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ANALYSIS OF THE
CAISSE HYPOTHECAIRE DU RWANDA

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PREPARED FOR
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CMS, Incorporated

CMS

Chapter I

Executive Summary

A. Nature of the Assignment

The Caisse Hypothecaire or mortgage bank is Rwanda's principal housing agency. The organization was established in 1975 as a joint stock company with shareholders including the State of Rwanda, the Rwanda Development Bank, the Commercial Bank of Rwanda, the Bank of Kigali and the Magasins Generaux du Rwanda (the General Stores or Customs Agency of Rwanda). The mortgage bank was initially created to perform a variety of functions including finance of building acquisition and construction, especially for subsidized or social housing; construction, acquisition, rental and management of buildings; promotion of real estate; and participation directly or indirectly in commercial or industrial real estate activity.

At the request of the mortgage bank, the U.S. Agency for International Development (AID) assigned a mission to examine the bank and identify possible areas of future technical assistance. In December, 1983, a team of consultants analyzed the Caisse Hypothecaire and identified several problem areas that would prevent financial assistance by AID in the near future. Following this report, the Caisse requested additional technical assistance. AID contracted with Comprehensive Marketing Systems (CMS), Inc. to carry out this second mission which has three primary objectives:

1. To perform an institutional analysis of the Caisse Hypothecaire and determine areas requiring improvement.
2. To identify means by which the Caisse Hypothecaire can expand its housing production and finance operations.
3. To determine the potential of the Caisse to serve low-income families.

This report addresses each of those objectives. Chapter II provides a summary of housing issues and needs confronting the Caisse Hypothecaire, especially in Kigali where most efforts of the Caisse and the national housing policy have been focused to date. Chapter III discusses the past and present roles of the Caisse in relation to other private and public agencies involved in housing delivery and finance in Rwanda. Chapter IV discusses the Caisse's current programs and administrative structure. Chapter V discusses problems and opportunities that the Caisse should address in order to more effectively achieve its housing and real estate promotion goals, especially for low-income households; and recommends potential ways in which AID can assist the Caisse Hypothecaire through technical assistance.

B. Key Findings and Recommendations

The role of the Caisse Hypothecaire has changed significantly over time. Although the agency initially focused its activities on a small 22-unit housing construction and financing project, the institution soon changed its focus to monitoring and managing a wide variety of residential, commercial, and institutional real estate development projects for other public agencies. One major impetus for this change in focus was a need to improve the institution's income sources and asset base. This objective has been a prime motivating force for the mortgage bank in recent years. Although a reorganization of the bank in 1983 deemphasized its role in actual real estate construction and identified affordable housing promotion and financing as its primary objective, the organization continues to use its broad mandate to undertake a variety of activities including commercial real estate financing.

Administrators of the Caisse Hypothecaire, as well as officials of Rwandan governmental agencies and representatives of the financial sector stress the need for the institution to become more actively involved in residential development and financing. Although the specific role of the agency in this area is not clearly defined, there is considerable public and private support for strengthening and redefining the Caisse Hypothecaire in order to overcome its current and past image as lacking effectiveness and financial stability.

A clear potential role exists for the Caisse Hypothecaire du Rwanda as a residential lender and key financial institution in the nation's housing delivery system. At present, financing for housing acquisition and improvement is severely limited. Only two financial institutions make more than a nominal number of loans for these purposes, and even these institutions' activity is minimal. Yet, a strong need exists for such financing, especially for the large segment of the Kigali population with incomes below 10,000 Rwandan Francs per month, for whom only one small housing project has been completed to date.

In order to assume this role as a major source of residential financing, the Caisse Hypothecaire needs to undertake a number of policy and administrative changes including the following:

- o Place greater emphasis on housing programs for a broader segment of the Kigali population than those currently served by the organization.
- o Establish a more effective accounting, budgeting and financial management system in order to better

- o determine funding needs, and the costs and income resulting from its current activities.
- o Determine ways to increase the institution's financial viability including identification of possible long-term, lower cost funding sources, such as a housing fund based on employer contributions or pensions; and possible servicing of other institutions' residential loan portfolios.
- o Improve internal administrative procedures, especially those involved in:
 - Loan underwriting
 - Loan application processing
 - Loan servicing
 - Construction contract monitoring and contractor payment disbursement.
- o Provide opportunities for its staff, which already has strong academic credentials, to receive special on-the-job training and courses outside the country on effective housing program design, private sector procedures for underwriting and managing loans, and financial management.

The government of Rwanda, through the Ministry of Public Works and Engineering, is beginning to examine a broad variety of housing programs including a proposed spontaneous settlement upgrading program involving the United Nations Habitat. Although a specific housing project does not presently exist in a stage requiring AID assistance through the Housing Guaranty Program at this time, projects such as this one offer future possibilities for AID assistance. The role of the Caisse Hypothecaire in this type of project could be significant as the institution capable of processing and servicing large numbers of residential loans. This report discusses the Caisse Hypothecaire's existing functions and recommends areas of possible technical assistance that AID and other organizations could provide to more clearly define the institution's role and improve its day-to-day operations.

Chapter II

Major Housing Needs and Issues

This Chapter briefly reviews the character and magnitude of housing needs in Rwanda, especially in the City of Kigali. The purpose of this review is to examine the context within which the Caisse Hypothecaire operates and the types of housing problems that the organization was designed to address.

A. Nationwide Housing Problems and Goals

Very little information is available on nationwide housing needs in Rwanda. The Third Plan for Economic, Social and Cultural Development: 1982-1986 briefly discusses the issues of both rural and urban housing; however, this approximately 500-page document, which is the main volume of the plan, devotes less than 20 pages to this subject. The Rwandan Government has not examined housing conditions and assessed housing needs of the population nationwide, and information on areas outside Kigali is particularly lacking. As a result, while the Third Plan discusses the general need for improvement of rural housing, specific projects for accomplishing this goal are not discussed. Housing improvement activities recommended by the Third Plan include the following:

- o Reinforcement of the role of the Caisse Hypothecaire as the primary source of financing for low-cost housing in urban, rural and semi-urban areas, but especially in Kigali.
- o Encouragement of industrial development projects that will produce local materials for building construction.
- o Provision of services for upgrading of existing spontaneous urban housing development areas.
- o Provision of sites and services for new areas of urban housing construction.
- o Development of infrastructure, especially water sources to serve several families, in both urban and rural areas.
- o Encouragement of higher-density housing development in both urban and rural areas.

Although information on housing conditions and needs in rural areas is limited, a considerable amount of information is available for the City of Kigali. The Ministry of Public

Works' research department recently conducted an extensive shelter survey of Kigali. The National Bureau of Studies and Projects (Bureau National d'etudes de Projets, BUNEP) completed its analysis of Kigali in 1983. General data on demographic characteristics of Rwanda are also available from the 1978 General Census of Population and Housing (Recensement de la Population et de l'Habitat).

B. Demographic Trends

A 1983 report by the World Bank estimated the mid-1982 population of Rwanda at approximately 5.5 million people. Of this population, the BUNEP study estimated that about 173,000 resided in the City of Kigali in 1982. The 1982 population was approximately 49 percent larger than the 1978 population, which the national census estimated at 115,990 persons. Because Kigali's geographic boundaries incorporate 11,200 hectares, the average population density for the city is only 15.4 persons per hectare. However, population density varies greatly from neighborhood to neighborhood, so that the main urban area has a density of 115 persons per hectare, and some areas have densities exceeding 300 persons per hectare.

In 1978, there were about 28,400 households in Kigali. By 1982, the number had increased to nearly 40,700. During a 4-year period, the number of households in the city increased by nearly 44 percent. Average household size in Kigali in 1982 was about 4.3 persons.

Based on surveys of public and private sector employees, BUNEP estimated the salaries of people residing in Kigali. According to that analysis, in 1982, over 70 percent of all salaried employees earned less than 10,000 Rwandan Francs per month (about \$100 United States, given August 1984 exchange rates). In analyzing household income, the BUNEP study estimated that about 75 percent of the households earned 20,000 Rwandan Francs (about \$200) or less per month. However, this estimate of household income has been criticized because it is based on the assumption that a significant number of households have two wage earners. In fact, household incomes may be generally lower.

C. Characteristics of the Kigali Housing Stock

Housing in Kigali consists of two main categories depending on the type of land on which it is built: (1) cadastre housing, and (2) non-cadastre housing. The Government of Rwanda owns all land in the country. However, it can sell parcels of urban land to individuals for housing development. Cadastre housing consists of regulated dwellings built on this registered land, whereas non-cadastre housing is located in high-density squatter developments on government-owned land in cities or on dispersed rural sites.

Only a small percentage of Kigali's housing is on registered land. According to the survey by the Bureau of Studies and Projects, of the 40,144 dwellings in Kigali, only 2,847 or 7 percent are cadastre housing. The remainder are unregularized dwellings located in spontaneous settlements.

1. Housing Conditions

The BUNEP analysis of housing conditions in Kigali categorized the housing stock according to the type of construction and approximate value of the structures. The eight categories of housing in this survey range from very basic housing of mud and brick construction valued at less than 100,000 Rwandan Francs (currently about \$1,000) to high-quality housing valued at more than 5,000,000 Rwandan Francs (approximately \$50,000). The latter is occupied primarily by expatriates living in Kigali. Appendix B describes in French the types of materials and characteristics of each of the eight categories.

Based on the BUNEP survey, approximately 67 percent of Kigali's housing is in category one, which consists of mud and brick construction valued at less than 100,000 Rwandan Francs. These one-story structures are very similar to those found in rural sections of the country. Another 21 percent of the housing stock is in category two, which includes dwellings valued between 100,000 and 300,000 Rwandan Francs. Both of these housing categories consist solely of unregulated structures in spontaneous settlements. In contrast, less than 6 percent of Kigali's housing stock is in categories with values of 2,000,000 Rwandan Francs or more. Of the 2,196 dwellings in these categories, only 30 are non-cadastre housing. (See Table 1.)

