSB which would in turn be invested in GOZ stocks.

Since 1980, the large accumulation of the blocked funds of those who have emigrated from Zimbabwe have been on the increase. These funds had been invested in assets of various forms including deposits in building societies. Effective March 1984, the remittance of income derived from these assets was suspended. Furthermore, the individual or corporate holders of such funds were given two choices, either convert them to GOZ external bonds or leave them in place without being able to remit either the principal or interest accruing to these funds. Individual holders of blocked funds could acquire 12-year, 4 percent interest bonds, the interest on which would be remittable during the first 6 years and the principal redeemable in equal installments from the 7th through the 12th year. Corporate entities could acquire 20 year bonds at the same rate of interest remittable during the first 10 years and the principal redeemable during the second ten year period. From the point of view of the building societies, this action had the effect of releasing over Z$55 million in deposits to the RBZ for the purchase of external bonds. It is estimated that over Z$250 million of these bonds had been subscribed for by the end of 1984. Although the RBZ is recycling these funds back to the building societies in the form of two-year fixed deposits, the RBZ has suggested that the building societies should not rely on this type of funding after the maturity date. To ease the position of the building societies during the period during which these funds were moving into external bonds, the monetary authorities reduced the societies statutory liquidity ratio from 20 percent to 15 percent.

Also effective March 1984, all individuals who apply to emigrate from Zimbabwe must liquidate their assets within six months and invest the proceeds in external bonds. The building societies can expect a further drain in deposits if its members continue to emigrate.

All income remittances other than pensions, alimony payments and expatriate incomes approved for remittance by the RBZ were suspended in March 1984.

A final March 1984 ruling concerned the holders of external securities. All resident holders of such securities were to be compensated in local currency at the prevailing share price as a result of the GOZ's decision to acquire this external securities pool. Securities constituting the blocked funds of those who have emigrated would be converted to GOZ external bonds. The GOZ's payment of approximately Z$230 million for the external securities pool was a major cause of an abrupt increase in the growth of the money supply between June and September 1984.

4. Rent Control

A final note about a government regulation that constrains investment in new rental housing. The Housing and Building Act of 1979 authorized the Minister of Housing to establish a Rent Appeal Board (RAB) to "control the letting and hiring of any immovable property". The key phrase in the legislation permits the government in the name of the appropriate minister to "restrict or suspend the rights under common law of lessors of immovable property, including rights relating to leases entered into before the coming into operation of such regulations". The rent regulations were promulgated in 1982 by the Ministry of Housing, and as expected, their application has had a major impact on the rental housing market (other commercial real property is covered by the law, but it will not be discussed here).

First of all, all rental dwelling units, both existing and new, are covered. In addition, rental agreements signed prior to the legislation and regulations are subject to rent control. The RAB has the authority to determine a fair rent of all rental units and this determination is based on a number of factors, including allowing the lessor a reasonable return, and permitting the lessee to charge a reasonable rent. In determining a fair rent, the RAB takes into consideration prevailing rental rates in the area, the possible effect of the level of rent on other rental rates and the condition of the property. In determining a reasonable charge to the lessee, the RAB "assumes that supply and demnd are in reasonable balance, and shall not have regard to any abnormal conditions of supply and demand". In effect, the rent control legislation has removed the establishment of rental charges from the control of the lessor and lessee and instead placed this responsiblity squarely in the hands of a government body. Supply and demand for rental housing, as the regulations so clearly state, is not a factor in determining rates. Like most rent control legislation elsewhere, the law strongly favors the lessee.

The effect of the implementation of this legislation has been considerable. As expected, the legislation gave immediate relief to rentors in that rents were essentially frozen and in some cases rolled back. And the process through which a landlord must submit in order to raise rents is so complex and time consuming that for all practical purposes, most landlords have resigned themselves to keeping rents at a low level. This freeze on rents has been very beneficial to families who found themselves in a rental unit at the time the legislation was enacted. In fact, rents for many families are so reasonable that it is illogical to buy a home since the amortization payments to purchase a comparable home are so much higher than are rental payments.

