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**CONSTRAINTS ON  
THE DEVELOPMENT  
AND SUCCESSFUL  
OPERATION OF  
HOUSING  
COOPERATIVES IN  
ZIMBABWE**

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**prepared by**

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## EXECUTIVE SUMMARY

The U.S. Agency for International Development (USAID) is assisting the NGO Housing People of Zimbabwe in developing housing cooperatives with a view toward increasing the supply of affordable housing for households whose income is below the median. Technical assistance was provided by Abt Associates in two parts. The first part involved assisting Housing People of Zimbabwe in negotiations with Building Societies. A companion report by James McGregor details the results under that component of the contract.

The second part of the technical assistance involves evaluating the institutions, policies and practices of the Government of Zimbabwe and the City of Harare which impinge on the development and successful operation of housing cooperatives. Policies which both help and hinder the development of housing cooperatives are identified in the report.

The USAID Private Sector Housing Program focuses on the financing of low income housing. An important feature of the scheme is the involvement of Building Societies. The Building Societies play two important roles in the program. They provide part of the pool of funds to be loaned and they underwrite the mortgage loans to be issued.

Two main concepts are highlighted in the report: the significance of scale economies and the significance of genuine underwriting. Scale economies concern the idea that the average (i.e., unit) cost of producing something declines with the amount of the thing being produced. Genuine underwriting is the idea that market-based financial institutions which have their own money at risk have therefore an incentive to correctly assess risks associated with ventures, like a housing cooperative's construction plan.

Some policies of the Government of Zimbabwe and the City of Harare encourage the development of housing cooperatives. Such policies and practices include the possibility for housing cooperatives to be registered under the Cooperative Societies Act, and the practice of the City of Harare and other Local Authorities of allocating land to housing cooperatives. However, three categories of problems were identified among the policies and practices of the Government of Zimbabwe and the City of Harare. These are:

- a. The Land Allocation System
- b. Regulation of Housing Cooperatives by Administrative Fiat
- c. A Variety of Bureaucratic/Legislative Problems

The main flaws of the land allocation are that the supply of stands (both serviced and unserviced) is uncertain; that the mix of stands, i.e., isolated stands and contiguous blocks of stands, is inappropriate; that the number of stands provided is too small; and that the

method of allocation, namely a serviced stand queue and less than full cost recovery, inhibits stand production and decreases employment and productivity.

The present land allocation system allocates land to individuals and to housing cooperatives at fixed prices. This results in a serviced land queue. Allocations of serviced stands are made by formula, but different formulas are used for individuals and for housing cooperatives. Housing cooperatives are held to more stringent guidelines than individuals. The main effects of the land allocation on housing cooperatives are that the land allocation is very uncertain, which in turn introduces instability into housing cooperative membership, and also implies that genuine underwriting, critical to the success of the USAID-sponsored program, cannot be undertaken. The existence of a serviced land queue also undercuts labor mobility, thus decreasing employment and Gross Domestic Product.

Presently, housing cooperatives are regulated by administrative fiat. The regulation of housing cooperatives is undertaken at two levels. First, the Ministry of National Affairs, Employment Creation and Cooperatives has authority to register housing cooperatives. Second, de facto regulation of housing cooperatives is done via land allocation policies of Local Authorities, like those described above for the City of Harare. In fact, the Ministry of National Affairs, Employment Creation and Cooperatives virtually delegates its authority to register housing cooperatives to Local Authorities, since registration of a cooperative occurs only upon the positive recommendation of the Local Authority.

A variety of legislative and bureaucratic problems also inhibit the operation of housing cooperatives. These include the following.

- a. Limitations in the Building Societies Act
- b. Block Titles
- c. Two Levels of Review
- d. Delays in the Approval/Completion of Layouts
- e. Delays in the Surveyor Generals Office

The Building Societies act precludes Building Societies from financing stand servicing, although it appears to be the policy of the Government of Zimbabwe to have Building Societies engage in this activity. The problem is addressed in currently contemplated legislation, the Building Societies Amendment Act, 1994.

Block Titles are an innovation in Zimbabwe, although there appear to be no substantial problems with the granting of such block titles. The issue is fully discussed in the companion report by James McGregor.

Both initial zoning and most re-zonings must undergo two redundant levels of review, one at the level of the Local Authority, the other by the Department of Physical Planning of the Ministry of Local Government, Rural and Urban Development. In some instances the Ministry personnel are said to be less qualified than the Local Authority personnel involved in the review.

There are delays in the approval or completion of layouts in the Department of Works of the City of Harare, due to personnel shortages. In the past there were some misunderstandings about generic layouts prepared by the Department of Works.

Likewise there are delays in the Surveyor Generals Office, also due to shortages of personnel. This is a persistent problem in the Surveyor Generals Office.

Three alternative solutions are proposed for the land allocation problem:

- a. Abolition of the Serviced Land Queue (SLQ) and its replacement by a managed competition scheme of auctioning serviced stands; and
- b. A similar managed competition scheme for auctioning of serviced and unserviced stands; and
- c. A scheme to offer housing cooperatives all of the serviced or unserviced stands requested in a business plan which has undergone genuine underwriting.

The first proposed scheme, to auction serviced stands, would be undertaken by Local Authorities in lieu of the present serviced land queue method. The auctioning system would involve the necessity of qualifying bidders, and tagging ownership documents, so that a stand could not be resold to other than a qualified bidder. On the other hand, the considerable resources presently devoted to administering the serviced land queue would be freed. The advantage of this method is that allocation of stands would be more efficient than at present, and the Local Authority could rapidly build up funds for further land servicing in its Local Authority Housing Fund.

The second scheme involves the auctioning of unserviced as well as serviced stands, making it possible that housing cooperatives and other entities, could obtain large blocks of stands and service the stands themselves. Housing cooperatives have typically contracted out such work to specialized stand servicers, and the proposed scheme allows market forces to determine whether a particular cooperative (or other entity) should service land. The advantages of the proposed system are considerable. It enhances efficiency over the first proposed system, because in addition to all of the first schemes advantages, this scheme allows the market to determine the most efficient servicers of the land.

The third scheme involves direct allocation of stands to housing cooperatives based upon underwritten business plans. This scheme is essentially a special kind of set-aside for

housing cooperatives. It does not have any of the efficiency properties of the previous two schemes, but removes the uncertainty in stand allocation and therefore permits genuine underwriting to occur.

The labor mobility issue is not directly addressed by any of the schemes mentioned above, but either of the first two schemes are easy to modify to accommodate such considerations. All that is required is that qualified bidders from any part of the country be allowed to participate in any auction. The third scheme is harder to modify since it retains a queue. One modification that partly addresses the labor mobility issue is to permit persons on the queue of a local authority to sell their places to those from another local authority.

The report proposes to remove the locus of regulatory control from the Ministry of National Affairs, Employment Creation and Cooperatives to market-based institutions. This should only be done if the market-based institutions will undertake genuine underwriting. This will happen only if they have their own money at risk in any lending under the program. The Ministry of National Affairs, Employment Creation and Cooperatives should have significant regulatory powers, focused on two issues. The Ministry should enforce "truth in advertising" provisions on housing cooperatives, to prevent the cooperatives from exploiting potential members, especially over such issues as the illiquidity of monies deposited with the housing cooperatives. The Ministry should also enforce anti-trust provisions against housing cooperatives, so as to insure competition among cooperatives.

Proposed solutions to the legislative and bureaucratic problems are as follows.

a. Limitations in the Building Societies Act. The limitation on Building Societies' financing of servicing is addressed in the proposed Building Societies Amendment Act, 1994.

b. Block Titles. The issue has been fully explored and the appropriate documentation presented in the companion report by James McGregor.

c. Two Levels of Review. The Ministry of Local Government, Rural and Urban Development review of routine zoning and re-zoning decisions should be discontinued in the larger Local Authorities, and compliance with Ministry policies should be insured on an audit basis.

d. Delays in the Approval/Completion of Layouts. A "fast track" should be created for approvals of layouts, and a special fee charged, which would go toward hiring consultants to work within the Department of Works solely on the fast track projects.

e. Delays in the Surveyor Generals Office. The short-run recommendation is for a similar "fast track" method as that proposed above. The long-run solution is to remove the legal basis for the Chartered Surveyor cartel.

## PREFACE

This report is one of a two part assignment carried out by Abt Associates Inc. for USAID/Zimbabwe. This report provides an analysis of the impact of the policies and practices of the City of Harare and the Government of Zimbabwe on the operation and successful development of housing cooperatives. Dr. J. M. Pogodzinski carried out the fieldwork in Zimbabwe in March 1994. Dr. Pogodzinski is a Senior Housing Economist at Abt with over fifteen years of experience in urban economics and public finance analysis.

His report focuses on three categories of problems: the land allocation system, the regulation of housing cooperatives by administrative fiat, and a variety of bureaucratic and legislative problems. Two main themes are sounded in the report. First, that housing, especially low income housing, is built in Zimbabwe on a remarkably small scale. Housing is built, if you will, "one house at a time" - which forgoes all scale economies. Second, the scheme envisioned under the USAID Private Sector Lending Program relies on market institutions (Building Societies) and for these institutions to have the proper incentive to correctly gauge the risks of a particular project, it is essential that they put some of their own money at risk.

Each of the problems referred to above adversely impacts housing cooperatives especially. The land allocation system gives cooperatives land in such small amounts that no scale economies can in fact be realized. Furthermore, the land allocation system is so uncertain that no private sector lending can occur. Housing cooperatives are viewed by some government officials as unstable, and therefore are closely regulated.

The report proposes moving the locus of regulation to market-based institutions, under the important proviso that these institutions have at risk their own money. Finally, the report notes a series of important bureaucratic and legislative problems.

Solutions are offered in each of the problem areas noted. The main recommendations concerning the land allocation system are to abolish the serviced land queue, and substitute a system of auctioning. The report discusses different auctioning schemes, and also considers an alternative plan to auctions. The report also proposes a variety of solutions to the bureaucratic and legislative problems, including creation of "fast track" approvals both within the Surveyor Generals Office and within the Department of Works of the City of Harare.