2. Housing Tenure

The majority of residential structures in Kigali are owner-occupied. Of the 37,297 dwellings on unregistered land, only 9,069, or 24 percent, are rented. However, over half of the houses on registered land are rented.

For the rental properties on unregistered land, 85 percent have monthly rental rates of less than 4,250 Rwandan Francs. Over 94 percent of these dwellings have an estimated value of 300,000 Rwandan Francs or less.

3. Housing Construction Activity

As shown in the following table, the BUNEP study estimates that over 16,400 housing units were constructed in Kigali between 1977 and 1981. Approximately 94 percent of these structures were in

spontaneous settlements. Both categories of housing grew rapidly during that time period, however. Over 41 percent of the non-cadastre housing and approximately 38 percent of the cadastre housing were built during that 5-year period.

Table 1. Kigali Housing Construction Trends

Year	Cadastre	Non-cadastre	Total
1977	93	3,517	3,610
1978	146	3,575	3,721
1979	233	3,318	3,551
1980	356	2,954	3,310
1981	257	1,974	2,231
Total	1,085	15,338	16,423
Average Annual	217	3,067	3,284

Source: Bureau National d'Etudes de Projets, Etude d'Identification et d'Evaluation de la Demande Solvable en Logements, Volume I.

D. Current and Projected Housing Needs

The housing survey estimates that in recent years an average of 3,000 to 3,200 new dwelling units were required each year in Kigali. This estimate of current demand is based in part on assumptions about the demand of renters to purchase units.

By 1995, BUNEP estimates that Kigali's population will exceed 481,600 persons and the number of households will exceed 110,600. Given an estimate of 47,780 households in Kigali in 1984, over 62,800 additional housing units would be required by 1995, not counting the need for dwellings to replace seriously substandard housing.

Thus, the task of housing production and upgrading in Rwanda is a major undertaking, even when the needs of Kigali alone are considered without including the housing needs of other urban and rural areas. To date, the impact of government agencies in addressing these growing housing needs has been limited. As is discussed in the following chapter, the success in providing and improving housing for low- and moderate-income households has been especially limited.

In order to better address housing needs, the Rwandan government with the help of the Caisse Hypothecaire, must address issues including the following:

- o Determine ways to encourage more extensive private sector financing of housing for upper-income households.
- o Expand available financial assistance for housing acquisition to the large segment of the Kigali population who earn no more than 10,000 Rwandan Francs per month.
- o Increase the availability of financial assistance for property improvements for this large, low- and moderate-income segment of the population.

The remainder of this report discusses the role of the Caisse Hypothecaire to date in improving the Kigali housing stock, and recommends ways to expand its role and increase its impact in the future.

Chapter III

Role of the Caisse Hypothecaire in Housing Production

A. Initial Purpose of the Caisse Hypothecaire

The Caisse Hypothecaire was established in 1975 to assume the role of primary promoter, financier and constructor of real estate in Rwanda. Although headquartered in Kigali, it was authorized to create branch offices throughout the country. This institution was created primarily to participate in the solution of Rwanda's housing shortage. According to the statutes creating the mortgage bank, "its main purpose is to enable a greater number of households to acquire decent accommodation in districts made practicable by the enforcement of the land statute." In achieving this purpose, the mortgage bank was designed to participate in projects aimed at restructuring spontaneous town-districts and providing them with basic infrastructures; and, in planned new settlements, the bank was created to provide loans that would allow urban populations to acquire and build on State-approved plots of land.

1. Initial Overall Objectives

When first created, the Caisse Hypothecaire was not limited to housing development and finance. According to statutes for the institution, it had a broad mandate with major purposes as follows:

- o "To finance the construction, the acquisition, the sale, the lease sale of social housing programs and the furnishing and maintenance of buildings.
- o To build, to acquire, to rent, to hire, to manage, to maintain, to improve and to better distribute buildings.
- o To carry out and promote real property activities, and to look for the necessary funds for these activities.
- o To directly or indirectly participate in all commercial or industrial operations in connection with real estate activity, particularly by creating new investment companies through the formation of a partnership, subscription, security or social right purchase, amalgamation, association by participation or otherwise.
- o In general, to carry out any operation of social interest."

Thus, the Caisse Hypothecaire was initially envisioned as an agency with a wide variety of roles in the areas of encouraging real estate development, financing projects, and actually constructing and managing projects over time. Although production of housing for low- and moderate-income households was to have been an important objective for the Caisse, it was certainly not limited to involvement in this type of real estate activity and, in fact, was authorized to participate in other types of housing development as well as commercial and industrial real estate development. These diverse roles required a wide variety of staff skills ranging from real estate financial analysis to engineering, architectural, and property management experience.

2. Financial Structure

The Caisse Hypothecaire was designed to be a financially viable private joint stock company that would not require ongoing subsidies from the State for most of its activities. Initially, 850 shares were sold in the institution, most of which belonged to the State of Rwanda and its institutions (650 shares), and to four banks (50 shares each). In July, 1983, additional shares were sold resulting in the following allocations:

	<u>Shares</u>
- The Republic of Rwanda	375
- Caisse Social du Rwanda (1)	1,000
- Office des Cultures Industrielles du Rwanda (2)	100
- Banque Rwandaise de Developpement (3)	250
- Commercial Bank of Rwanda	250
- Bank of Kigali	150
- Magasins Generaux du Rwanda (4)	250
Total	2,375

-
- (1) Social Providence Fund of Rwanda
 - (2) Industrial Committee Board of Rwanda
 - (3) Development Bank of Rwanda
 - (4) The General Stores or Customs Agency of Rwanda

Under this new allocation, the State of Rwanda and state-owned institutions retained majority control (62 percent) of the institution. The State also controls the Caisse Hypothecaire's Board of Directors. In 1983, each of the mortgage bank's shares was valued at approximately 100,000 Rwandan Francs resulting in total assets of 237,500,000 Rwandan Francs or about \$2,500,000 (United States dollars).

The mortgage bank has the authority to increase its capital by creation of new cash contribution shares, by

3. Board of Directors and General Management Structure

The Caisse Hypothecaire du Rwanda is administered by a Board of Directors consisting of at least three, and no more than seven, members who may hold office for renewable 3-year terms. The Board is appointed by a General Assembly of shareholders. Meetings of the Board may be called by its chairman or by one half of its members as often as necessary. The Statutes do not state the specific minimum number of meetings each year; however, it appears that meetings are to be held about once every 3 months. Directors may send representatives if they are unable to attend themselves.

The Board of Directors is the major policymaker for the Caisse Hypothecaire. Its powers include creation of branches and sub-offices, appointment and dismissals of all employees, and the creation of related companies. The Board has authority over actions that would affect the mortgage bank's housing activities including determination of rents for real estate; sale, exchange, and acquisition of buildings; establishment of the amount and terms of loans; and determination of actions taken against debtors for unpaid debts.

The Board of Directors is authorized to appoint a Board of Auditors consisting of two members who are responsible for examining the organization's records once every 3 months; a General Manager, who is responsible for the Caisse Hypothecaire's day-to-day administration; and an Assistant to the General Manager. Only the General Manager and the Assistant to the General Manager are authorized to sign documents pledging the organization. Under the General Manager and the Assistant are Directors of three major divisions: (1) the Director of Financial Operations, (2) the Director of Real Property Promotion (e.g., development, architectural services), and (3) the Director of Administration. In addition, four special service sections report directly to the General Manager. They are General Accounting, General Auditing, Planning and Legal Services.

As is discussed in Chapter IV, many positions authorized by the Statutes are not currently filled. Overall, the structure and current staffing of the Caisse Hypothecaire is more appropriate for property development than for real estate finance, especially housing finance.

3. The Roles of Other Organizations in Housing Production and Financing

The full potential of the Caisse Hypothecaire as the primary agency to promote, finance and construct housing has not been realized to date. Other institutions and agencies continue to play an important part in the housing market. In order to understand the current and potential roles of the mortgage bank, it is important to briefly examine the key agencies and institutions now involved in housing delivery in Rwanda. The most important institutions and their roles, which range from development to finance to actual construction, are discussed in this section of the report.

1. Governmental Agencies Responsible for Housing

At the time of the last mission to assess the Caisse Hypothecaire's housing efforts, several governmental agencies were involved in housing delivery, especially in rural areas. These agencies included the Ministry of Social Affairs and Community Development (MINASODECO), the Ministry of Public Works and Equipment (MINITRAPE) and the Caisse Hypothecaire. In addition, in rural areas, the Ministry of Interior and the Ministry of Agriculture played important roles in overall economic development and land-use planning that affected housing development and the concentration of various land uses in small geographic areas.

In January 1984, the roles of agencies other than the Ministry of Public Works and Equipment and the Caisse Hypothecaire in housing delivery were greatly reduced. In particular, many functions of the Ministry of Social Affairs and Community Development were distributed among other agencies.

At present, MINITRAPE and the Caisse Hypothecaire are responsible for most housing-related activities. MINITRAPE now has control over urban land development and provision of public services. Its recently created Habitat division also appears to have an expanded role in the area of housing program design, especially for upgrading of existing spontaneous settlements and potential provision of sites and services for new residential development.

MINITRAPE is one of the most capable of Rwanda's governmental agencies. Although its past housing efforts focused on construction of housing for civil servants, its role is clearly expanding. A proposed major project being considered by the World Bank, for example, involves upgrading of a 345-hectare squatter settlement with a population of about 16,000 people. Although the magnitude of this proposed project is

especially ambitious, it represents an important change in orientation by the Rwandan government from higher-income housing construction to emphasis on improvement of housing and spontaneous settlements for lower-income households.