On the negative side, the results are predictable, as they are in every city throughout the world where rent controls are applied. Since rents are controlled even on new construction, the expected financial rate of return makes investments in the construction of new rental units unprofitable vis-a-vis returns on other investments. For that reason alone, the construction of new rental housing by the private sector has dried up completely. Apparently, this condition will continue unless and until the GOZ modifies or relaxes its rent control regulations. The stock of rental housing will slowly decrease as landlords, in cases where practical, sell rental property to homeowners, taking a loss on the sale, if necessary. Moreover, the condition of rental housing can be expected to deteriorate as landlords, confronted with the probability of further losses, refrain from making improvements and repairs on property for which they will receive no additional income.

The GOZ has stated that 10 percent of the units in all new housing projects must be rental units. Since only government is financing new housing at this time, this will not affect the private sector. Nevertheless, the regulations do not apply to the "letting of a dwelling by the state or a local authority". As indicated in an earlier section of this report, the Housing and Guarantee Fund, which rents a considerable number of houses to government employees, makes only a minimal profit, about 1/2 of one percent on the value of the property, which is patently unacceptable to a private sector investor or individual. Given these set of circumstances, it is doubtful that a private sector investor will be able to set aside 10 percent of a new housing development for rental housing, unless he expects to experience a considerable loss, at least with respect to opportunity cost of alternative investments. Regardless, private sector investment in rental housing will remain negligible as long as this legislation in its present form remains in force.

IV. Recommendations for a Rejuvenated Housing Finance Program in Zimbabwe

Unlike the vast majority of developing countries, Zimbabwe is in the enviable position of having a sophisticated, well-developed financial sector. While its complexity is unique on the African continent, numerous events since independence have tested the system's mettle, particularly in regard to the ability of the system to provide housing credit. Since existing housing finance institutions cannot cater to the needs of all Zimbabweans, the following recommendations are an attempt to provide policy makers with a concrete agenda whereby through a public and private joint effort, many of Zimbabwe's housing finance problems can be overcome. The Government of Zimbabwe (GOZ) must be made aware that an increase in the amount of credit available for housing can only become a reality if, and only if, the GOZ is prepared to make policy changes regarding the amount of domestic savings which can be reallocated to the housing sector.

A. Recommendation #1.

Since it can be successfully argued that the building societies are the country's only specialists in housing credit, the societies must become competitive with the Post Office Savings Bank (POSB) in terms of their ability to attract savings in order to generate mortgages. It is therefore recommended that the tax-free status and/or the allowable ceilings on accounts at the POSB be partially or totally eliminated in order to allow the building societies to become, once again, viable mortgage granting institutions. As analyzed in the body of the text, the 1984 deposit rate and ceiling increases were extremely successful in attracting savings to the POSB thereby increasing the amount of much needed resources available to finance the GOZ's domestic programs. However, it is demonstrably less efficient for the GOZ to finance the budget through the issue of GOZ stock than it is to generate revenue through taxation. For example, with the top marginal effective tax rate of 63 percent, the effective tax-free yield on a tax-free POSB fixed savings account is 26 percent. On a POSB account of say Z$50,000, the return to an individual in this tax bracket over a one-year period would be Z$13,000. The same Z$50,000 in a building society taxable 9.75 percent account would yield an individual in the highest tax bracket only Z$1,804, Z$3,071 being collected in taxes. In other words, while the POSB provides the GOZ access to this particular individual's Z$50,000, it does so at a cost of $13,000 to the GOZ in the form of interest and foregone tax revenue. By lifting the tax-free status of the POSB, the GOZ would be foregoing the use of what resources flowed to the building societies in the short-run but would enable it to generate tax revenue from these resources over the longer term and fulfill a social need by increasing the pool of savings available to meet the housing credit needs of its citizens.

B. Recommendation # 2

As analyzed in the body of the text, Zimbabwe's insurance companies, pension funds and other institutions have experienced quite impressive rates of growth over the past five years and future growth prospects appear very positive. Confronted with considerable revenue from their growing operations, these institutions seek relatively risk free investments. The existence of this liquidity coupled with the fact that the financial sector consists of two discount houses which maintain markets in a number of financial instruments provides the prerequisites for a secondary mortgage market. It is therefore recommended that the GOZ permit building societies to sell participations in a pool of government guaranteed mortgages utilizing the existing mechanism of the discount houses to maintain a market.