The work on this report was carried out at the same time as technical assistance was being provided, under Abt Associates contract, to a local non-government organization, Housing People of Zimbabwe. The results of that work are reported in a companion report by James McGregor.

John Miller  
Abt Associates Inc.  
May 1994

## ACRONYMS

BSc	Bachelor of Science
CPI	Consumer Price Index
DPP	Department of Physical Planning
MLGRUD	Ministry of Local Government, Rural and Urban Development
MMS	Mortgage Management Servicers
MPCNH	Ministry of Public Construction and National Housing
NGO	Non Government Organization
RTCPA	Regional Town and Country Planning Act
SG	Surveyor General
SLQ	Serviced Land Queue
UCA	Urban Councils Act
UCS	Urban Councils Section
USAID	U.S. Agency for International Development
USLO	Urban State Land Office

## **1. BACKGROUND**

The U.S. Agency for International Development (USAID) is assisting the NGO Housing People of Zimbabwe in developing housing cooperatives with a view toward increasing the supply of affordable housing for the target population, those whose household income is below the median urban income in Zimbabwe (Z\$1,004). Technical assistance has been provided by Abt Associates Inc. in two parts. The first part involves assisting Housing People of Zimbabwe, an umbrella organization for housing cooperatives, in negotiations with Building Societies (financial intermediaries involved in housing finance in Zimbabwe). A companion report by James McGregor details the results under these components of the contract.

The second part of the technical assistance involves an evaluation of institutions, policies and practices of the Government of Zimbabwe and the of City of Harare which impinge on the development and successful operation of housing cooperatives. Officials of the City of Harare and the Government of Zimbabwe are genuinely interested in expanding the supply of low-income housing, and generally see some potential for housing cooperatives as part of the program to accomplish this.

Several officials of the City of Harare and the Government of Zimbabwe, however, have reservations about some aspects of the operation of housing cooperatives. The primary concern is that land will be allocated to housing cooperatives which are not financially able to complete housing, and that thereby some of the extremely scarce building lots will lie fallow, where they might have been assigned to an individual or entity which might have completed a house on the site. This stance is reinforced by the unfortunate experience of the Government of Zimbabwe with cooperatives in other sectors (primarily agricultural cooperatives) in the immediate post-independence period. It is further reinforced by the record of housing cooperatives in the production of housing to date, which is unremarkable (see Annex 1).

That record is colored, however, by other significant factors which limited the production of housing economy-wide. Indeed, some institutions, policies and practices of the City of Harare and the Government of Zimbabwe work to inhibit the development and successful operation of housing cooperatives. Some of these policies also significantly hamper low income housing delivery in general, but their effect on housing cooperatives is especially severe.

## **2. DESCRIPTION OF PROPOSED FINANCING FOR HOUSING COOPERATIVE PROGRAM UNDER THE USAID SCHEME**

The USAID Private Sector Housing Program focuses on the financing of low income housing. An important feature of the scheme is the involvement of private financial intermediaries (Building Societies) in the process. At present the USAID program is limited to Building Societies; other financial institutions cannot participate. Building Societies

perform two essential roles in the scheme. First, they provide some of the pool of funds to be loaned. Second, they underwrite the mortgage loans to be issued under the scheme. Although there may be some tendency to focus on the first-named of these roles as more important, the second is very critical to the success of the program.

A pool of funds will be contributed from housing cooperatives, USAID and Building Societies. Housing cooperatives will then make application through the Building Societies for loans to construct housing for cooperative members. The housing cooperatives will apply for such loans in their own name, rather than in the name of the cooperative members. The loan applications will be evaluated (underwritten) by a Building Society, and if accepted, the money will be made available to the housing cooperative. The housing cooperative will then proceed to construct housing, and repay the loan.

### **3. DESCRIPTION OF HOUSING COOPERATIVE**

A housing cooperative as the term is used here is primarily a group of individuals who are organized to pool risk.<sup>1</sup> Low income individuals are subject to income fluctuations, which may make it very risky for an individual to have a mortgage loan. For such an individual a temporary decrease in income may result in missed mortgage payments, and consequent bad credit rating or foreclosure. Pooling of contributions via a housing cooperative can smooth out the stream of funds available for payments, and thereby enable the cooperative to point to a potentially more reliable stream of income than would otherwise be the case.

Housing cooperatives may also be able to reduce loan servicing cost by exploiting scale economies in servicing of mortgages. By taking a single mortgage loan, instead of many individual loans, mortgage servicing costs are reduced.

Additionally, housing cooperatives may have an advantage over other methods of housing finance used or contemplated in Zimbabwe because they may be better positioned to exploit scale economies in the production of building lots (serviced stands) from raw lots (unserviced stands), and also better positioned to exploit scale economies in the production of housing itself. Other organizations, like a large scale developer or a specialized servicer, can also exploit such scale economies.

Against these advantages of housing cooperatives are the following costs. The mortgage servicing cost that is avoided by the scheme described above is really shifted onto the housing cooperative itself. Housing cooperatives operate by obtaining contributions from members. These contributions are collected prior to obtaining a mortgage, and would continue after obtaining the mortgage. Thus, the collection of contributions on the part of

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<sup>1</sup>It is not primarily a production coalition; most initial construction is not undertaken by cooperative members, but by public or private contractors.

the housing cooperative might be referred to as *servicing the cooperative* and costs associated with servicing the cooperative at least partly represent the costs of servicing the mortgage.

The cooperative may have advantages or disadvantages over a traditional financial intermediary in performing this servicing function. Among the disadvantages is that collections might be more difficult, since members feel themselves insulated from the consequences of non-payment by the cooperative. This is termed the *moral hazard* problem. On the other hand, cooperatives may consist of individuals who share some common bond that makes collections more reliable. Finally, servicing might be more efficiently done by housing cooperatives since it is usually done by unpaid volunteers who themselves are low income individuals, i.e., individuals whose implicit wage is low.

Additionally housing cooperatives may suffer from the *adverse selection* problem. Those individuals most likely to join a cooperative are those most in need of the advantages of cooperative membership - insulation from consequences of default, income smoothing, etc. That is to say, other factors equal, riskier individuals are more likely to be attracted to cooperatives.

There is a countervailing force that appears to be at work. Based upon interviews with members of housing cooperative Management Committees, some cooperatives structure themselves as a *mix* of income classes.<sup>2</sup> To qualify for USAID support a program must produce housing which is affordable to households below the median income level. A cooperative which qualifies for USAID support may consist of low income individuals whose income is above the median income (whom we may take to be less risky than poorer low income individuals) balanced by lower income individuals. This *balancing* or *mixing* works to the advantage of the poorer poor. So long as housing cooperatives can be fairly freely formed (i.e., low barriers to entry into the cooperative sector), and have discretion over the admission of members, the effects of *adverse selection* are mitigated.

#### **4. MAIN THEMES: SCALE ECONOMIES AND GENUINE UNDERWRITING**

Two main themes are developed in the report. First, the report emphasizes the significance of scale economies in both the production of servicing and housing construction, and shows how the present system undercuts the realization of scale economies. The report then shows how properly-functioning housing cooperatives are better positioned to realize such scale economies than other entities currently operating in Zimbabwe. The most significant impediment to the realization of scale economies in stand servicing and housing production is the land allocation system. Specific features of the land allocation system affect housing cooperatives differently from the way the land allocation system affects

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<sup>2</sup>USAID's policy to serve the target population is stated in terms of the physical characteristics of the house that is constructed. USAID views construction of a 2-room core house on a serviced stand of 150 square meters as affordable for some but not all low income households. The minimum standard housing unit is a wet core and 3 m. x 3 m. slab on a 150 square meter stand.

individuals. Second, the report emphasizes the significance of genuine underwriting (risk analysis) by Building Societies to the success of housing cooperatives.

#### 4.1 SCALE ECONOMIES

The basic idea of scale economies is that the average cost (i.e., the unit cost) of producing something decreases with the amount of the thing being produced. In connection with housing in Zimbabwe two primary kinds of scale economies are considered: scale economies in the servicing of stands, and scale economies in the production of housing. The scale economies in the production of housing can be of two sorts: the scale of a project, i.e., the optimal number of houses to build at the same time (in a single project), and the scale of a house, i.e., the optimal house size.<sup>3</sup>

The scale economies in production arise when techniques are used that embody greater specialization, and correspondingly higher (and narrower) skill levels. Numerous factors conspire in Zimbabwe to destroy scale economies. It can truly be said that in Zimbabwe housing is produced the worst possible way, one house at a time. While construction techniques may also be a factor preventing the fuller exploitation of scale economies, land allocation which limits the size of the project is the biggest barrier to exploiting scale economies.

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<sup>3</sup>As an example suppose that a 2 room core house, i.e., a house consisting of a bathroom, kitchen and living room (both kitchen and living room at least 7 square meters), costs approximately Z\$30,000. (This and related figures were obtained from local contractors. The figure quoted for construction of the 2 room core house was actually Z\$27,500, but have been rounded for ease of calculation.) Suppose further that the servicing of a 150 square meters stand costs Z\$6000. A 4 room core house constructed at one time costs Z\$40,000 (each additional room cost Z\$5000, if included at the time of construction; also suppose that this is the additional cost of adding a room to a 4 room core house). Adding a room later to a 2 room core house costs Z\$10,000. Finally suppose that the cost of servicing a 300 square meter stand is Z\$10,000. Assume the *de facto* housing standard for low income people in Zimbabwe - one family per livable (at least 7 square meters) room.

Consider three alternatives: a 2 room core house on 150 square meters; a 2 room core house on 150 square meters, expanded later to 4 rooms; a 4 room core house on 300 square meters. The total cost of A. is Z\$36,525. The total cost of B. is Z\$56,525. The total cost of C. is Z\$51,050

The average cost per family (assuming one family per livable room) for each of the alternatives is Z\$18,262.50, Z\$14,131.25, Z\$12,762.75, respectively. The alternative which houses each family at lowest average cost is the 4 room core house on 300 square meters. Numerous considerations having to do with the time preference of money have not been accounted for in the calculation.