2. The Roles of Financial Institutions

Although the Caisse Hypothecaire was initially designed to assume the major role in real estate financing, until recently the Caisse had made only 22 loans, while several other financial institutions remained active in this area. This section of the report briefly reviews the general characteristics of Rwanda's major financial institutions and their roles in financing real estate development, especially housing.

The major financial institutions in Rwanda are as follows:

- o National Bank of Rwanda, Banque Nationale du Rwanda - BNR) serves as the reserve bank for the country and is responsible for controlling the financial activities of other banks. In the area of housing, the National Bank controls all loans above a certain level and sets the maximum amortization period for loans for housing construction. (According to the 1983 BUNEP study, that maximum term is 15 years.) The Bank also establishes the maximum terms for social housing for low- and moderate-income households. Currently, the maximum interest rate is 9 percent and loans cannot exceed 4,000,000 Rwandan Francs (about U.S. \$40,000).
- o Four Other Financial Institutions
 - Two commercial banks finance primarily short-term commercial operations. They are the Commercial Bank of Rwanda (Banque Commerciale du Rwanda - BCR) and the Bank of Kigali (BK).
 - People's Bank (Banque Populaire - BP) obtains savings from and grants credit to cooperative members, especially in rural areas.
 - Rwanda Savings Bank (Caisse d'Epargne du Rwanda - CER) collects small amounts of savings.
- o Two Special Purpose Financial Institutions

One of these organizations is the Caisse Hypothecaire. The other is the Rwandan Development Bank (Banque Rwandaise de Developpement - BRD)

which specializes in long-term credit for development.

o Two Other Non-Banking Institutions

The Social Providence Fund (Caisse Sociale du Rwanda - CSR) and the National Insurance Society (Societe Nationale d'Assurance du Rwanda - SONARWA) are not banks because they do not manage deposits and grant credits. The Caisse Sociale provides disability insurance and pension plans, whereas SONARWA is the country's primary insurance organization. Both organizations represent a potential source of regular and substantial savings that could be tapped for investment in real estate, especially housing.

According to an analysis by BUNEP in 1982, four financial institutions regularly provide credit for real estate: the two commercial banks, the Savings Bank and the People's Bank. However, most loans by the commercial banks are for major commercial development. Based on the BUNEP study, the Savings Bank and the People's Bank are important sources of small loans. In 1982, approximately 39 percent of all loans by the People's Bank were for real estate and 45 percent of all loans by the Savings Bank were for this purpose. Conversations with representatives of the financial community show that the People's Bank provides numerous small loans for purchase of housing construction materials, especially in rural areas. Although the Savings Bank has been active in real estate finance in the past, there is some question about its ability to do so in the future because of general financial difficulties.

Although the majority of households in Kigali apparently finance housing construction and improvements gradually from savings and salary advances, some funds are available for housing acquisition, construction, and improvement. As mentioned earlier, loan terms for social housing are set by the National Bank of Rwanda. Loans for other types of housing, which consist primarily of luxury housing, are presently available at a 16-percent interest rate with a maximum repayment period of 10 years. In 1982, according to the BUNEP study, only 15 of 176 real estate loans were for low-cost or social housing. In Kigali, each family is limited to loans on no more than two houses at any given time.

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Although the Caisse Hypothecaire's loan activity to date has been limited, other financial institutions continue to meet some of the demand for real estate loans.

3. Housing_Construction_Activity

As discussed in the BUNEP analysis of Kigali's housing needs, the Caisse Hypothecaire operates as one of four types of builders in the city, which are as follows:

o Industrial_Builders

The BUNEP study includes in this category both private construction companies as well as the vast number of individuals who construct their own homes with or without assistance from skilled craftsmen. The study does not estimate the percentage of housing built by each of these two very different types of builders. BUNEP estimates that all non-cadastre housing and 65 percent of all cadastre housing is built by this major segment of the construction industry. In fact, most housing in this category is constructed by individuals for their own use; however, discussions with local contractors and public officials indicate that a sizeable and skilled private construction industry exists. Until recently, private construction firms were involved in luxury housing construction; however, that market presently appears to be somewhat overbuilt. Recent improvement in the rural education system appears to provide skilled craftsmen and laborers for the housing construction industry; however, one contractor who was interviewed expressed concern about the lack of highly capable workers to supervise construction work.

o Building_Societies

The Caisse Hypothecaire is in the second category of housing builders along with an actual building society (l'Association Rwandaise des Compagnons Batisseurs). This building society is responsible for initiating the only low-income housing development project in Kigali thus far. Financed by foreign investment, this project constructed 140 dwellings costing approximately 290,000 Rwandan Francs each in 1981, and aimed at households earning less than 20,000 Rwandan Francs per month. An additional 48 new houses were financed in part by a 10-million Rwandan Franc loan from the People's Bank.

The housing program initiated by the building society consists of smaller, less expensive units and is aimed at lower-income households than the project implemented by the Caisse Hypothecaire. The houses built by the program are smaller than the 22 units constructed by the Caisse and are surrounded by sufficient land for later expansion by the occupant.

The Caisse Hypothecaire now participates in the implementation of this project.

o The State

The Government of Rwanda has participated directly in housing development through construction of housing as well as construction loans. For example, according to the BUNEP study, by 1982, the Ministry of Public Works and Equipment built and maintained housing for some public officials. In addition, the Social Bank and the National Bank of Rwanda have constructed housing for their employees.

Criticisms of housing construction by the State include concerns that the housing benefits only top officials and does not address the needs of the majority of Rwanda's, or even Kigali's, households; the costs of maintaining the housing are significant; and rents paid by public officials are usually insufficient to cover development and financing costs.

o Private Employers

Like the Government of Rwanda and its agencies, private firms occasionally construct housing for their employees. In 1982, BUNEP estimated that about 100 units had been constructed by this group.

Overall, only a small percentage of Kigali's housing is provided by public and private agencies. The majority of dwellings are instead built by individuals with some assistance from small, experienced builders.

C. The Evolution of the Caisse Hypothecaire's Role in Housing Production

The role of the Caisse Hypothecaire in the housing delivery system has changed dramatically since its establishment and remains unclear at this time. Although the Caisse was

initially created in 1975 to promote, finance, and construct housing and other real estate, its achievements in these areas have been limited. In 1977, the mortgage bank constructed 22 houses for lease-sale. The average cost of these houses was 1,093,577 Rwandan Francs. Most units were sold to high-level public officials and employees with incomes of about 32,000 Rwandan Francs per month. Given the distribution of household incomes in Kigali, only the top 10 to 15 percent of Kigali's households could afford this housing. The mortgage bank incurred significant losses in the project due to delinquencies and defaults on 10 of the 22 loans to housing purchasers.

Between 1977 and 1983, the Caisse focused primarily on construction as an actual contractor. During that period, it built about 100 structures for other public agencies including houses, administrative buildings and schools. Its skilled engineering and architectural staff also sold design services to groups such as the building society, Compagnons Batisseurs. Despite these numerous activities, the Caisse Hypothecaire sustained significant financial losses during these years as well as decreasing confidence by public policymakers and the financial community.

As stated in the amended statutes for the Caisse Hypothecaire in July 1983, a new role is now envisioned for the mortgage bank. The statutes state that "today, the Caisse Hypothecaire du Rwanda is shifting towards activities in exclusive relation with real property promotion to the detriment of construction activities. Henceforth, the major activity of the Caisse Hypothecaire shall be to promote housing and more particularly the social lodgings as well as to finance building activities."

The majority of persons whom we interviewed as part of this mission agreed with the need for the Caisse Hypothecaire to get out of the contracting business which, in fact, it has already begun to do. In its current project to construct 120 housing units, the mortgage bank has hired private contractors to construct the dwellings.

Although most persons interviewed agreed that the Caisse Hypothecaire should stop functioning as a building contractor and focus on promotion and finance of real estate, especially low-cost housing, the proposed role for the mortgage bank as a financial institution was not clearly defined. Several alternative roles for the Caisse Hypothecaire have been proposed in recent years. For example, in 1979, a report to the Ministry of Public Works and Equipment recommended that the agency no longer engage in providing credit, but only promote real estate development by identifying development opportunities, soliciting proposals from developers, and facilitating project implementation. More recently, proposals for the mortgage bank have emphasized a dual role

as promoter and financier of development. Most public policymakers agree that the mortgage bank should continue to concentrate its efforts in the near future in Kigali as opposed to other urban and rural areas.

In order to regain public confidence, ensure its financial viability and successfully encourage real estate development activity, the Caisse Hypothecaire must soon define its specific functions within the housing and real estate production process. The organization's lack of clearly defined goals and objectives is presently the major reason for its limited impact in the housing industry and its continuing financial instability.

D. Major Factors Affecting Housing Development and Improvement

Several factors may continue to limit housing development and improvement efforts in Kigali and other parts of Rwanda, even if the Caisse Hypothecaire becomes the strong real estate promoter and financier that was initially intended. These factors include the following:

o Land Ownership Issue

Several people interviewed expressed concern that lack of secure land ownership or rights to usage would limit efforts to improve existing spontaneous settlements on government-owned land. Lacking confidence that they may retain ownership of housing that they construct, many households may be unwilling to invest in substantial, solid structures.