In theory, the sale and purchase of mortgage backed securities in order to raise new funds for housing credit is limited only to the demand for such credit, assuming the existence of ready and willing purchasers. With the building societies holding some Z$415 million worth of mortgages, it is conceivable that this entire portfolio could be sold through a secondary mortgage market operation thereby generating Z$415 million for new loans. This process could in fact be cyclically repeated until the demand for housing credit was satiated.

C. Recommendation # 3

Although it is an established practice for local authorities to borrow on the open market, a precedent has only been set by Harare and Bulawayo. Besides these two municipalities, there are 15 other urban councils throughout the country which are trying to meet their constituent's demands for an expanded level and range of municipal services especially housing. However, their combined pool of financial resources for this purpose is finite and it has been shrinking in recent years due to the central government's appropriation of a significant portion of a previously lucrative source of local funds. Limited by the lack of growth potential in their only other source of income, the rates levy (real estate taxes), the prospects of providing a wider scope of municipal services are dim unless they are granted additional revenue generating authority. It is therefore recommended that loans to all urban councils be included in the list of approved assets required to be held by financial institutions. It is particularly important that the GOZ give these envisaged loans to other urban councils the same implicit guarantee it has in the past reserved for loans to Harare and Bulawayo. Such actions on the part of the monetary authorities would enable the urban councils to tap the resources of the insurance companies and pension funds whose growth require them to continually add to their portfolio of approved assets.

D. Recommendation #4

It has been an established budgetary practice for the GOZ to loan money for housing finance to municipalities who in turn on-lend these funds to low-income families. If the recommendations offered in this report are accepted, the resource needs for housing credit of municipal and urban councils would be met through the accessing of private sector funds put aside for statutory-approved assets. It is therefore further recommended that these GOZ budgetary loans for housing for low-income families be redirected to district and rural councils which would enable housing credit to be extended to an even lower income segment of the Zimbabwean population. However, due to limitations on the absorptive capacity of district and rural councils, as well as the low purchasing power of rural families, it is suggested that some portion of these loans be allocated for the development of rural infrastructure which would provide a departure point for future loans for low income housing in the rural areas.

STATISTICAL APPENDIX

TABLE SA-1

Zimbabwe: Holdings of Public Securities by the Private Financial Sector, 1980

(Current Z$ Millions; End of June)

Investor	Total	Stocks and Bonds of: Central Government	Stocks and Bonds of: Local Authorities	Stocks and Bonds of: Statutory Bodies	Agricultural Marketing Authority Bills	Treasury Bills	Loans To: Local Authorities	Loans To: Statutory Bodies
Commercial Banks	369.6	164.3 1/	-	-	33.3	43.9	-	128.1
Merchant Banks	38.3	28.2 1/	-	-	3.2	6.9	-	-
Discount Houses	75.5	25.9 1/	-	-	3.8	45.8	-	-
Finance Houses	17.0	16.4 1/	-	-	8.6	-	-	-
Post Office Savings Bank	248.0	206.5	18.1	23.4	-	-	-	-
Building Societies	192.5	127.3	2.2	-	-	4.7	58.3	-
Insurance Companies	291.9	222.5	69.4	-	-	-	-	-
Pension and Provident Funds	404.8	251.8	64.4	66.5	-	-	15.5	6.6
Total	1,637.6	1,042.9	154.1	89.9	40.9	101.3	73.8	134.7
% of Total		63.7	9.4	5.5	2.5	6.2	4.5	8.2

Sources: Central Statistical Office, Quarterly Digest of Statistics
Report of the Registrar of Financial Institutions and Building Societies
Report of the Registrar of Insurance
Report of the Registrar of Pension and Provident Funds

1/ Includes stocks and bonds of local authorities and statutory bodies, if any

TABLE SA-2

Zimbabwe: Holdings of Public Securities by the Private Financial Sector, 1981

(Current Z$ Millions; End of June)