## 4.2 GENUINE UNDERWRITING (RISK ANALYSIS)

Financial intermediaries in a market environment perform a basic task in connection with making loans, which might be referred to as *risk analysis* or *genuine underwriting*. Typically, in a market system, a bank operates by taking in the deposits of savers and making loans to borrowers. A bank attracts deposits by offering a rate of interest, and it seeks to make a profit by offering loans to borrowers at a higher rate of interest. The bank may make either a profit or a loss, however. If it is injudicious in its lending, and makes loans to individuals or businesses who turn out not to be good risks the individual will fail to pay, and, although the bank may recover some of its losses, it frequently cannot cover all losses in case of a default. Thus, to make greater profit, the bank, in advance of making the loan, judges the risk it takes on in making a particular loan.<sup>4</sup>

Banks recognize that any such non-guaranteed loan carries some risk, even a loan to a very high income individual. The bank has some written policies (lending guidelines) which offer some guidance in judging any particular case, but each case is individual, and judgement must be exercised. The force which impels the bank to exercise appropriate care in making the loan is that it can lose money. It is this fact, the prospect of a loss rather than a profit, which impels banks and other financial institutions to make their best judgement about making the prospective loan. Thus, banks *risking their own money* will not make loans that are likely to lead to bad results.

On the other hand, banks do have an incentive to approve worthy projects. If the bank makes no loans, it also makes no profits. Thus, if a project appears as a good risk the bank is likely to approve the project because the bank will earn profits. But a bank can never earn these profits by viewing a project through *rose-colored glasses* because its own money is at risk. A bank with its own money at risk does not have an incentive to misrepresent the validity of a project.

## 5. PROBLEM IDENTIFICATION

As stated above, many government officials support housing cooperatives, and desire them to be successful housing producers. Some policies of the Government of Zimbabwe and the City of Harare encourage the development of housing cooperatives. Two of these policies are very basic. The Government of Zimbabwe provides, in the Cooperatives Act, for the registration of housing cooperatives with the Ministry of National Affairs, Employment Creation and Cooperatives, and, thus, for their official recognition by lower levels of government. This Ministry conducts training and education of cooperative members, an activity which is highlighted in the recommendations below.

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<sup>4</sup>Most such loans are not guaranteed either by government or by employers.

Second, the policies of local authorities are supportive of housing cooperatives to the extent that land is allocated to the cooperatives. Numerous housing cooperatives within the City of Harare and housing cooperatives elsewhere have been allocated increasingly scarce stands (building lots).

On the other hand, numerous policies and practices of the Government of Zimbabwe and the City of Harare inhibit the performance of housing cooperatives. Three categories of problems were identified in the policies of the Government of Zimbabwe and the City of Harare that inhibit the development and successful operation of housing cooperatives. These are:

- a. The Land Allocation System
- b. Regulation of Housing Cooperatives by Administrative Fiat
- c. A Variety of Bureaucratic/Legislative Problems

Each of these is discussed in turn below.

## 5.1. THE LAND ALLOCATION SYSTEM

The critique focuses initially on the land allocation system because even if all of the administrative obstacles detailed in the following sections were to be removed, housing cooperatives would likely fail. Reform of the land allocation system is a *necessary* condition for the success of housing cooperatives and defects of the land allocation system affect housing cooperatives more than individuals.<sup>5</sup>

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<sup>5</sup>To fix terminology, blocks of raw land whose boundaries are delineated but which are not further subdivided, and which are unprovided with services (e.g., road access, sewer, water, etc.), will be referred to as tracts. Such tracts typically have a designated use under a Master Plan or under a Local Development Plan. A tract for which there is an approved layout on file with the Local Authority is subdivided thereby into raw lots or unserviced stands. These unserviced stands, upon being provided with services, become serviced stands. The term serviced stand will apply to a fully serviced stand, i.e., a stand provided with the full panoply of services. Recently building has sometimes been undertaken on stands for which some minimum servicing, like water only, has been put in place, with the remaining servicing to be completed later.

The main flaws of the land allocation system are:

- a. The supply of stands (either serviced or unserviced) is very uncertain.<sup>6</sup>
- b. The "mix" of stands is inappropriate. Stands can either be isolated or stands may form contiguous blocks of various sizes. Generally, and especially in recent years, not enough blocks of stands, and not big enough blocks, have been available.
- c. The number of stands provided, especially of serviced stands, is small.
- d. The typical method of allocation, a *serviced land queue* and less than full cost recovery inhibits the production of stands and also inhibits labor mobility, and thereby decreases employment and Gross Domestic Product.

These flaws have tow effects upon housing. First, they undercut potential scale economies in the production of housing or servicing. Second, they make genuine underwriting a practical impossibility.

### 5.1.1 The Present System

The present land allocation system can be briefly described as follows. Land falls into one of three categories: private land, municipal (council) land, and state land. Private land can be freely traded at any price agreeable between buyer and seller. Municipal land is land which is under the control of a Local Authority, having been transferred to Local Authority control upon independence, or subsequently, upon petition to the Urban State Lands Office (USLO) of the Ministry of Local Government, Rural and Urban Development, Regional and Urban Development, or purchased under the Land Acquisition Act.

The distinction between municipal and state land is significant because acquiring land from the state is one of the ways (and in the case of Chitungwiza the only way) a city can increase its inventory of land from which to produce unserviced stands and eventually to produce serviced stands. Most Local Authorities in urban areas rely on acquiring land through the Government of Zimbabwe which uses the Land Acquisition Act to acquire land and resells it to the Local Authority. This is private land purchased at a "negotiated" price. The USLO is relied on less because this office seems to apply very rigid standards for the release of land for eventual use in low income housing.

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<sup>6</sup>The supply of serviced stands is more uncertain than the supply of unserviced stands. Based upon allocations made by the City of Harare, 37% (3 of 8) cooperatives allocated *unserviced* stands received fewer stands than they have members, whereas 93% of cooperatives allocated *serviced* stands received fewer stands than they have members (13 of 14).

It is formally the responsibility of the Local Authority to subdivide the land (by developing and approving a layout), then to service the land (i.e., to assure the provision of water, sewer, road access, etc.), and only then to make the building lot (serviced stand) available for construction of low income housing. This construction of housing can be done by the Local Authority itself, by a low income individual to whom the stand has been allocated, or by an organization, like a housing cooperative, to which several stands have been allocated. If the serviced stand is allocated to an individual or to a housing cooperative, then the Local Authority is to recover fully the costs of servicing the land.

Currently, the price charged by the City of Harare for a serviced stand allocated to an individual or a housing cooperative depends on the time that the stand was serviced. The prices for stands serviced in previous years which are currently available are markedly lower than the prices for stands more recently serviced which are also available currently. The figures range from about Z\$3,500 to Z\$11,000 for a 300 square meter stand. The disparity arises because accounting costs rather than market values are used to price the stands. According to the Department of Valuation of the City of Harare, account is taken of inflation, based upon data gathered by the Department from servicing contractors. The more systematic CPI figures from the Reserve Bank of Zimbabwe are not used.<sup>7</sup>

### 5.1.2 The Serviced Land Queue

There is a *serviced land queue* (SLQ) in the City of Harare.<sup>8</sup> The queue is said now (March 1994) to contain 86,000 names. In recent years fewer and fewer serviced stands have been made available (see Annex 2). Indeed, notwithstanding the policy against this, the City of Harare has begun providing unserviced stands as well (see Annex 1). Such unserviced stands are provided at a fixed price (Z\$3.50 per square meter regardless of whether the layout is provided by the city or must be done at the cost of the purchaser) to individuals and entities who are deemed by the City of Harare to have the financial capability of servicing the land. Significantly, such unserviced stands as are provided to housing cooperatives are provided in small numbers and not necessarily on contiguous parcels of land, both of which are significant factors limiting scale economies in the provision of servicing and housing production.

In recent years, the City of Harare has been hard pressed for funds with which to undertake the servicing of land, although the National Housing Fund was established with the

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<sup>7</sup>Assuming that the method used by the City of Harare for estimating the inflation in servicing is adequate, this raises the question of why the cost of servicing stands has increased in real terms, despite a generally depressed economic situation, accompanied by declining real wages. This is a valid question even if (as discussed below) not all costs are fully accounted for, since it suggests that there has been a real increase in those costs which are accounted for. The phenomenon is not explained by the stickiness of public sector wages, since most (about 80%) of the servicing work done by the City of Harare is contracted out to private servicers.

<sup>8</sup>There are really three queues, one for high density, one for medium density and one for low density land. Most of those on the queue are on the high density queue.

intention that it serve as a revolving fund for the servicing of land throughout Zimbabwe. Over the course of several years, the National Housing Fund has become increasingly depleted. The scheme envisioned for the National Housing Fund assumed that full cost recovery occurred. However, in implementing the cost recovery provisions, different Local Authorities used different conceptions of costs and different methods of accounting, and in some instances excluded some genuine costs from the calculation, so as to make the serviced stands more affordable.<sup>9</sup>

Put simply, by charging a price for serviced stands which is too low in the sense that it represents less than full cost recovery, the National Housing Fund was bound to become depleted. Officials of the City of Harare and the Government of Zimbabwe implicitly recognize this fact, since their reaction to the idea of increasing the number of serviced stands is that such an action would increase the budget deficit. Indeed, it would and must, so long as the price is too low.