In recent years, a law controlling compensation for improvements on land expropriated by the State has somewhat increased security of ownership by requiring compensation for improvements on the land. However, in semi-urban areas where the transition from farmsteads to urban uses is occurring rapidly, problems remain. Families who have lived on land for many years are given payments only for improvements on that land. Each family is also allocated an urban parcel, which is often perceived to have less value than the farmstead that provided an important source of food for the family. Furthermore, according to the BUNEP study, some occupants of unregistered lands have not been fully aware of their rights for compensation and have not demanded adequate compensation. According to local public officials, the State is currently examining the expropriation process and attempting to identify ways to ensure that the State provides adequate compensation for lands, especially those located on the urban fringe.

o Cost_of_Public_Services

Provision of low cost financing by the Caisse or other organizations addresses only one of the major costs of housing development and improvement. The cost of land acquisition in the form of compensation for expropriated lands and, most importantly, the cost of public services affect the total cost of development and upgrading of spontaneous settlements, which to date has been borne largely by the State. The Government of Rwanda must examine ways to pay for these costs.

o Cost_of_Construction_Materials

Another factor affecting housing costs in Rwanda is the cost of construction materials, many of which must be imported. Additional research is required to determine how best to use local materials and to encourage their efficient manufacture.

Each of these issues must be addressed by the government of Rwanda if the Caisse Hypothecaire and other participants in the housing delivery system are to become more successful and effective in expanding and improving the nation's housing stock. Most of these issues are beyond the control of the mortgage bank and must be addressed by ministries of the Rwandan government, such as the Ministry of Public Works. Of the four major issues, the Caisse Hypothecaire is likely to have an impact only in the area of reducing the cost of construction materials by researching potential manufacture and use of local materials.

Chapter IV

Current Programs and Administrative Structure of the Caisse Hypothecaire du Rwanda

A. Current Project

The mortgage bank's main project at this time is construction of 126 units of housing. Unlike the previous 22 unit project implemented by the Caisse Hypothecaire, the mortgage bank is not functioning as the general contractor for these units but instead is monitoring the work of private construction companies with which it contracted to perform the work. The mortgage bank's major control over the quality of construction work by these private contractors is its willingness or refusal to pay for completed work. In this respect, the organization is beginning to function more effectively as a financial institution, and is responsible only for verifying work completion and quality at the time of payment.

The 126 rental-purchase units presently under construction are the first phase of a proposed 200-unit project. The houses range in size from about 61 square meters to 95 square meters and will rent for 9,980 to 16,031 Rwandan Francs per month. This monthly cost is based on an effective interest rate of 9 percent for eventual purchase of the units over a 20-year period. The construction costs for these units range from 600,000 to 2,000,000 Rwandan Francs. Although these dwellings are smaller than those previously constructed by the Caisse and the monthly housing costs are lower, they are not affordable by the majority of Kigali households. The mortgage bank's staff estimate that households with incomes between 15,000 and 80,000 Rwandan Francs per month will be able to afford these houses at the specified monthly costs. The staff assume that only 25 percent of household income will be devoted to housing costs.

Financing for development of this project was provided by the Government of Rwanda which loaned the Caisse Hypothecaire 105 million Rwandan Francs at a 3-percent interest rate for 20 years. The difference between the 9 percent charged for amortization of mortgage loans and the 3 percent paid to the State is used mainly to cover the mortgage bank's administrative costs. However, based on a discussion with the staff in the credit and accounting departments, total administrative costs will not be covered by this interest rate spread, and the mortgage bank would have to earn an additional 0.5 percent in order to break even.

Table 2. Characteristics of Housing
in Current Construction Program

Type of House	Number of Units Built	Total Size (sq. meters)	Rooms and Room Sizes (sq. meters)	Monthly Rent*
1	18	61.26m ²	Room 1 - 6.36m ² Room 2 - 10.28m ² Living Room and eating area - 16.67m ² Exterior Cooking Exterior toilet facility	9,980
2	26	86.04m ²	Room 1 - 13.44m ² Room 2 - 8.96m ² Room 3 - 8.40m ² Interior Wash room Living room and eating area - 28.88m ² Exterior toilet facility	11,441
3	40	82.05m ²	Room 1 - 9.80m ² Room 2 - 10.40m ² Room 3 - 7.20m ² Interior wash room Living room and eating area - 15.12m ² Cooking area - 5.22m ² Storage area - 2.52m ²	10,777

			Exterior toilet facility	
4	22	84.11m2	Room 1 - 9.85m2 Room 2 - 8.92m2 Room 3 - 6.00m2 Interior wash room Living room and eating area - 20.24m2 Cooking area - 8.10m2 Storage area - 3.65m2 Exterior toilet facility (2 barzas?)	13,148
5	20	94.65m2	Room 1 - 9.45m2 Room 2 - 10.80m2 Room 3 - 6.65m2 Interior wash room Living room and eating area - 21.32m2 Cooking area - 4.83m2 Storage area - 2.10m Une chambre pour boy - 3.20m2? Exterior toilet facility More than 2 barzas	

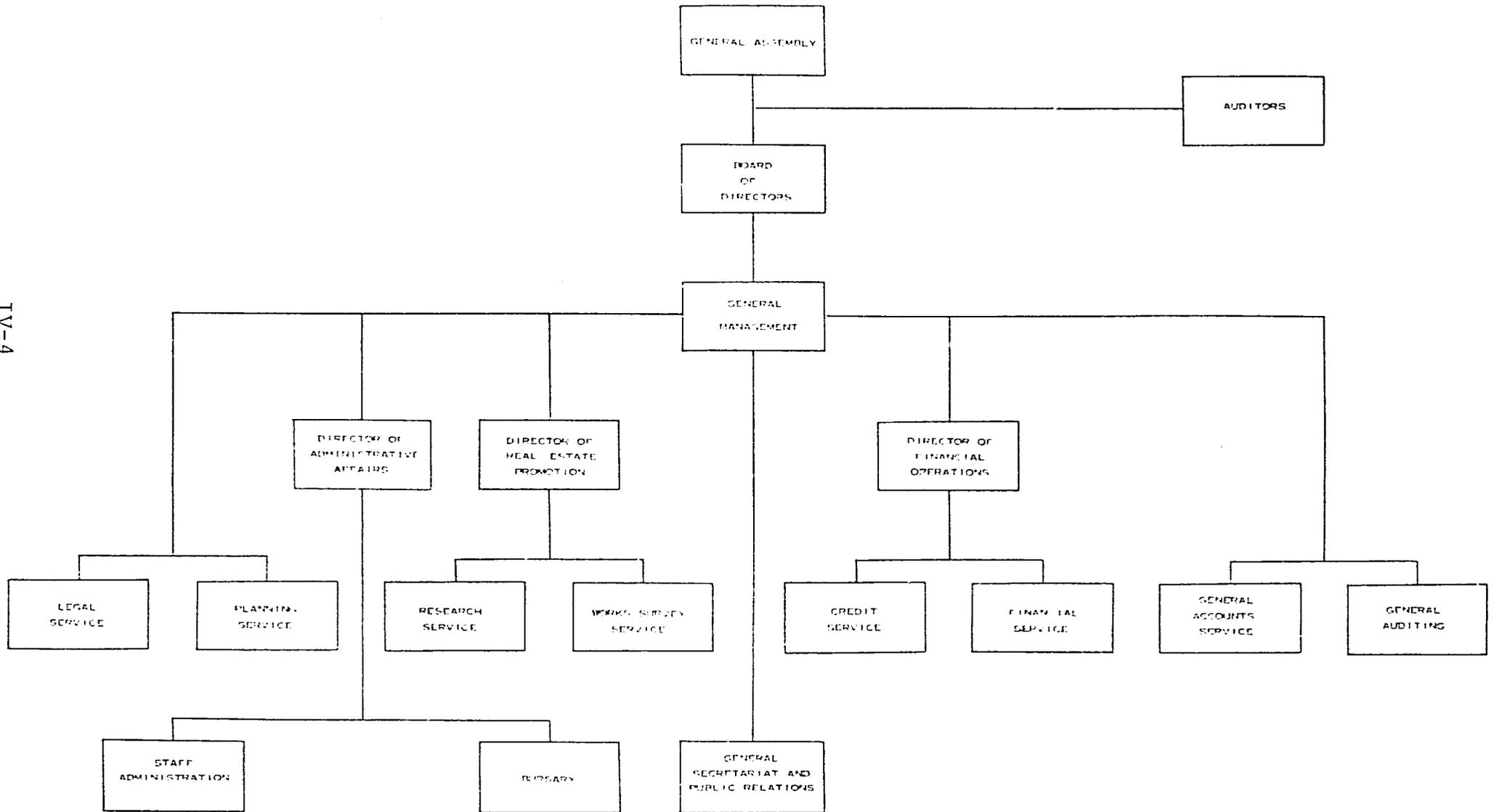
 * Rent in Rwandan Francs based on a 20-year payment period for eventual purchase at 9 percent interest.

Source: Caisse Hypothecaire du Rwanda, brochure

B. Organizational Structure of the Mortgage Bank

The Caisse Hypothecaire du Rwanda had a total of approximately 50 staff persons. The number of staff has increased significantly in recent months. According to the proposed 1984 budget, as of December 1983 the mortgage bank had 32 staff persons, up from about 22 persons in March 1983. The budget proposed adding 34 new staff persons during 1984. The following organizational chart, which appears in the 1983 Statutes, regulating the Caisse Hypothecaire, shows the proposed structure of the mortgage bank. At present, many of

ORGANIZATIONAL CHART
(CAISSE HYPOTHECAIRE DU RWANDA)



the functional areas indicated on the chart have no staff people.