		Stocks and Bonds of					Loans To	
Investor	Total	Central Government	Local Authorities	Statutory Bodies	Agricultural Marketing Authority Bills	Treasury Bills	Local Authorities	Statutory Bodies
Commercial Banks	438.0	129.0 1/	-	-	12.5	16.4	-	276.7
Merchant Banks	28.7	22.2 1/	-	-	-	6.0	-	-
Discount Houses	28.5	0.1 1/	-	-	3.5	56.5	-	-
Finance Houses	23.5	22.1 1/	-	-	1.2	-	-	-
Post Office Savings Bank	286.7	237.2	18.3	31.2	-	-	-	-
Building Societies	167.9	100.6	1.3	-	1.5	0.1	60.9	-
Insurance Companies	303.9	237.6	66.3	-	-	-	-	-
Pension and Provident Funds	482.2	296.8	75.8	86.7	-	-	16.0	6.9
Total	1,759.4	1,045.6	161.8	117.9	52.9	79.0	76.9	283.6
% of Total		59.4	9.2	6.7	3.0	3.7	4.4	16.1

Sources: Central Statistical Office, Quarterly Digest of Statistics
Report of the Registrar of Financial Institutions and Building Societies
Report of the Registrar of Insurance
Report of the Registrar of Pension and Provident Funds

1/ Includes Securities of Local Authorities and Statutory Bodies, if any

TABLE SA-3

Zimbabwe: Holdings of Public Securities by the Private Financial Sector, 1982

(Current Z$ Millions; End of June)

Investor	Total	Stocks and Bonds of: Central Government	Stocks and Bonds of: Local Authorities	Stocks and Bonds of: Statutory Bodies	Agricultural Marketing Authority Bills	Treasury Bills	Loans To: Local Authorities	Loans To: Statutory Bodies
Commercial Banks	559.0	133.3 1/	-	-	34.2	16.4	-	375.8
Merchant Banks	21.4	14.9 1/	-	-	0.5	6.0	-	-
Discount Houses	69.1	1.0 1/	-	-	11.6	56.5	-	-
Finance Houses	20.6	20.6 1/	-	-	-	-	-	-
Post Office Savings Bank 1/	340.2	284.0	24.1	32.1	-	-	-	-
Building Societies	154.8	90.0	1.3	-	-	0.1	63.4	-
Insurance Companies	368.2	289.4	78.8	-	-	-	-	-
Pension and Provident Funds	576.4	366.3	86.2	100.6	-	-	16.1	7.2
Total	2,109.7	1,199.5	190.4	132.7	46.3	79.0	79.5	382.3
% of Total		56.9	9.0	6.3	2.2	3.7	3.8	18.1

Sources: Central Statistical Office, *Quarterly Digest of Statistics*
Report of the Registrar of Financial Institutions and Building Societies
Report of the Registrar of Insurance
Report of the Registrar of Pension and Provident Funds

1/ Includes securities of local authorities and statutory bodies, if any

TABLE SA-4

Zimbabwe: Holdings of Public Securities by the Private Financial Sector, 1983

(Current Z$ Millions; End of June)

		Stocks and Bonds of					Loans To	
Investor	Total	Central Government	Local Authorities	Statutory Bodies	Agricultural Marketing Authority Bills	Treasury Bills	Local Authorities	Statutory Bodies
Commercial Banks	507.8	167.0 1/	-	-	-	-	-	340.8
Merchant Banks	19.4	11.3 1/	-	-	0.5	7.6	-	-
Discount Houses	40.2	.4 1/	-	-	7.0	32.8	-	-
Finance Houses	23.1	23.1 1/	-	-	-	-	-	-
Post Office Savings Bank	392.3	342.5	24.7	25.1	-	-	-	-
Building Societies	145.4	80.8	1.2	-	-	-	63.4	-
Insurance Companies	484.4	420.5	63.9	-	-	-	-	-
Pension and Provident Funds	762.3	552.9	78.7	106.6		-	17.2	6.9
Total	2,374.9	1,598.5	168.5	131.7	7.5	40.4	80.6	347.7
% of Total		67.3	7.1	5.5	0.3	1.7	3.4	14.6

Sources: Central Statistical Office, Quarterly Digest of Statistics
Report of the Registrar of Financial Institutions and Building Societies
Report of the Registrar of Insurance
Report of the Registrar of Pension and Provident Funds

1/ Includes securities of local authorities and statutory bodies, if any

TABLE SA-5

Zimbabwe: Holdings of Public Securities by the Private Financial Sector, 1984

(Current Z$ Millions; End of June)