In allocating land from the SLQ to an individual, priority on the SLQ is the first factor, but not the only one. When one's turn comes, one must be able to demonstrate that one has the financial capability to construct an acceptable (4-room core) house on the site within 2 years. The standard of acceptability has declined in recent years as the depressed economy has forced retrenchment of standards. The City of Harare will allocate a stand to an individual based upon his savings of Z\$20,000, which the City of Harare recognizes is not enough to construct a 4 room core house, but which officials argue is enough to build an acceptable interim house.<sup>10</sup>

### **5.1.3 Allocation Rules for Housing Cooperatives**

In the case of housing cooperatives the City of Harare applies the following formula to determine the number of serviced stands to which the housing cooperative is entitled. The savings of the housing cooperative are divided by Z\$40,000 (a figure based on the estimated cost of completing a 4-room core house on a serviced stand, although the figure appears to be out of date), and the result is the number of serviced stands to be allocated. The formula takes no account of the number of cooperative members. The formula used to allocate serviced stands to cooperatives is different from that used to allocate serviced stands to

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<sup>9</sup>It is also true that some other loans were made from the National Housing Fund for purposes other than stand servicing, and these have not been repaid. The report focuses however on the stand servicing aspect of the National Housing Fund, since this feature is of most immediate concern here.

<sup>10</sup>The stand size and housing standard, officially were reduced nationwide by #3 circular from the Ministry of Public Construction and National Housing. Development time was extended by the Ministry of Local Government from two to six years. Local Authorities may repossess now with ministerial approval for non-development after six years, not two as before. However, the City of Harare is enforcing a higher standard (if not strictly a 4-room core house in two years, "significant" progress within two years). Evictions have occurred from City of Harare serviced stands for failure to meet the City's standard - even evictions where some work had been completed in two years, cases which would have met the standards of the Ministry.

individuals. The rationale offered for this differential treatment of individuals and cooperatives is that two families are expected to occupy the cooperative house, whereas one family is expected to occupy the house on the stand allocated to an individual.<sup>11</sup>

In making land allocations for unserviced land to coops, the City of Harare makes the allocation on a "case-by-case" basis (i.e., without reference to a specific formula). The City's primary concern is said to be their judgement about the capability of the cooperative to service the land and complete houses. Typically (see Annex 1), allocation of unserviced land to coops, while larger than the allocations of serviced land to coops, are often small relative to the size of the coop. City of Harare officials explain that they prefer cooperatives to "prove themselves" capable of servicing land and producing houses on a small scale initially; these officials believe that by proceeding in small steps both the cooperatives and the City gain confidence.

In situations where there is greater demand than the number of unserviced stands available<sup>12</sup> some City of Harare officials recommend using *pro rata* allocation, i.e., filling the requests in proportion to the available supply. Such an allocation rule has several negative features. A *pro rata* allocation system encourages all participants to build in an exaggerated requested allocation which makes the allocation system even more cumbersome, since no one has an incentive to truthfully reveal their desired allocation. If one knows that one's request is subject to *pro rata* allocation, and one wants 100 stands, then one will request 300 stands. This destroys scale economies entirely and makes impossible any scheme like the one contemplated here that relies on genuine underwriting, because it exacerbates the uncertainty of supply.

#### **5.1.4 Analysis of the Land Allocation System**

Housing cooperatives operating within his land allocation system exhibit some unfortunate features from the point of view of housing finance, or more precisely from the point of view of finance in general. Banks and other financial intermediaries operate so as to take the savings of savers and distribute them to borrowers. Savers and borrowers differ, and the job of the finance system is to coordinate the desires of the one with the desires of the other. The system of housing cooperatives as described above is really a collection of individuals *all* of whom desire to be net borrowers. Yet, some are forced to be net savers, while others are borrowers. (How this works out could only be determined by examining the allocation *within* the cooperative.)

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<sup>11</sup>This suggests that there are two queues, the explicit one for individuals and an implicit one for housing cooperatives. To the extent that there are two queues, this would represent a "set-aside" for housing cooperatives, and then an issue would be whether the set aside for cooperatives was too small or too large relative to that for individuals.

<sup>12</sup>Such unserviced stands are also allocated to "syndicates" [or "coalitions"] which consist of several private firms who join together to service stands for their employees.

The most noteworthy feature of the land allocation system as it affects housing finance has to do with the fact that a very long time passes before a significant percentage of cooperative members are housed, and the land allocation system introduces substantial uncertainty in the minds of cooperative members about the value of continued membership. There is evidence that this leads to a reduction in the number of cooperative members. Such a reduction in membership is very problematical for the scheme outlined above. It has been traditional practice for cooperatives to refund the member's contribution upon resignation, or to do so with only a short delay. Even if, as appears to be the case, cooperatives can retain members' accrued contributions indefinitely (supposing there is no contrary provision in the cooperative's constitution), the scheme is still problematical. Disgruntled members can respond by stopping further contributions, and it would be very costly to recoup such losses.

The instability of the system arises from two sources. First, it is not genuinely a rational housing finance scheme. Contrary to reason, it attempts to marshal the savings of net *borrowers* and allocate them to net borrowers. This theme is developed in a numerical example in Exhibit 1. This feature is one that the USAID Private Sector Housing Program overcomes.

The land allocation system is simply too capricious, unpredictable and unresponsive to changing circumstances to allow any system of housing cooperatives to function. The present land allocation system is problematical for housing cooperatives now because it affects the stability of membership and contributions. It is problematical for the proposed system of cooperatives with USAID-supported housing finance because it makes the underwriting process mentioned above a practical impossibility.

The reason the land allocation system is incompatible with underwriting is the following. Underwriting is the process of accounting for risks, and in the process of underwriting and the negotiation that goes on between borrower and lender prior to a loan, the main risks are identified, evaluated, and where appropriate, minimized, so that the final loan package that is approved has an acceptable level of risk. Few business plans when submitted to a bank on the first go-round meet the bank's specification for risk, and are consequently adjusted in the process of negotiation. They can be adjusted because effective actions can be taken to alter the main risk-inducing components of the business plan. But the main risk-inducing component of the housing cooperative business plan is the land allocation, and the present system does not allow any adjustment to occur along this dimension. This is especially true with some features of the present system, like *pro rata* allocation. The main advantage cooperatives have over other entities currently operating in the housing sector in Zimbabwe is their better positioning to exploit scale economies. But *pro rata* allocation and other features of the land allocation uncertain makes it impossible to exploit such economies.

The land allocation system undercuts potential scale economies, since land is doled out in extremely small quantities, limiting the scale of a project. Housing cooperatives are one of the few entities operating in Zimbabwe able to exploit such scale economies.

## Exhibit 1

### Self Financed Housing Cooperatives and Land Allocation: An Example

To see the implications on cooperative stability of these land allocation policies, consider an example based roughly on experiences of an actual cooperative, with the calculations rounded and simplifying assumptions employed so as to focus on the essential issues. The example uses the City of Harare allocation rule for serviced stands so as to focus most sharply on the stand allocation issue. Suppose a cooperative has 2,000 members (which are households) who contribute Z\$100 per month. This makes Z\$200,000 per month. (In reality, few cooperatives are this large, and even one this large was initially smaller; it is also true that cooperative membership nationwide has tended to decline in recent years, for reasons to be discussed in connection with this example.) In 10 months (ignoring the compounding of interest which might accrue in the interim and such costs as might have to be deducted) the cooperative has Z\$2 million. Applying the City of Harare's formula, the cooperative receives 50 serviced stands. Suppose that the cooperative obtains serviced stands at a price of Z\$10,000, and thus expends Z\$500,000 on stands.

To evaluate the formula suppose that 4-room core houses are completed on the 50 serviced stands in one year. Suppose for convenience that all of the houses are completed in exactly one year and all are completed at the same time. During that year suppose further that contributions have continued by all members at the same pace, and that the only funds actually used in construction are those already saved, i.e., the Z\$1.5 million remaining after stand purchase (again abstracting from compounding of interest and deduction of other costs) plus two months' worth of contributions accrued during the year of construction. At Z\$100 per month per member in 12 months (deducting the two months' worth needed to complete construction) the cooperative again has roughly Z\$2 million and is entitled to another 50 stands (assuming in fact that such a claim would be honored.)

After a year, there are 50 4-room core houses, which, applying the *defacto* low income housing standard in Zimbabwe, are occupied by 200 families. This represents 10 percent of the total membership, and in 10 years assuming the currently housed members continue to contribute at the same pace the entire membership can be housed.

#### 5.1.5 The SLQ and Labor Mobility

To join the SLQ for Harare, one must be a resident of Harare, and a similar rule operates in other Local Authorities.<sup>13</sup> Suppose an individual who currently resides in a provincial Local Authority receives a job offer at an attractive wage in Harare. In economists' parlance, the attractive wage is offered in Harare because the individual's *marginal product* or *productivity* (by which one can understand his contribution to Gross Domestic Product) is greater in Harare than in the provincial city. However, suppose the individual either has a house, or is on the short list for the SLQ in his provincial Local Authority. If he moves to Harare he would be the last in line on the Harare SLQ. Then because of the *land/housing disequilibrium* the individual might be deterred from accepting the new position in Harare, at a detriment to himself and also to the Gross Domestic Product. This is to say that the land allocation system contributes to a reduction in Gross Domestic Product.

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<sup>13</sup>For example, there is a current controversy over the allocation of stands in Epworth to non-residents.

## **5.2 REGULATION OF HOUSING COOPERATIVE BY ADMINISTRATIVE FIAT**

Presently, housing cooperatives are regulated as follows. The Ministry of National Affairs, Employment Creation and Cooperatives has authority to register cooperatives. Without registration with the Ministry, the housing cooperative effectively cannot function. Cooperative members had complained previously of delays in registration, but recently registrations have appeared to go more smoothly. Housing cooperative members had also complained that they received scant attention from the Ministry, which is oriented primarily to serving its main constituency, agricultural cooperatives.

The Ministry, on the other hand, pointed to the checkered history of registered cooperatives (virtually all of them not housing cooperatives). In the immediate post-independence period numerous cooperatives were registered, often on the recommendation of local political authorities (sometimes made by telephone without further documentation). The upshot was that a large number of cooperatives were officially registered, but a substantial fraction of them were non-operational. The problem with this situation from the point of view of the Ministry is that such officially recognized entities may have some claim on resources, or may use their official registered status in some inappropriate way, or that the large number of non-functioning cooperatives may reflect poorly on the Ministry. These concerns seem quite reasonable, and any proposal to change the locus of regulatory control must address such concerns.