The major departments within the mortgage bank and their current staff levels and functions are as follows:

1. Finance

The department of financial services is divided into two divisions that are to be headed by a Director of Finance. However, at present, that position is vacant. The Department of Financial Operations is responsible for both obtaining financial resources for the mortgage bank in the form of loans, grants, shares or bonds, or any other funding sources; and processing and servicing loans made by the organization to borrowers. Despite the importance of this department to the Caisse Hypothecaire in its role as real estate financier, at present, this department is not attributed greater importance than other departments, such as the department responsible for architectural and engineering services. According to the proposed 1984 budget, this department had three employees as of December 1983. During the 1984 fiscal year, the budget allocated sufficient funds to triple the size of the staff to nine persons. In fact, at the time of our analysis of the institution not all positions had been filled. Existing and proposed positions included the following:

<u>Position</u>	<u>Positions Filled As of 1984</u>	<u>Proposed 1984 Positions</u>
Director of Finance		1
Head of Financial Services	1	
Special Assistant of Financial Services		1
Accountant of Financial Services		1
Cashier	1	
Manager of Credit Services		1
Special Assistant of Credit Services	1	
Accountant of Credit Services		1
Typist		1
Total	---	---
	3	6

The two divisions within the department are as follows:

o Credit/Loan Servicing Division

This division currently consists of a supervisor, two key staff people and a technician. The primary responsibilities of the division are developing repayment schedules for loans and ensuring repayment of the loans. The division is also responsible for reviewing loan applications and underwriting loans. Given the small volume of loans handled by this division to date, it has not required numerous staff persons. Even the addition of 126 to 200 loan/purchase agreements and 700 or more loan applications resulting from the mortgage bank's current state-funded housing construction program should not increase permanent staff needs for this division. In order to begin reviewing the numerous applications for the new houses that are to be completed in the spring of 1985, the division employed several students during the summer to briefly examine the requests to determine if applicants satisfied two fairly broad requirements. These eligibility criteria include income limits and the restriction that families can not presently own a home.

o Financial Services Division

This division is now comprised of two people who are primarily responsible for identifying opportunities for obtaining financial resources both inside and outside of Rwanda. The Head of Financial Services studied economics in Brussels following his studies at the national university in Rwanda. He also received some training at the National Bank of Belgium. The Special Assistant for Financial Services studied in Switzerland.

The Financial Services staff have examined a variety of alternative funding sources for the Caisse Hypothecaire including:

- o Having the mortgage bank borrow from other countries.
- o Using funds from other countries that are borrowed by the State of Rwanda, serving as an intermediary.
- o Selling shares to the private sector.
- o Borrowing from the Rwandan government at low interest rates.

2. Real Estate Promotion

This department is also designed to have a director who supervises two divisions; however, that position is not presently filled. In 1983, the Department of Real Estate Promotion had seven people. According to the proposed 1984 budget, an additional eight staff people were needed. At the time of our analysis, all of the proposed positions had not been filled. The 1983 staff positions and the proposed 1984 staff level were as follows:

<u>Position</u>	<u>Positions Filled As of 1983</u>	<u>Proposed 1984 Positions</u>
Director of Real Estate Promotion		1
Head of Research Services	1	
Special Assistant of Research Services		1
Land Use Planner		1
Draftsman	3	
Head of Work Survey Services	1	
Special Assistants of Work Survey Services	2	4
Accounts Clerk for Work Survey Services	---	<u>1</u>
Total	7	8

As this listing of existing 1983 positions and proposed 1984 positions shows, the organization currently has a number of people who provide drafting and architectural services to other Rwanda agencies including the Ministry of Public Works. Plans to increase staff in this department focus primarily on individuals with skills in monitoring construction work. Two positions for graduate level staff in research and land-use planning were also included in the proposed 1984 budget.

Currently, two staff persons in this department are monitoring the work of only three general contractors who are responsible for constructing the 126 units being built by the Caisse Hypothecaire. Of the three private construction firms, one is responsible for building 60 units, one is responsible for building 20 units, and the third is constructing 46 units. The remaining Department of Real Estate Promotion staff provide architectural and engineering services to other agencies.

The two subdivisions within the Department of Real Estate Promotion are as follows:

- o Research Services -- which conducts studies in areas such as construction materials and provides architectural services.
- o Work Survey Services -- which monitors construction work.

3. Administration

This department is comprised of a Division of Staff Administration and a Bursary, each of which has two people. The department handles personnel and related issues, and includes a variety of support staff including chauffeurs and building maintenance staff for the Caisse Hypothecaire's administrative building. The planned director's position in this department is not filled. Existing 1983 and proposed 1984 staff in this department were as follows:

<u>Position</u>	<u>Positions Filled As Of 1983</u>	<u>Proposed 1984 Positions</u>
Special Administrator Assistant		1
Special Assistants of Personnel and Other Services	3	
Accounts Secretary		1
Attendant	1	
Chauffeurs	6	
Mechanic/Chauffeur		1
Orderlies	1	2
Night Watchmen	2	1
Gardeners	1	1
Domestics	---	<u>1</u>
Total	14	8

4. Four Divisions that Report Directly to the Director General

The organizational structure designated in the Statutes for the Caisse Hypothecaire establishes four special services division that report directly to the Director General or his assistant. In fact, all divisions presently report to the Director, because positions for the Assistant to the Director General as well as the three department directors' positions are not presently

filled. The existing and proposed positions with the Director General's Department are as follows:

<u>Position</u>	<u>Positions Filled As Of 1983</u>	<u>Proposed 1984 Positions</u>
Director General	1	
Assistant to the Director General		1
Secretary/Typist	1	
Secretary/Stenographer		1
Secretary/File Clerk	1	
Telephone Operator		1
Process-Server		1
Typing Supervisor	1	
Comptroller		1
Head of Legal Services		1
Special Assistant Legal Services		1
Assistant Head Accountant		1
Special Assistant of Accounting Services	1	
Printing/Copying Staff Person	1	
Manager of Planning Services	1	
Special Assistants of Planning Services	1	2
Filing Clerk		1
Secretary/Typist	---	1
Total	8	12

The divisions organized directly under the Director General's Department are as follows:

- o Planning Services (3 people) -- this division is responsible for planning the mortgage bank's programs and projects and undertaking demographic and other studies. The division's manager was trained as an economist in Belgium. The staff are primarily involved in reviewing reports such as the housing conditions study by BUNEP, and in identifying ways to provide affordable housing in Kigali.
- o Legal Services (one person) -- this division examines all legal issues affecting the mortgage bank ranging from issues related to sale of

shares to foreclosure on defaulted loans to home buyers, tax issues, personnel issues, and contractor contract negotiation.

- o General Accounts Service (3 people) -- this division maintains the organization's financial records. Present staff include the department manager, a special assistant and a secretary. They are responsible for recording information on the organization's activities, assisting the Finance Department in preparing budgets, presenting the financial status of the institution, and general bookkeeping.
- General Auditing (zero staff at present) -- this division was designed as a division of budget planning and management.

5. General Secretarial and Public Relations

At the time of our analysis, this division consists of three clerical staff and their supervisor. As this analysis of the Caisse Hypothecaire's organization shows, the institution does not presently function as a financial institution. Despite organizational changes in 1983 that ended its role as a general contractor, a significant number of staff still provide architectural and engineering services. Staff involved in the Financial Services Department do not focus exclusively on housing finance but on all types of real estate finance including commercial and industrial projects. As is discussed later, it is not clear whether the services sold to other agencies by the Caisse staff are sufficient to cover the costs of providing these services.

3. Academic Qualifications of the Staff

According to a memorandum by the Caisse Hypothecaire, the qualifications of key administrative staff are as follows:

- One doctor of construction and civil engineering.
 - One architect.
 - One civil engineer.
 - One lawyer.
 - Six economists.
- o In addition to these key staff people, the mortgage bank employs three civil engineers, four economists and one person with legal training. Other staff include clerical and support staff.

The key administrative staff have very strong academic credentials. However, many have only recently completed

their graduate degrees and lack extensive experience with either private financial institutions or public agencies. Several key staff expressed an interest in training that would increase their knowledge and understanding of successful housing and real estate development projects in other third-world countries.

D. Administrative Procedures

Despite its broad mandate in real estate promotion and finance, in many ways, the Caisse Hypothecaire functions like a property developer rather than a financial institution. In the area of housing, for example, its major project involves preparing construction drawings and development plans, and contracting out construction work. However, two major differences exist between the functions of the Caisse and those of a typical developer in the United States, for instance. First of all, the Caisse does not become involved in property or land acquisition. Second, instead of take-out financing, the Caisse borrows long-term and retains ownership of the housing units until the tenant/purchasers pay off their share of debt on the property. The Caisse Hypothecaire also manages housing, commercial, and industrial construction programs of other government agencies.

The Caisse Hypothecaire uses two types of financing mechanisms for housing: (1) individual loans and (2) lease/purchase agreements. However, only three loans have been made to individuals during the 9-year history of the Caisse, in which the borrower immediately received title to the property improvement. Each of these loans were for approximately 4,000,000 Rwandan Francs and were made to persons who built their own houses.

Specific administrative areas that will have major impacts on the Caisse Hypothecaire's ability to continue these current housing activities or expand them in the future are discussed on the following pages.

1. Application Processing and Loan Underwriting Procedures

The Credit Services Division of the Financial Department is the section within the Caisse Hypothecaire du Rwanda that is primarily responsible for approving and servicing housing loans. As discussed earlier, this section currently has three staff people. This staff level appears to be more than adequate to handle the institution's current loan volume, especially since students augmented the staff during the summer and assisted in initially reviewing the substantial number of applications for houses now under construction as part of the mortgage bank's current housing program.

Although the institution has had little use for an efficient application processing and loan underwriting procedure in the past, established procedures are now required to handle applications for the 126 housing units that will be completed in Spring 1985, and to enable the Caisse to expand its role as a financial institution. Presently, staff have no specific procedures for reviewing rent/purchase applications or for determining if potential tenant/purchasers can afford proposed monthly payments. Based on discussions with staff, only two eligibility criteria are used to select tenant/purchasers: (1) they can not currently own a home, and (2) their incomes can not exceed specific limits. Furthermore, procedures such as those for verifying incomes and employment are not clearly defined.