		Stocks and Bonds of					Loans To	
Investor	Total	Central Government	Local Authorities	Statutory Bodies	Agricultural Marketing Authority Bills	Treasury Bills	Local Authorities	Statutory Bodies
Commercial Banks	492.2	160.9 1/	-	-	1.3	14.6	-	315.4
Merchant Banks	38.7	31.9 1/	-	-	0.3	6.8	-	-
Discount Houses	50.1	13.3 1/	-	-	10.0	36.8	-	-
Finance Houses	24.3	24.3 1/	-	-	-	-	-	-
Post Office Savings Bank	471.7	407.7	24.9	39.1	-	-	-	-
Building Societies	140.0	81.7	1.3	-	-	-	57.0	-
Insurance Companies	522.6 2/	NA	NA	NA	NA	NA	NA	NA
Pension and Provident Funds	848.1 2/	NA	NA	NA	NA	NA	NA	NA
Total	2,587.7							

Sources: Building Societies' Annual Reports
Central Statistical Office, Quarterly Digest of Statistics

1/ Includes securities of local authorities and statutory bodies, if any
2/ Estimate

Order #

Housing Finance in Z/imbabwe

Randolph S. Lintz and Daniel S. Coleman
National Council of Savings Institutions
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

April 1985, 68p. & 1 Appendix

****

This Housing Finance Study is one component of a feasibility study for the establishment of a National Housing Corporation in Zimbabwe. While Zimbabwe has a sophisticated and well-developed banking system, current government and economic policies restrict the ability of the finance sector to mobilize the resources necessary for the sustained growth of the formal housing sector.

Section I of this study looks at the financial sector in general, describing the structure and trends of the financial institutions. Since Independence in 1980, these institutions have had to respond to the opening of their economy into the world market, increased demand for public sector financing of social services and state-owned enterprises, and other demands to extend economic opportunity to all Zimbabweans. The result has been increasing expenditures and revenue shortfalls, Borrowing in order to increase the money supply has added to the debt burden and aggravated inflation.

Section II describes the housing finance sector in particular. In the public sector, two funds, the National Housing Fund and Housing and Guarantee Fund, are available through the Ministry of Construction and National Housing. The National Housing Fund, which provides monies to Local Authorities for low-income housing schemes, has suffered deficit problems and a lack of resource-generating capacity. The Housing and Guarantee Fund, which guarantees mortgage loans on housing and operates a housing ownership and management scheme from revenues on foreclosures, rperesents a sustainable part of the finance sector which is able to provide loans to a large number of Zimbabweans. In the private sector, the three Building Societies represent the most significant source of finance in the formal sector. However, strong controls by the GOZ and competition for resources with the Post Office Savings Bank has inhibited the Societies' ability to fulfill private housing finance sector needs.

76

In Section III, the means for increasing the flow of financial resources to the housing sector is explored. Domestic savings may be increased by allowing Building Societies to compete fairly with the Post Office Savings Bank for savings deposits, increasing deposits on Guaranteed loans, creating savings clubs for individuals and raising the interest rate on government loans. Additional resources may be found from other national institutions such as pension funds and external funding from USAID and the World Bank. However, some economic and government policies constrain the finance sector's ability to mobilize resources for housing:

-- The increased tax burden on individuals has lowered savings for a majority of the population. Those of higher-income brackets who can save channel their money into investments other than Building Societies;

-- The budget deficit has restrained overall savings. The revenue from increased taxation has not kept up with increasing expenditures;

-- Rent controls have reduced the incentive to invest in housing construction;

-- In their attempts to reduce demand, GOZ policies such as increased interest rates, statutory reserve requirements for banks and finance houses, increased statutory liquid asset ratios for commercial banks and emigration laws regarding the liquidation of assets have further reduced the amount of resources available for the housing finance sector.

Recommendations to improve the housing finance system in general and redirect new and supplementary resources to the sector are offered in Section IV:

1) Increase the Building Societies' viability by making them more competitive with the Post Office Savings Bank with respect to their ability to attract savings;

2) Building Societies can utilize liquid assets from other institutions such as insurance companies and pension funds by selling participation in a pool of government guaranteed mortgages;

3) Increase loans to urban councils in addition to Bulawayo and Harare;

4) Redirect loan money for low-income families to district and rural councils instead of municipalities. Some money should also be used for infrastructure in low-income areas.