In reality, the Ministry of National Affairs, Employment Creation and Cooperatives has virtually delegated its authority to register housing cooperatives to the Local Authorities in which they will operate. Positive registration recommendations from the Local Authorities and from the Ministry's field representative are forwarded to the Ministry. Negative recommendations are not forwarded, so there is no direct way to determine demand for the creation of cooperatives from data in the hands of the Ministry. No uniform guidelines are issued by the Ministry of National Affairs, Employment Creation and Cooperatives for positive recommendations by Local Authorities.

Positive registration recommendations from the City of Harare are based upon three considerations: that all cooperative members are residents of Harare, that all cooperative members are enrolled on the SLQ, and that the cooperative has undergone a rudimentary financial overview. Since residence in Harare is required to join the SLQ in Harare, verification of the second point serves to verify the first. Officials report that they check the membership of the housing cooperative against the SLQ, member-by-member using each member's SLQ number. The rudimentary financial overview consists of a review of the cooperative's finance scheme, i.e., the level of contributions and the joining fee, but not its accumulated savings, to determine the adequacy of these for eventual house purchase. No specific guidelines have been set, but a judgement is made on a case-by-case basis.

### **5.3 A VARIETY OF LEGISLATIVE/BUREAUCRATIC PROBLEMS**

In this section various bureaucratic problems that affect the operation of housing cooperatives are considered. Examples are based upon the City of Harare.

#### **5.3.1 Limitations in Building Societies Act**

The Building Societies Act limits the role of Building Societies to construction of housing only. The Building Societies Act, as amended, does not permit Building Societies to finance infrastructure. It appears to be the policy of the Government of Zimbabwe that the Building Societies be permitted to participate in infrastructure finance. The appropriate amendment to the Building Societies Act has been introduced as the Building Societies Amendment Act, 1994 (see clause 3 and p.ii).

#### **5.3.2 Block Titles**

There appear to be no substantial problems with the granting of block titles to cooperatives, although such a block title is an innovation in Zimbabwe. In the companion report James McGregor presents documentation which accomplishes both the block title in a fashion satisfactory to Building Societies as collateral, and gives guidelines for a Constitution and Member's Agreement for a Housing Cooperative which individualizes the block title.

#### **5.3.3 The Two Levels of Review**

The land delivery system in Harare is complex and involves many actors (see Annex 3). As with any such complex process delays are common (see Exhibit 2). While there are numerous sources of delay throughout the system, a special focus of concern is the overlap of reviews done by City of Harare and Government of Zimbabwe officials.

Initial zoning (both use-zoning and more detailed zoning decision, e.g., lot size) and most re-zonings must undergo two (redundant) levels of review, one at the level of the Local Authority, and the other in the Department of Physical Planning, Ministry of Local Government, Rural and Urban Development. It is alleged that the review at the Ministry level is undertaken by lesser qualified personnel than at the level of the Local Authority (or at least this is claimed for the City of Harare). The Ministry on the other hand claims that its personnel are more qualified than those in Local Authorities other than Harare, and emphasize the need for careful planning.

#### **5.3.4 Delays in the Approval/Completion of Layouts**

The Department of Works of the City of Harare has some "bottom drawer" layouts prepared for some areas where housing cooperatives might locate. These layouts are not take-it-or-leave-it layouts, however some cooperative representatives may have misconstrued

**Exhibit 2**  
**Summary of Time Taken by the Process**

<b>Stage</b>	<b>Ideal Time</b>	<b>Practical Time</b>
1. Land Identification		
2. Land Acquisition		
In-House Finance	2 months	3 months
External Finance	5 months	9 months
3. Wet Land Study: Done Inhouse by D.O.W	3 months	4 1/2 months
Done by Private Soil-Engineers	3 months	6 months
4. Bulk Planning	1 week	1 month
5. Preparation of a Land Use Plan	2 months, 1 week	3 months, 1 week
6. Council Approval Government Approval	1 Month 1 month	1-2 months at least 2 months
7. Layout Enlargement for Land Surveying	3 days at most	1 week
8. Surveying of Land for 1,500 Stands	2 months	4 months
9. Surveyor General's Approval	at least not > 1 month	2-12 months
10. Design of Services and Tendering	4 months 2 1/2 months	7 months 4 months
11. Award of Contract	3 weeks	1 month, 1 week
12. Laying of Services	13 months	13-21 months
13. Final Costing	1 week	at least 2 weeks
14. Allocation of Serviced Stands		

Source: Adapted from A.N. Kinyungu, "The Institutional Framework for the Land Delivery System for Housing in Harare, Zimbabwe" Master's Thesis, Department of Rural and Urban Planning, University of Zimbabwe, 1992

them. In fact, there appears to be some flexibility in the layout if one has already been prepared, and even greater flexibility if no layout exists for a given tract. The Department of Works is particularly sensitive to the quality of infrastructure to be placed on the tract, and most particularly concerned with road widths, turnarounds, and surfacing of roads (in that order). These concerns are motivated by considerations of the costs associated with refuse collection.

The Department of Works will prepare layouts for a tract of land acquired by a housing cooperative, but personnel shortages in the Department suggest that there may be some delay in the preparation of such layouts. On the other hand layouts prepared privately for say a tract for which no layout exists must be submitted to the Department of Works for approval, a process which entails some delays, but in the ideal can be completed in three months.

### 5.3.5 Delays in the Surveyor Generals Office

Delays in the Surveyor Generals Office (the delay associated with the approval of results done by Chartered Surveyors) were noted in previous reports. It appears that the total number of Chartered Surveyors today is not much greater than it was in 1988, despite the fact that the Department of Surveying of the University of Zimbabwe graduates (in recent years) approximately 10 BSc-Surveyors per year (see Exhibit 3). It is said to take about one and a half years after graduation to gain the Chartered status. The profession of surveying is

<b>Exhibit 3</b> <b>Land Surveyors in Zimbabwe</b> <b>(as of March 15, 1994)</b>	
Number of Registered Land Surveyors (currently practicing in Zimbabwe)	38
Number of Registered Land Surveyors-in-Training	25
Number Not Yet Approved	2
Assistants	10
Source: Mr. R. Chigumete, Assistant Surveyor General, Department of the Surveyor-General	

a legal cartel in Zimbabwe, with prices fixed by law and enforced by a statutory disciplinary committee. There is also a statutory committee which regulates the standards of the profession, and thereby is in a position to control supply. Some of the graduates of the Department of Surveying of the University of Zimbabwe are said to have emigrated to South Africa or Botswana.

## 6. PROPOSED SOLUTIONS

In this section solutions are proposed to the problems outlined above, in the same order as they were discussed in the previous section. Several alternative solutions will be proposed to the land allocation problem. All of these proposed methods will address the problems identified above, but the solutions differ in their efficiency properties, and perhaps in their political acceptability.<sup>14</sup> All the solutions will enhance indigenous land ownership and the most far-reaching solutions will advance this purpose the most. Likewise, all of the solutions will increase housing affordability, again with the most far-reaching of the solutions having the most profound effect.

### 6.1 ALTERNATIVE SOLUTIONS TO THE LAND ALLOCATION PROBLEM

Three alternative solutions to the land allocation problem are outlined. These three solutions are:

1. Abolition of the SLQ and its replacement by a *managed competition* scheme of auctioning serviced stands;
2. A similar managed competition scheme for auctioning of serviced and unserviced stands;
3. A scheme to offer housing cooperatives all of the serviced or unserviced stands requested in a business plan which has undergone genuine underwriting.

#### 6.1.1 Auctioning Serviced Stands Under Managed Competition

The allocation of serviced stands is most acute problem in the City of Harare. In 1991-92, the last year for which data are available, only 205 stands were serviced, while the City currently has an inventory of 8,000 unserviced stands, and has upwards of 30,000 unserviced stands coming on line in the next few years.

The aversion of officials of the City of Harare to providing more serviced stands is related to the negative impact such provision has on the budget deficit. The root cause is that the price at which such stands are turned over to individuals or housing cooperatives is too low. The solution is to raise the price. This might be done in a variety of ways. The main proposal in this subsection is to determine the price by an auction among a specially qualified group of bidders. The *competition* component of the *managed competition* scheme

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<sup>14</sup>While auctions are controversial in some quarters, they take place in Zimbabwe. The City of Mutare used a modified auction/bidding system to allocate its most recent 1000 stands. The price of each stand was fixed, but they were allocated to people on the waiting list based on the amount of cash down that they were prepared to make. While the fixed prices ranged from Z\$13,000 to Z\$15,000 the cash down ranged from Z\$3,000 to Z\$7,000. The lower of these figures was the floor for cash down. Officials of the City of Mutare are said to be quite happy with the results, and there were no complaints. The reason for adopting this system is that people still cannot obtain mortgage finance and the City wanted to obtain the maximum cash out to invest in more stand development.

is the jockeying among the group of bidders; the *managed* component of the *managed competition* scheme is the determination of the qualifications of bidders, and other side-rules to regulate resales as specified below.

Low income individuals and entities representing the interests of low income individuals (e.g., housing coops), and other qualified entities are the qualified bidders. It would be necessary to certify individual's incomes for purposes of qualifying them for such an auction. A bureaucracy would be necessary to carry out such a certification and the auctioning itself, but this bureaucracy would undoubtedly be smaller than the one which presently administers the SLQ. Such qualification would have to be renewed annually if a bidder participated for more than one year (i.e., if the bidder was not successful in obtaining a stand in one year). It is anticipated that there would be many more bidders than stands available. Thus a bidder might be expected to renew qualifications for several years, say for five years, before receiving a stand (by making a successful bid). The proposed scheme is to be operated by each Local Authority, with the revenues to be retained at the local level to be used in a fashion described below. The process is to be overseen at the national level with guidelines issued to the Local Authorities.