At the time of our analysis, the Caisse had already received about 700 applications for the houses to be completed in 1985 as a result of advertising, including announcements on the radio. The two established eligibility criteria alone are unlikely to eliminate a significant percentage of these applicants. More specific selection criteria are required for two purposes:

- o To ensure the fair and efficient allocation of housing resources to the population.
- o To determine if prospective tenant purchasers have adequate incomes to make monthly housing payments.

Careful screening of applications and underwriting of loans is an important first step to ensure that loans are repaid to the mortgage bank. If the institution is to increase its mortgage lending activities in the future, the staff will have to develop improved administrative procedures in this area.

2. Loan Servicing

The Caisse Hypothecaire does not presently have efficient procedures for loan collections. The initial loan portfolio of 22 loans was very small. It is not clear what selection criteria were used to determine eligibility for these loans. According to Credit Services Division staff, of the 22 initial loans, 10 were paid off almost immediately and two loans were prepaid prior to the end of their specified amortization periods. Prepaid loans included the actual construction costs plus 10 percent to cover the mortgage bank's cost. The bank is now servicing 10 loans, four of which have serious delinquencies and are currently being processed through the judicial system, and six of which have

caused some collection difficulties. One person has actually been evicted from a property to date and the property was sold at auction for the purchase price plus 6 percent for the State.

Present loan collection procedures include the following:

- o Two weeks after a payment due date, a letter is sent to borrower/tenant requesting payment.
- o Four weeks after payment is due a letter is sent announcing court action if payment is not made.
- o Three months from the initial payment due date, eviction may occur.

In fact, these stated procedures do not appear to be followed. Due in part to delays in the judicial system, the one case that actually resulted in eviction took over one year. Documentation actually describing established collection procedures was not available.

Given the presently small case load, the Credit Services Division staff have however apparently been able to work out individual repayment agreements for most borrowers with delinquent loans. Borrowers who are temporarily unemployed, for example, are allowed to make no payments for up to four months, then arrange a repayment schedule. A 3-percent fee is supposed to be charged for late payments.

In contrast to the mortgage bank's experience, the only other low-cost project in Kigali, which was initiated by the building society, has experienced a relatively high level of loan collections. Although a number of families fell behind in their payments at one time, pressure by members of the commune resulted in many families correcting their delinquencies and working out repayment schedules. Also, the commune evicts chronic defaulters expeditiously. According to the 1983 annual report on the project, four borrowers were being evicted and five had recently established new repayment schedules. As a result in part of prepayments, the project is well ahead of its expected repayment level. The following table shows loan repayments between May and December 1983.

Table 3. Loan Repayments for the
Building Society's Housing Project
(in Rwandan Francs)

<u>Month</u>	<u>Amount to be Recouped</u>	<u>Amount Recouped</u>
May	308,836	414,093
June	339,865	219,724
July	341,256	604,806
August	341,256	487,456
September	345,265	371,365
October	345,265	220,667
November	345,265	498,915
December	345,265	304,457
Total	2,712,282	3,121,483

Source: Annual Report of the Program of Affordable Houses, 1983

In order to more efficiently handle the 126 lease/purchase agreements in 1985 and, most importantly, in order to assure a larger role in real estate financing, the Caisse Hypothecaire must establish more effective loan collection procedures. Types of procedures that the staff should consider include the following:

- o Improvement of procedures to bill borrowers -- The bank should consider revising its procedures for billing tenant/purchasers.
- o Designation of specific times to contact delinquent borrowers (e.g., 30, 60 or 90 days after payment due date). -- Despite the procedures discussed above, the mortgage bank does not appear to have an established procedure for identifying delinquent loans.
- o Use of successively stronger letters to delinquent borrowers depending on length of delinquency period -- Based on discussions with staff, it is not clear how or when letters are delivered to delinquent borrowers. Copies of these letters indicating the language used were not available.
- o Use of direct personal contact with delinquent borrowers -- Staff of the Credit Services Division did not indicate when or if they contact delinquent borrowers directly to discuss repayment problems.
- o Strict Imposition of Late Fees -- Although a late

- o Strict Imposition of Late Fees -- Although a late fee of 3 percent is supposed to be required on delinquent payments, it is not apparent that the fee is regularly charged or collected. A higher late fee may be necessary.
- o More extensive use of repayment, forbearance, compromise, and reinstatement agreements -- Although the mortgage bank has had some success in developing repayment schedules for borrowers by extending the loan repayment period, greater emphasis should be placed on this technique to ensure higher loan collection levels.
- o Development of better recordkeeping techniques to track loan repayments and to identify delinquent accounts -- Based on our initial analysis, it was not clear how effectively or regularly the bank updates information on loan repayments and the status of lease/purchase agreements. All records are hand tabulated; however, forms were not available showing how and when information is recorded.
- o Stricter procedures for dealing with chronic delinquencies -- One reason for the success of the building society's housing project has been its strict treatment of borrowers whose loans are chronically in default. First of all, commune members exercise strong peer pressure by publicizing delinquencies that threaten the security of the communes' overall investment. Secondly, evictions are used to quickly remove borrowers who refuse to pay.

These are only a few of the areas that the Credit Services Division state should be considered when establishing loan collection procedures. A thorough review is required of existing procedures and future changes needed to handle a larger loan portfolio.

3. Contractor Monitoring

In its role as a property developer, the Caisse Hypothecaire du Rwanda has a major responsibility in monitoring contractors for its own housing projects as well as residential, commercial and industrial construction projects of other agencies. Even if the Caisse de-emphasizes this role as a developer and acts more as a financial institution, it will need some skilled staff to ensure that quality, completed work is in place when funds are dispersed.

At present, the mortgage bank does not appear to have careful procedures for disbursing funds. The mortgage bank has only recently assumed its new role of contracting work to construction companies that are responsible for housing construction, and procedures for making payments to these contractors are not clearly defined. Based on discussions with staff and contractors, monthly payments are made to contractors. In order to ensure quality work, the mortgage bank should consider the following:

- o Specific interim payments based on pre-established percentages of work completed according to specified standards, instead of regular monthly payments.
- o Specific timeframe within which the mortgage bank's staff will inspect completed work following a request for payment by the contractor (e.g., within one to two days).
- o Specific timeframe within which the contractor will be paid following approval of completed work (e.g., one to two days).
- o Withholding of 10 percent of each payment until the entire project is completed to specified work standards and final payment is authorized.

Although the Caisse Hypothecaire no longer becomes directly involved in project construction, it is not clear from discussions with staff how much time is spent monitoring contractors. An in depth analysis of contractor monitoring procedures should be conducted to ensure that the Real Estate Promotion Department's staff employ efficient, streamlined procedures that effectively control work quality.

E. Accounting and Financial Planning

The General Accounts Service consists of three staff people who are responsible for manually maintaining the Caisse Hypothecaire's accounting system. The General Auditing Division was designated by the Statutes as the part of the organizational structure responsible for preparing budgets; however, as yet, this division has no staff people. Consequently, the General Accounts Service is also responsible for assisting the Finance Department in preparing budgets.

A brief review of the mortgage bank's accounting system identified a number of problem areas that decrease its effectiveness as a system for financial management and control. Particular problem areas include the following:

- o Lack of an accounting manual showing procedures for maintaining records
- o Lack of funds flow accounting

- o Lack of centralization and control accounting for purchase orders
- o Lack of a centralized construction cost accounting system for the bank's housing and other real estate construction projects.

Especially important to the Caisse Hypothecaire's operations is a careful analysis of the costs of delivering specific services through their Real Estate Promotion Department. After encountering financial problems with the initial housing loan program, the mortgage bank began selling construction services to other public agencies to increase its income. It continues to provide architectural and engineering services, although it no longer serves as a general contractor. However, the mortgage bank's accounting system does not enable the institution's administrators to determine if income from the services exceeds the cost of providing them.

The mortgage bank's financial condition remains a concern. According to the General Accounting Services, the mortgage bank continues to suffer a loss for the overall institution. As of August 31, 1984, the estimated loss for the first 8 months of the year was 13,443,007 Rwandan Francs. In 1983, the institution's annual loss was 28,564,277 Rwandan Francs. Lacking a complete audited report on the institution, it is difficult to evaluate these estimates. It is clear, however, that the financial performance of individual activity areas and projects, as well as the viability of the overall institution, can not be fully assessed based on available information.

As a result, in part, of its limited accounting system, budget preparation and forecasting also are limited. A review of the institution's proposed 1983 and 1984 budgets indicated several problem areas including the following:

- o The budget consists largely of verbal descriptions of projected expenditures and some income sources, and is not in an income statement and balance sheet format
- o The budget does not include a cash-flow analysis for the year
- o Projections do not appear to be based on expenditure trends in previous years
- o Costs are not accumulated by useful categories, such as administrative departments, funding sources, uses, or types of services offered.

During our analysis, the Director General indicated that the institution is considering undertaking an analysis to more

accurately assess costs in order to better forecast future funding needs. We believe that this is a very important undertaking and recommend that initial technical assistance efforts by AID focus on this analysis and improvement of the financial management system. Potential benefits of an improved financial management system would include the following:

- o More effective communication of financial and administrative policies
- o Better coordination of various activities of the mortgage bank
- o Better use of available resources
- o More effective financial control.