Suppose for purposes of discussion that initially a large number of serviced stands are to be allocated at the same time, but that there are many fewer stands than qualified bidders, and in any allocation scheme, some bidders will be unsuccessful. These stands differ along a number of dimensions, e.g., location, whether groups of stands are contiguous, etc. Thus, it can be expected that the qualified bidders might in general put different values upon the different stands. Indeed, different qualified bidders might put different values on the same stand, expressing differences in their individual preferences about location, differences in their wealth, etc.

The process that is contemplated here is that the Local Authority will offer stands, either individually or in blocks, for auction, and that the stands will be allocated to the qualified bidder who offers and pays the highest price for the stands. The proceeds of the sale are then transferred to the Local Authority Housing Fund for the purpose of servicing more stands. (Who will service the stands is discussed below.) Successful bidders will be able to resell their stands immediately to another qualified bidder at any price agreeable between the two, but no resale to an unqualified bidder can take place for 10 years. After that time, the stand can be sold to anyone at a price agreeable between buyer and seller.

It should be noted that, unless the successful bidder makes a mistake, he is better off obtaining the stand and paying the price than otherwise although the price will be higher than the price currently charged by the City of Harare for serviced stands. If he were not made better off he would not have bid as much. Thus, the successful bidders are in general advantaged by the method, while at the same time competition assures that successful bidders are not "over-advantaged." Exhibit 4 gives an example of auctioning.

#### Exhibit 4 Auctioning Serviced Land: An Example

The example is based roughly upon the City of Harare, since the situation in Harare is of greatest interest to USAID. Assume that the Local Authority borrows enough from the National Housing Fund to initially service 1,000 stands. Suppose for convenience of calculation that there are 20,000 qualified bidders.

The 1,000 serviced stands are allocated to the Local Authority for purposes of distribution to qualified bidders according to rules outlined in the report. The Local Authority performs various functions.

First, the Local Authority makes a determination based upon professional advice of the proper and advantageous *bundling* of the stands. Typically, with as large a number of serviced stands as 1,000 some stands will be isolated, i.e., represent some kind of in-fill project, while other stands will form part of a larger group of stands on a contiguous parcel of land. The "proper and advantageous" bundling of the stands is taken to mean that bundling which will lead to the largest contribution being made to the Local Authority Housing Fund from the auction to be conducted among the qualified bidders.

Second, the Local Authority prepares descriptions of the property to be offered at auction, so that the descriptions are published (by some suitable means) to potential participants in the auction. The descriptions should contain the location of each stand or block of stands, so that potential bidders can examine the sites themselves, should they choose to do so. Publication should occur well in advance of the auction date, say 30 days, so all those interested have an opportunity to examine the records and the property.

There is overwhelming evidence that serviced stands auctioned in the fashion proposed under this scheme of *managed competition* would fetch more than the cost of servicing, probably initially several fold more. Suppose just for convenience that stands initially will fetch at auction 2.5 times the actual cost of servicing the stands.

Proceeds of the auction go first to repaying the National Housing Fund and the remainder goes to the Local Authority Housing Fund (which we assume initially started with zero). Now the Local Authority has enough in its own Housing Fund to service 1,500 stands. Suppose this is done within some short period, and the allocation of 1,500 serviced stands is available for distribution to the remaining qualified bidders. Of the original 20,000 qualified bidders (or their qualified representatives, e.g., housing coops) only 19,000 remain. (Assume for convenience of calculation that no new qualified bidders have joined the pool since the last auction.) Now there are 1,500 serviced stands available for the 19,000 bidders, and again the allocation will go to the bidders who offer and pay the highest prices. Suppose that the average price which these serviced stands fetch is exactly twice (rather than 2.5 times) the cost of servicing. (The increase in supply and reduction in demand will result in an ever decreasing factor by which price exceeds average cost.) The proceeds of the auction are now entirely turned over to the Local Authority Housing Fund.

Now the Fund contains enough to finance the servicing of 3,000 stands at once. Furthermore, the number of qualified bidders has been further reduced to 17,500 (again on the assumption that no new bidders join the ranks of the qualified before the next auction.) This process continues until there is no further need for the Local Authority to provide serviced stands.

#### 6.1.2 Objections to Auctions

Can it be justified to ask of the poor that they pay more than the cost of servicing for the serviced stand? First, consider that the poor are not alike, that there are the richer poor and the poorer poor, and most of the successful bidders, at least initially, in such auctions would be the richer poor. (That feature of housing cooperatives which leads them to consist of "mixes" of the richer poor and the poorer poor suggests that not all the serviced stands initially offered would be allocated to the richer poor.)

Second, the poor are not treated equitably under the present system. Some richer poor who have the financial means are allocated a serviced stand ahead of a poorer poor person who has priority on the SLQ but who does not have the financial means. This is to suggest that the proposed scheme is no more inequitable than the present system, in fact, less so, since the successful bidders' contributions go to improving opportunities for unsuccessful bidders, whereas that does not occur at present. As compensation to all unsuccessful bidders, the successful bidders' contribution goes toward the further production of serviced stands, which will enhance today's unsuccessful bidders opportunities of obtaining a stand tomorrow. Powerful economic forces are at work, which, over time, will lower the price of serviced stands, further enhancing the opportunities of today's unsuccessful bidder. (Annex 4 contains a discussion of other objections to the auction method.)

#### **Summary: Advantages of the Proposed Method**

**The proposed method increases the efficiency of the allocation of serviced stands, increases the supply of serviced stands over time, allows the scale economies in project size to be exploited and decreases the price of serviced stands over time. It addresses the main issue facing housing coops, because the problems of uncertain supply, inappropriate mix and low number of serviced stands are mitigated.**

#### **6.1.3 Who Should Service Stands?**

We assumed above that proceeds of an auction of serviced stands (after repaying the National Housing Fund) would go into a fund at the Local Authority level. If current practice is followed, it is the Local Authority which conducts the servicing, either itself directly, or the work is contracted-out to private servicers. (An exception is the servicing of some stands done by the Ministry of Public Construction and National Housing.) We further assumed that the sole use of funds was to service stands, and not to acquire and put forward unserviced stands. Both of these assumptions can be relaxed (in a variety of ways) which may enhance the efficiency of the system.

Consider first that only the Local Authority has access to the funds in its Local Authority Housing Fund, but that these funds may be used either for servicing stands or for bringing forth unserviced stands. (These unserviced stands may have different characteristics, i.e., they may be isolated or in contiguous blocks, have approved layouts or not, etc. The funds in the Local Authority Housing Fund can be used to upgrade some unserviced stands, e.g., to obtain approved layouts for them.) Suppose at a typical auction some serviced stands and some unserviced stands will be offered.

Consider now whether a housing cooperative should service its own stands. No across-the-board rule is possible here, because housing cooperatives are very diverse. In a December 1992 survey of housing cooperatives conducted by Housing People of Zimbabwe, membership ranged from 11 to 1,986. Clearly, some cooperatives are too small to achieve significant scale economies in servicing compared with traditional servicers.

Which cooperatives should conduct their own servicing? The answer to this question is one which can emerge in the course of an auction in which a large number of both serviced and unserviced stands are offered. That is to say, which cooperatives will service their own stands and which will rely on stands serviced by traditional servicers will be market-determined.

Will a housing cooperative be inclined to bid for a block of serviced stands or for a block of unserviced stands? One would expect that the maximum price to be bid for the unserviced stands is less than for the serviced stands - reflecting the value of servicing represented in the stands. Thus, we expect a price differential to appear between the prices of otherwise "equivalent" blocks of serviced and unserviced stands. Will the differential be enough to cause the housing cooperative to purchase the unserviced stands? That depends on the degree to which the housing cooperative will be efficient at servicing. Suppose the housing cooperative is very efficient at servicing compared with the local authority. Then, the differential in the prices of otherwise equivalent blocks of stands, which reflects the value of the Local Authorities servicing to individual bidders, will be too great and the housing cooperative will always be inclined to purchase unserviced stands and service the stands itself.

Indeed, there is no reason to have the auction open only to stands made available by the Local Authority. Suppose a housing cooperative which is an efficient servicer of stands purchases a large block of stands at one auction, services the stands, and begins construction, but has some stands left over. Then the left over serviced stands can be auctioned on consignment by the Local Authority. The cooperative then realizes some financial gain which will assist it in completing construction, and low income people still awaiting a serviced stand will benefit because the supply of serviced stands will increase.

A further possibility is that large blocks of unserviced stands could be purchased by any organization on the agreement that they be sold to the qualified bidders as serviced stands. Then specialized stand servicers, those most efficient at servicing, would bid the highest prices for unserviced stands, complete the servicing in the socially most efficient manner, and the stands would be sold to the qualified bidders. This method has the advantage that it exploits the efficiency gains in specialization in servicing. In general the answer to the question at the head of this section, "Who should service stands?" is: that entity which can undertake the servicing at the lowest cost. The method outlined above will allow that entity to emerge.

**Summary: Advantages of the Proposed Method**

The method represents a further improvement upon the results of the previously proposed method. In addition to the advantages of that method, the one proposed here also increases the efficiency in the supply of serviced stands by forcing (indirect) competition between Local Authority servicing, cooperative servicing and contractor servicing.

**6.1.4 Direct Allocation Based Upon Underwritten Business Plans**

If either of the above alternatives should prove to be too radical a departure from current practice, a third method is proposed. This is for the Local Authority to adopt as a policy simply filling the land allocation requests of any cooperative whose housing plan has undergone what has been described above as *genuine underwriting*. Some officials of the City of Harare would prefer to go "step-by-step" with this process, but such an approach will essentially kill the scale economies and also derail the possibility for genuine underwriting. Local Authorities must be in a position to commit to providing at least unserviced stands on the scale envisioned by plans which have passed the scrutiny of risk analysis. It is essential that *pro rata* allocation be avoided.

In the case of direct allocation the question of whether cooperatives should be allocated serviced or unserviced stands needs to be revisited. Clearly some cooperatives are too small to undertake servicing. However, supposing that the business plan of a cooperative which has undergone genuine underwriting contemplates servicing land, and the risks associated with this additional burden have been assessed by the Building society, cooperatives may be allocated unserviced land. As with actual house construction, it is anticipated that the servicing would actually be done by specialized services.

**Summary: Advantages of the Proposed Method**

This method does not achieve any of the efficiencies in allocation, nor does it increase the supply of serviced stands, nor provide funds to "upgrade" unserviced stands. However, it does address the uncertainty of supply of unserviced stands, and the problem of inappropriate mix of stands, and thereby allows some scale economies in house production and servicing of land to be exploited.

### **6.1.5 The Labor Mobility Issue**

Above it was mentioned that the SLQ reduced labor mobility and thereby reduced employment and the Gross Domestic Product. The schemes outlined above do not address this feature. It is fairly straightforward to modify the first two schemes to mitigate their adverse effects on labor mobility. It is more difficult to modify the third scheme.

To modify either of the first two schemes, all that is necessary is that the qualified bidders for the auction in any Local Authority can include low income individuals from any locality. In other words, if one resides in Bulawayo, but desire to move to Harare, so long as one meets the income certification requirement one can bid on either serviced or unserviced land (or join a housing cooperative which will bid on one's behalf) in Harare. To consider the example introduced earlier, suppose a person is offered an attractive wage in Harare, and that the wage (and therefore the increase in Gross Domestic Product) is very great. Then it is worthwhile for the person to go to the Harare auction, and bid enough to get either a serviced or unserviced stand and sell his stand in Bulawayo (to a qualified bidder).

To modify the third scheme is not so straightforward since the most problematic element for realizing efficiency gains, the existence of a queue, is still a feature of that scheme. To mitigate the effects of the queue on labor mobility, it should be permitted for persons who wish to move from one Local Authority to another to purchase places on the queue from those who have a place on the queue, and are willing to go to the end of the queue or to a lower place on the queue. There may be such individuals, e.g., individuals high on the queue who are repeatedly passed over because they cannot finance the construction of a house. Such individuals might be willing to trade their current place on the queue for a lower place on the queue, and might be able to gain enough on the transaction to finance the construction of a house when their turn does come.

## **6.2 MOVING THE LOCUS OF REGULATORY CONTROL OF HOUSING COOPERATIVES FROM MINISTERIAL FIAT TO MARKET-BASED INSTITUTIONS**

Presently, housing cooperatives are regulated by administrative fiat. There are two main regulatory devices. The primary regulatory control is the registration requirement. The Ministry of National Affairs, Employment Creation and Cooperatives presently delegates its authority to regulate housing cooperatives to Local Authorities (although uniform criteria do not seem to be applied nationwide), who in turn apply some kind of rudimentary financial soundness rule-of-thumb. The secondary regulatory control consists of the land allocation rules for cooperatives, like those described above for the City of Harare.

In place of this Ministry/Local Authority-based control, it is proposed to change the locus of the financial soundness regulation to market-based institutions. Land availability would be considered by the market-based institutions, under one of the schemes proposed

above for reform of the land allocation system. The basic rationale of the system proposed is that market-based financial institutions have, first, the technical expertise to undertake appropriate financial analysis, and second, properly structured, market-based institutions have an incentive to correctly regulate housing cooperatives.

The key element which must be a feature of this scheme is that the market-based institutions have an incentive to correctly regulate housing cooperatives. Such incentives do not arise solely from the fact that these institutions are market-based. Rather the key element is that the market-based financial institutions must have some of their own money at risk in the venture. Hence, there can be no consideration of fully guaranteed loans. Such loan guarantees would destroy the incentives market-based institutions have to exercise due caution in advancing a project.

It should also be mentioned that there are indications that the market value of most low income projects is greater than their assessed value. This might give Building Societies an incentive to approve even unworthy projects, since the "guarantee" is provided by the difference between assessed value and market value. But the difference is not thought to be too great on uncompleted projects, and in any case is thought to rise sharply upon project completion. Since there are other costs in the event of default, it would appear that Building Societies do not have a great incentive to have projects fail. With financial sector desegmentation, this will become less of a concern, since the increased competition should force a convergence between assessed value and market value.

Presently, the Ministry of National Affairs, Employment Creation and Cooperatives in conjunction with Local Authorities has put in place a system of administrative control motivated by a concern about the stability of cooperatives, as documented above. The proposal here is to replace the financial soundness component of the Ministry's regulation with one based upon market based financial institutions. Thus, the Ministry would no longer consider financial soundness as a criterion for registration (or for that matter also not consider the amount of land available from the Local Authority, since we suppose one of the reforms of the land allocation system above has been undertaken).

The regulatory activity of the Ministry of National Affairs, Employment Creation and Cooperatives that is proposed here is activity which fits well with the Ministry's regulation and activities with non-housing cooperatives. The Ministry should continue and even intensify its educational and training activities among housing cooperative members. It would also have two specific tasks in housing cooperative regulation.

## **Recommended Regulatory Activities of the Ministry of National Affairs, Employment Creation and Cooperatives**

**1. Enforcement of *truth in advertising*:** Cooperative members need to be protected from potential abuses by cooperatives over such matters as unclear members agreements, by-laws, etc. The Ministry can address such concerns by developing and encouraging the adoption of model by-laws and members agreements. In particular, the Ministry should make sure that each cooperative member knows that his/her savings will not be liquid for a period of time in the housing cooperative, and each member should be aware of the terms under which one's contribution will be returned.

**2. Enforcement of anti-trust provisions:** The system outlined above contemplates competition among cooperatives. Some anti-competitive devices, e.g., exclusive territories, are detrimental to such competition. Therefore, the Ministry should develop guidelines of what constitutes anti-competitive activity and develop appropriate regulations enforcement to combat anti-competitive practices.

### **6.3 SOLUTIONS TO THE LEGISLATIVE/BUREAUCRATIC PROBLEMS**

Below some solutions are proposed to the bureaucratic problems mentioned earlier.

#### **6.3.1 Limitations in Building Societies Act**

Although the Building Societies Act appears to limit building societies to financing the construction of housing only and not servicing, it also appears that the societies in fact undertake such servicing financing. The proposal is to clarify the law so that Building Societies participation in financing of servicing in conjunction with house construction and their financing of just servicing is fully legal. The financial sector desegmentation program also ought to broaden the base of organizations which can undertake financing of servicing, either in conjunction with construction or not. As noted above the proposed Building Societies Amendment Act, 1994 addresses this issue.

#### **6.3.2 Block Titles**

The problem has been fully addressed by James McGregor in the companion report.

### **6.3.3 Two Levels of Review of Routine Zoning and Re-zoning Questions**

The plan-by-plan Ministry of Local Government, Rural and Urban Development review should be eliminated in the larger Local Authorities, which have their own staff planners. The Ministry can check compliance with its policies on an audit basis. Ministry detailed review should be retained in the smaller cities. The advantages of the recommendation include a reduced work load for the overburdened Ministry.

### **6.3.4 Delays in the Approval/Completion of Layouts**

There should be a *fast track* for approvals, and a special fast-track fee, which fee will go toward the hiring of planners and other specialists by the Department of Works to supplement their usual work force, and who would work only on the *fast track* approval. The proposal is to create the equivalent of "business class" and "coach class" for the approval process. The advantage of the recommendation is that it would increase the speed of processing on critical projects.

The proposed plan will have to operate in such a fashion that the consulting fast track workers do not make too much money from the scheme. The work needs to be spread out among several consultants. Otherwise, the Department of Works' own employees (who are still under the regimented government salary structure) will see the advantage of quitting their permanent positions and becoming consultants.

### **6.3.5 Delays in the SG Office**

The recommended short run solution is the same kind of *fast track* system as proposed above. The recommended long run proposal is to remove the legal basis for the Chartered Surveyor cartel.

**Annex 1**  
**Housing Cooperatives: Membership, Stand Allocation and Savings**  
**(June 1992 - February 1994)**

Name of Society	Town	Regis. Date	Membership			Stands Allocated			Stands Fully Developed			Savings		
			6/92	12/92	2/94	6/92	12/92	2/94	6/92	12/92	2/94	6/92	12/92	2/94
Kambuzuma	Harare	8/7/93	74	73	74	80	53u	80u	0	0	2	230	190	284
Zvakatanga Sekuseka	Harare	30/7/92	190	212	240	56	56u, 2s	240u	0	2	na	200	204	39
Tube and Pipe	Harare	17/11/92	40	41	38	10	10	35s	10	10	10	340	9	630
Capri	Harare	21/03/88	48	75	46	40	40s	40s	30	30	34	23	30	24
Cotton Printers	Bulawayo	24/06/87	na	378	na	na	187s	na	na	98	na	na	6	na
Highfield	Harare	28/08/91	200	200	200	133	133u	230u	0	0	0	na	895	n
Wasara Wasara	Harare	05/08/92	75	85	68	10	10s	20s	na	10	10	390	357	390
Rutendo	Harare	31/07/92	65	65	65	0	0	3s	0	0	3	137	123	146
Takura	Harare	28/02/90	33	33	na	33	33s	na	33	5	na	na	10	na
Tashinga	Harare	10/08/92	229	231	230	221	221u	226u	0	0	0	834	787	11,102
Kugarika Kushinga	Harare	10/10/90	2000	1986	2000	500	500u, 20s	342u	0	0	52	5250	4500	3000
Mufakose	Harare	05/08/92	482	482	432	10	10s	69s	10	na	10	740	na	100
Mighty Birds	Harare	24/06/93	21	23	21	0	0	11s	0	0	0	42	21	60
Masvingo - Pepukai	Masvingo	29/10/93	na	124	na	na	13s	na	na	1	na	na	84	na
ZRP Harare	Harare	14/06/93	125	112	125	0	0	15s	0	0	0	604	80	165
Kutambura Domestic	Harare	08/04/93	241	450	241	0	0	10s	0	0	0	384	363	33
Mafaro	Harare	21/10/91	450	485	450	480	0	485	0	1	na	1340	241	350
Tatambura Nekulodger	Chitungwiza	15/09/93	na	32	na	na	na	na	na	na	na	na	na	na
Warren Park	Harare	07/08/92	210	210	210	24	10s	34u	0	na	0	890	na	80
Budiriro	Harare	26/05/93	18	17	18	10	10s	14s	6	na	12	82	na	na
Chiedza	Harare	06/08/92	10	14	na	10	na	na	na	na	na	na	na	na
Glen Norah	Harare	14/08/92	17	16	17	0	0	3s	0	0	2	153	55	152
Gunhill	Harare	29/09/93	na	na	95	na	na	na	na	na	na	na	na	na