F. Existing and Potential Financial Resources

The Caisse Hypothecaise du Rwanda has in the past undertaken numerous projects including actual construction work in an attempt to generate income and sustain the institution. Although the impact of some projects on its financial viability is questionable, the organization continues to explore a variety of ways to improve its financial status. As a result, many proposed activities have little to do with the mortgage bank's primary mandate of providing affordable housing. For example, in an effort to build its asset base, the bank is considering commercial development ventures such as expansion of the Hotel of a Thousand Hills (Hotel des Mille Collines) in Kigali.

Clearly, the Caisse Hypothecaise can not continue to rely exclusively on its current funding sources. Although the mortgage bank has the capacity to increase its capital through the sale of shares and bonds, in fact, the private and public support for expanding the bank in this way has limits. Funding from the State itself is similarly limited. At present, a major source of funds for the Caisse Hypothecaise is the low-interest loan of 105 million Rwandan Francs by the state for housing construction. The Financial Services Division staff have also sought funds, especially low interest rate loans and grants, from various sources outside the country.

In order to continue and to expand its role in housing financing, the mortgage bank must secure a reliable source of lower-cost funds. Several proposals have been made to mobilize funds in Rwanda from pension funds and/or employer contributions. The BUNEP study of housing needs, for example, recommended a system for using employer contributions to a type of housing fund.

However, actions have not been taken to establish such a system. The Peoples Bank successfully mobilizes earnings primarily from rural communes which it uses, in part, to make housing loans; however, no major attempt has been made to mobilize savings in urban areas for housing. The Government of Rwanda and the Caisse Hypothecaire should reexamine this alternative as a potential funding source.

A more defined role should be established for the Caisse Hypothecure as a large-volume financial institution for acquisition and property improvement loans, especially in urban areas. As discussed in Chapter III, at present only the Peoples Bank and the Savings Bank provide significant numbers of residential loans; however the Peoples Bank loans primarily in rural areas and the Savings Bank appears to have financial problems at this time. A clear role exists for the Caisse Hypothecure as a major lender for housing loans, especially if pension funds and/or employer contributions are tapped as a source of long-term, low cost resources.

In addition, as the Caisse Hypothecaire builds its capacity and efficiency as a mortgage financing institution, it could examine possibilities of servicing mortgage portfolios of other institutions. This activity could contribute greatly to the institutions financial viability.

Chapter V

Conclusions and Recommendations

The Government of Rwanda, especially through the Ministry of Public Works and Equipment, is beginning to develop projects oriented toward low-cost housing construction and upgrading of spontaneous settlements. Although a nationwide housing strategy for Rwanda has not yet been developed, a more comprehensive approach is evolving to meet the housing needs of households at various income levels in Kigali. The development of effective housing policies and programs has been recently facilitated by the governmental reorganization that made the Ministry of Public Works and Equipment and the Caisse Hypothecaire the two agencies primarily responsible for housing.

However, the specific role of the Caisse Hypothecaire du Rwanda in housing delivery remains undefined. In order to increase the mortgage bank's role in housing and improve its financial viability, a number of issues should be addressed and changes initiated by the Caisse Hypothecaire and the Government of Rwanda. Based on our evaluation, a potential role for AID exists in this effort to better define the mortgage bank and improve its operation. However, participation by AID should however be contingent upon certain commitments and actions by the Rwanda government and the Caisse Hypothecaire to ensure that the bank follows the same direction that the government seems increasingly to be taking. These commitments are as follows:

- o Adoption of policies that focus the Caisse Hypothecaire du Rwanda on providing housing for a broader segment of the Kigali population.
- o Adoption of policies that reduce the mortgage bank's role in providing low-cost housing for upper income households.
- o Pursuit of activities to encourage growth of the private sector to meet the housing needs of upper-income households.

This chapter discusses potential areas of technical assistance that AID should consider, if the Caisse Hypothecaire adopts this new focus for its programs.

A. Financial Management

As a prerequisite for many other improvement activities, the Caisse Hypothecaire du Rwanda should develop a financial management system that permits its administration to accurately evaluate the costs and resulting income from

various activities and services, as well as more effectively forecast funding needs. Specific areas of technical assistance could include the following:

- o Design and help staff implement an accounting and budgeting control system, and develop a procedures manual to enable staff to maintain the system over time.
- o Design and help staff to implement an integrated financial management and control system that will facilitate future programming and projection of staff requirements; budget forecasting; funds flow analysis; report preparation on achievement of goals and objectives; and monitoring and evaluation of progress toward specific goals by specific programs and projects, as well as the institution overall.
- o Design and help staff to implement a cost accounting system specifically for construction management.

B. Definition of the Caisse Hypothecaire's Role in Housing Delivery

Although an immediate benefit may result from examination and improvement of the mortgage bank's financial management system, many other administrative problems can be addressed effectively only after the Caisse Hypothecaire and the Rwanda government have established a clear policy role for the institution in the nation's housing delivery system. The institution's activities now range from its housing lease/purchase program, to sale of architectural and engineering services, to possible financing of commercial development projects, such as expansion of the Hotel des Milles Collines.

Since most causes of the Caisse Hypothecaire's lack of direction center around its efforts to improve its financial viability, a housing advisor could work with the institutions key staff to more clearly define its housing policy role by examining the following:

- o Feasibility of tapping pension funds or employer contributions as a source of low-cost funds.
- o Use of loan guarantees or loan insurance programs.
- o Change of housing programs to permit smaller subsidy requirements for each unit.
- o Role of the mortgage bank versus other public agencies, such as the Ministry of Public Works and Engineering, in housing development.

- o Role of the Caisse Hypothecaire in the proposed spontaneous housing upgrading project being considered by the Public Works Ministry and the United Nations Habitat.
- o Potential for assuming a greater role in the financial community as its capacities as a financial institution improve (e.g., servicing other financial institution's acquisition and home improvement loan portfolios).

In order to assist the Caisse Hypothecaire with this clarification of its role in the housing delivery system, the housing advisor should be familiar with the variety of successful housing program options undertaken in other countries, have expertise in design and operation of housing finance agencies, and be sensitive to the national issues and objectives in Rwanda.

C. Administrative Procedures

After the role of the Caisse Hypothecaire in Rwanda's housing delivery system is more clearly defined, the bank's staff should examine how to more effectively correct some administrative problem areas. If the Caisse Hypothecaire decides to focus primarily on activities as a residential lending institution, improvement of the following administrative procedures will be especially important:

1. Loan Delinquencies and Loan Servicing

Of the 22 initial loans made by the mortgage bank, 10 experienced some collection problems and four became seriously delinquent or defaulted. The Compagnon Batisseur, which implemented the only low-cost housing project in Kigali, experienced a much lower delinquency rate due to strict collection procedures.

The Credit/Loan Servicing Division staff have recently drafted revised contracts between the mortgage bank and borrowers, which should facilitate loan collection; however, this alone will not increase the level of collection. A full evaluation of the loan collection process would be useful to ensure adequate cost recovery mechanisms. This assessment is important in the near future since the Caisse Hypothecaire will soon have an expanded portfolio of 126 loans, and if the bank is to greatly expand its portfolio in the future. Potential areas of technical assistance include the following:

- o Develop an accounting system that immediately alerts appropriate staff that a loan is delinquent.

- o Acquaint staff with the general principles of business and loan collection employed by private sector financial institutions.
- o Develop guidelines for individual analysis of each delinquent case and for reinstating loan payments (e.g., special relief provisions such as repayments, forbearance, compromises, and reinstatements).
- o Establish management review procedures to evaluate both the borrower's actions and the loan servicer's collection efforts before a final decision is made to accept a particular repayment arrangement or legal action.
- o Develop procedures for billing borrowers.
- o Establish procedures (e.g., letters, personal contact) for contacting borrowers with delinquent loans.
- o Recommend techniques to prevent or cure delinquencies (e.g., use of late charges, assignment of rents).
- o Evaluate policies and procedures governing liquidation of loans (i.e., procedures used when a borrower pays off a loan; when a loan is administratively written off by the institution; when the agency forecloses on a mortgage or terminates a lease/purchase agreement; in the case of mortgage loans to individuals, when the agency accepts a deed in lieu of foreclosure).
- o Assess program reporting, monitoring and evaluation needs for successful financial management.
- o Assess staff capabilities and requirements given existing and projected loan servicing requirements.

2. Application Processing Procedures

The Caisse Hypothecaire has already received approximately 700 applications for its 126-unit housing construction project, which should be ready for occupancy in the spring of 1985. The agency does not as yet have strict procedures for reviewing these applications or specific criteria for approving or rejecting applicants. Only two eligibility criteria have been established at this time: (a) households must be within specific income guidelines; and (b) households cannot currently own a home.

Since these criteria alone will probably not eliminate a large percentage of the applicants, the mortgage bank should consider establishing more detailed eligibility criteria and efficient application processing procedures.

Possible areas of technical assistance to address this problem are as follows:

- o Assess characteristics and timing of housing program promotion and advertising given program design, goals and objectives, available resources (i.e., houses, and financial assistance), and staff capacity.
- o Assess program application forms to determine type and usefulness of information required.
- o Evaluate the housing program application process to determine specific tasks required of applicants as well as bank staff, length of time required to complete each step, efficiency of the process.
- o Assess applicant screening and loan underwriting criteria.
- o Recommend program changes to ensure streamlined administrative procedures, fair allocation of housing resources to achieve stated program goals and objectives, and sound underwriting of loans or appropriate match of payment requirements under lease/purchase agreements to tenant/purchaser needs.
- o Assess staff capabilities and capacity to handle existing and projected application processing needs.

3. Contractor Monitoring Procedures

Discussions with staff and with a private contractor currently working on the Caisse Hypothecaire's 126-unit project suggested that more effective procedures may be useful in monitoring construction work. Whether the institution functions primarily as a lender in the future or continues its construction monitoring activities for other agencies, it will need efficient procedures for scheduling interim to contractors payments, inspecting completed work, requiring quality work, and paying contractors once completed work is approved.

Possible technical assistance tasks include the following:

- o Conduct an in-depth review of present job inspection and payment procedures.
- o Evaluate construction work performance standards.
- o Assess procedures for evaluating contractor proposals (e.g., price, types of materials).
- o Examine procedure for scheduling work progress payments (e.g., based on percent of work completed).
- o Assess program forms, and documents (e.g., inspection requests, inspection approvals, change order approvals, payment authorizations).
- o Assess time required to complete necessary tasks during construction inspections and payment approvals.
- o Assess staff capabilities and requirements given existing and projected workloads.

D. General Policy Issues

In addition to these issues facing the Caisse Hypothecaire, the Rwandan Government should examine several broader issues that affect the potential success of the mortgage bank as well as the functioning of the overall housing delivery system. They include the following:

1. Landowner Ownership

The issue of land ownership and compensation for expropriated land appears to be an important factor affecting the potential for upgrading spontaneous settlements on State-owned land. The government should examine ways to increase the security of land tenure through providing appropriate ownership (i.e., Legal Title or right to use and occupancy) in order to stimulate their improvement and ensure the success of proposed capital improvement and home improvement loan programs.

2. Use of Local Materials

The high cost of importing construction materials necessitates more extensive use of local materials and improvement of supply conditions. The government has already begun research in this area, some of which staff of the mortgage bank conducted. Additional research is required to achieve the following key objectives.

- o Identify the lowest cost construction techniques.
- o Analyze current supply conditions for local materials and identify likely problems in expanding production.
- o Undertake pilot projects using local construction materials.
- o Assess the capacity and skills of the building trades for use of appropriate technology.

E. Staff Training

A key to more effective operation of the Caisse Hypothecaire will be training for the agency's staff. As stated earlier, professional staff at the institution have excellent academic training, however, many lack experience in working for a private financial institution or a public housing planning and development agency. The technical assistance projects discussed above, which require special advisors to work in Rwanda with local staff, will provide on-the-job training for staff in areas such as accounting and financial management, loan servicing, program procedures streamlining, and construction monitoring.

In addition to these on-site technical assistance efforts, opportunities should be provided to the institution's staff to help them to become familiar with a broader range of program design options and administrative alternatives for various activities on which the mortgage bank focuses. Specific training opportunities could include the following:

- o Participation in specially organized seminars conducted in French at the Regional Housing and Urban Development Office in Nairobi or some other location on program design topics such as effective low-cost housing programs in other African countries, and alternative mechanisms for securing financial resources for institutions like the Caisse Hypothecaire (e.g., procedures for establishing employer-employee contribution programs to fund housing).
- o Participation in regularly scheduled conferences such as the annual conference in Africa on housing programs and issues, and the Annual Shelter Sector Workshop in Washington, D.C., especially for staff with English language skills.
- o Special courses or seminars on topics of program operation such as loan underwriting, loan servicing, general accounting methods, financial planning

and budgeting, housing conditions and needs analysis, and construction contract monitoring.

Numerous opportunities exist for the Caisse Hypothecaire du Rwanda to play a greater role in expansion and improvement of the nation's housing supply. The areas of potential technical assistance identified in this report are designed to aid the institution to more clearly define its role, especially as a housing finance agency, and to more efficiently implement its housing programs.

As the proposed spontaneous settlement upgrading project now being considered by the Ministry of Public Works and Engineering and the United Nations Habitat progresses, the need will increase for a sound, well-funded financial institution able to make and service large numbers of home improvement loans. Although a specific project appropriate for financial assistance from AID's Housing Guaranty Program does not currently exist, this upgrading project may eventually offer opportunities for AID to provide financial assistance for housing in Rwanda. In the meantime, technical assistance should greatly benefit the mortgage bank. With improvements in its program focus, financial support, budget planning and administrative procedures, the Caisse Hypothecaire will in the future be able to assume an active role as a residential lender in this and similar upgrading projects, as well as additional new construction and development efforts.

APPENDIX A

PERSONS INTERVIEWED

Appendix A
Persons Interviewed

Caisse Hypothecaire du Rwanda

M. Bonaventure Bigirimvamo, Assistant Accountant, General Accounts Service.

Mme. Angele Dusabimana, Planner/Economist .

M. Laurent Hitimana, Head of Construction Works

M. Joram Mushimiyimana, Head of Financial Services, Financial Services Division.

M. Leonidas Ngororabanda, Special Assistant of Credit Services Division

M. Dicor Niyitegeka, Head of Legal Services

Dr. M. Maximin Segasayo, Director General

Mme. Xaverine Singiramkabo, Secretary, General Accounts Service

Government of Rwanda/Private Sector Representatives

M. Pierre Ambrosini, Deputy Director, Banques Populaire du Rwanda

M. J-P Balinda, Director, Bureau National d'Etudes Projects

M. Jean-Jacques Boucher, Counsellor to the President

M. Leonard Ngimurwango, Planning Service, Office of the President

M. Aloys Sempabwa, Ministry of Public Works and Engineering, Habitat Divisic

M. Van Wellie, Ministry of Planning

Three staffpersons, Ministry of Social Affairs

Mayor of Nyamirambo

Secretary General, Ministry of Public Works and Engineering

Entrepreneur/contractor

U.S. Agency for International Development

Mr. Eugene R. Chiavaroli, Director, Mission to Rwanda

Mr. Peter Feiden, Regional Housing and Urban Development Office (RHUDO)

Mr. F. Fisher, RHUDO

Mr. Frederick Hansen, RHUDO

Mr. Norman Olsen, Program Officer, Mission to Rwanda

United Nations, Nairobi

M. S. Sendashonga, Habitat

M. Jacques Sirvain, Habitat

APPENDIX B

HOUSE CONSTRUCTION TYPES

Appendix B

House Construction Types

<u>Housing Type</u>	<u>Range of Costs in Rwandan Francs</u>	<u>Typical Materials Used</u>	<u>Facilities and Utilities</u>
1	Moins de 100 000	<ul style="list-style-type: none"> - Pas de fondation - Murs avec armature en bois brut solidarisee au pote-poto - Charpente en bois brut - Sol en terre battue - couverture en tole de faible epaisseur 	<ul style="list-style-type: none"> - Installation sanitaire sommaire a l'exterieur - Cuisine a l'exterieur
2	de 100 00 a 300 000	<ul style="list-style-type: none"> - Pas de fondations - Murs en stick de bois avec remplissage au pote-poto, puis protection au mortier de ciment - Charpente en stick de bois - Chape cimentee ou sol en terre battue - Couverture en tole galvanisee de faible epaisseur ou en tuiles 	<ul style="list-style-type: none"> - Installation sanitaire exterieur - Cuisine a l'exterieur
3	de 300 000 a 600 000	<ul style="list-style-type: none"> - Fondations en briques adobes avec ou sans protection au mortier de ciment - Elevation en briques adobes avec protection au mortier de ciment - Chape cimentee - Charpente en sticks de bois - Couverture en toles galvaisees 	<ul style="list-style-type: none"> - Cuisine a l'exterieur - Installations sanitaires a l'exterieur

<u>Housing Type</u>	<u>Range of Costs in Rwandan Francs</u>	<u>Typical Materials Used</u>	<u>Facilities and Utilities</u>
4	de 600 000 a 1000 000	<ul style="list-style-type: none"> - Fondations en moellons maconnes au pota-poto - Murs en briques adobes avec protection au mortier de ciment et finition a la peinture - Chape cimentee - Plafond - Charpente en bois - Couverture en toles galvanisees de faible epaisseur 	<ul style="list-style-type: none"> - Simple raccordement l'electricite ou au reseau d'eau - Installations sanitaires a l'exteriour
5	de 1000 000 a 2 000 000	<ul style="list-style-type: none"> -Fondation en moellons maconnes au pota-poto - Murs en briques cuites maconnees au mortier de terre et rejointoyees au mortier de ciment ou briques adobes avec crepi au mortier de ciment - Finition a la peinture - Huisseries metalliques - Chape cimentee - Plafond - Charpente en bois traite - Couverture en toles galvanisees (epaisseur moyenne) 	<ul style="list-style-type: none"> - Raccordement eau et electricite - Installations sanitaires interieures - Cuisine a l'exterieur
6	de 2000 000 a 3 500 000	<ul style="list-style-type: none"> - Fondations en moellons maconnes au mortier de ciment - Murs en briques cuites maconnees au mortier de terre rejointoyees et puis crepi - Finition a la peinture - Chape lissee - Charpente en bois traite - Huisseries metalliques - Couverture en toles galvanisees (epaisseur moyenne) 	<ul style="list-style-type: none"> - Cuisine a l'interieur - Installations sanitaires moyen standing - Raccordement eau et electricite

<u>Housing Type</u>	<u>Range of Costs in Rwandan Francs</u>	<u>Typical Materials Used</u>	<u>Facilities and Utilities</u>
7	de 3 500 000 a 5 000 000	<ul style="list-style-type: none"> - Fondation en beton ou en moellons maconnes au mortier de ciment - Elevation en briques cuites maconnees au mortier de ciment et rejointoyees - Finitions soignees; - Charpes lissees; - Menuiseries metalliques; - Couverture en asbeste ciment ou toles galvanisees forte epaisseur; - Amenagements exterieurs 	- Haut standing
8	Plus de 5 000 000	<ul style="list-style-type: none"> - Fondations en beton arme et/ou moellons maconnes au mortier de ciment - Structure metallique ou en beton arme avec remplissage en briques cuites maconnees au mortier de ciment et rejointoyees - Charpente metallique - Menuiseries metalliques - Couverture en asbeste ciment - Finitions soignees - Amenagements exterieurs 	- Haut standing

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