see notes, page A-3

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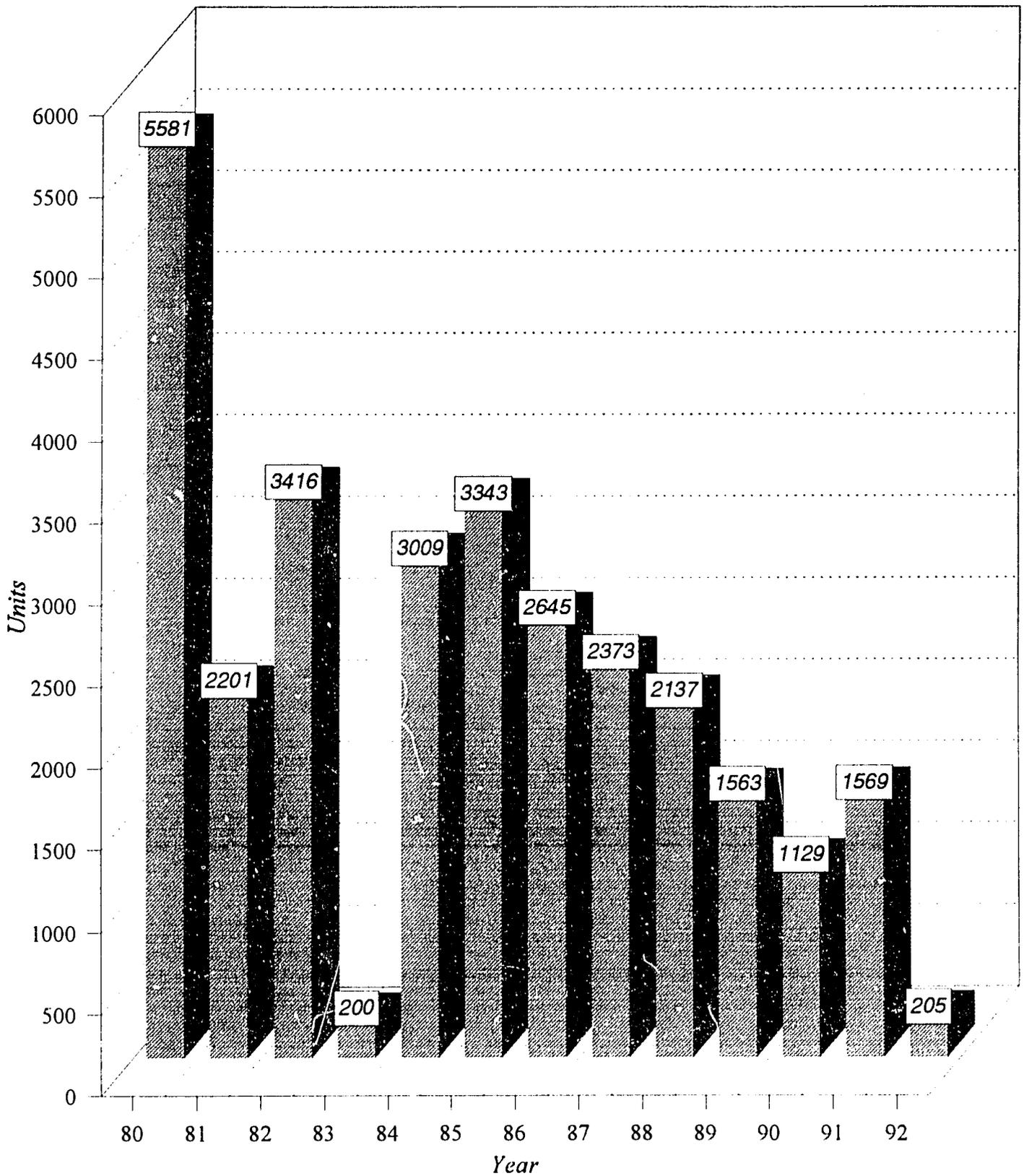
Name of Society	Town	Regis. Date	Membership			Stands Allocated			Stands Fully Developed			Savings		
			6/92	12/92	2/94	6/92	12/92	2/94	6/92	12/92	2/94	6/92	12/92	2/94
Progressive	Harare	19/10/93	11	na	12	0	na	2s	0	na	0	90	na	91
Batanai	Harare	21/01/93	12	na	10	0	na	3s	0	na	0	113	na	100
Belvedere	Harare	01/04/93	na	na	na	na	na	na	na	na	na	na	na	na
Gwanda	Gwanda	20/07/92	na	na	na	na	na	na	na	na	na	na	na	na
Progress	Harare	06/08/92	67	49	45	10	105	225	3	2	9	na	105	110
Trust	Harare	02/08/93	na	na	33	na	na	0	na	na	0	na	na	122
United	Harare	20/08/93	na	na	22	na	na	2s	na	na	2	na	na	89
Go For It	Marondera	08/10/93	na	na	na	na	na	na	na	na	na	na	na	na
Kushingirira Chiranbahuyo	Chitungwiza	05/10/93	na	na	na	na	na	na	na	na	na	na	na	na
Zviitire	Kadoma	24/02/94	na	na	na	na	na	na	na	na	na	na	na	na
Kuwadzana	na	nr	13	13	na	0	na	na	0	na	na	55	na	na
Piggot Mashew-BYO	na	nr	na	11	na	na	26s	na	na	0	na	na	31	na
MBIZO- KWEKWE	na	nr	na	106	na	na	106u	na	na	0	na	na	46	na
Cone Textiles	na	nr	na	1275	na	na	531u	na	na	0	na	na	1050	na
Kushinga Ruwa Rehab	na	nr	na	12	na	na	0	na	na	0	na	na	0	na
Kundayi	na	nr	na	na	15	na	na	0	na	na	0	na	na	38
Fungai-Shingai- Mutaro	na	nr	na	12	na	na	na	0	na	na	0	na	na	5
Tsungai	na	nr	na	na	50	na	na	0	na	na	0	na	na	5
Kushinga	na	nr	na	na	78	na	na	0	na	na	0	na	na	7
Perseverance	na	nr	na	na	20	na	na	0	na	na	0	na	na	20
Lodger's Plight	na	nr	na	na	10	na	na	0	na	na	0	na	na	5
Epworth	na	nr	na	na	na	na	na	0	na	na	0	na	na	10

**LEGEND:** na = not available, nr = not registered as of February 1994, s = serviced, u = unserviced

**SOURCES:** Data on registration of housing cooperatives from Ministry of National Affairs Employment Creation and Cooperatives.  
Data for June 1992 from City of Harare, *Annual Report of the Director of Housing and Community Services*, year ended 30.6.92.  
Data for december 1992 from Barbra Kohlo, *Survey of Housing Cooperatives in Zimbabwe, Housing People of Zimbabwe*.  
Data for February 1994 from City of Harare, minutes of the meeting to discuss housing cooperatives held on 16 February 1994.

## Annex 2

### House/Stand Made Available for Allocation



Source: City of Harare, Annual Report of the Director of Housing and Community Services, Year ended June 30, 1992, p. 3a

## Annex 3

### **The Land Delivery System in Harare: Internal and External Linkages**

The Harare City Council was created under the **Urban Councils Act (UCA)** which also stipulates the duties and obligations of local authorities. In its capacity as a local authority, the Harare City Council derives its powers and functions mainly from the **UCA** and from the **Regional, Town and Country Planning Act (RTCPC)** of 1976.

### **The City of Harare Organizational Structure and Internal Linkages with Regard to Land Delivery.**

**Harare City Council Management Committees.** Harare City Council has **six committees** which meet **twice every month** so as to make resolutions to council. They have different days of meeting due to the fact that each councillor is a member of at least two committees. Resolutions passed by the committees are discussed during the Full Council meeting on the last Thursday of every month.

**Finance and Development Committee** deals with matters relating to raising of revenue and expenditure. It makes **resolutions** to Council on matters relating to finance. It also makes available funds for servicing of land for residential purposes, and also gives resolutions to council as to the most suitable form of **external finance**.

**Town Planning and Works Committee** deals with all development projects on matters relating to zoning, planning, development control, and land-use planning. It advises Council accordingly.

**Limitations of committees.** Generally, no committee has the power to make final decision on any matter. Such final decision should only be made by Full Council.

The departments which are involved in the provision of land and housing within the City of Harare are the following:

#### **Department of Works (DOW):**

**Planning and Development Division:** The division is divided into planning and development control, forward planning and land surveying. Activities of the planning section include: Identification of land for development purposes; preparation of and designing of layout plans for estate development; and dealing with matters relating to zoning, subdivision and consolidation and change of use.

**Engineering Division:** The Special Projects Section is in charge of designing and providing roads and stormwater drainage as well as water and sewerage in the high density areas. Wet land studies are carried out by the Materials Laboratory in this

division. These studies are important because they indicate the types of soils and their suitability for different types of development. The Highways and Works section is in charge of providing the above services to the low density areas.

**The Department of Housing and Community Services:** Housing and Estates division allocates serviced stands and/or completed housing to those on the serviced land queue.

**The Town Clerk's Department:**

**The City Valuation and Estates Management Division.** This division is involved in any decisions made with regard to land acquisition of State or privately owned land. It is also the one in charge of selling unserviced council land to private developers for commercial, industrial and residential purposes. It also carries out the final decision with regard to the value of serviced stands and therefore advises the housing division on prices of stands. This division will provide essential information with regard to the supply of serviced land, unserviced land, land that has been acquired for residential development over time, the conditions, if any, that are given for those getting unserviced stands.

**External Linkages and Institutions.**

**Ministry of Local Government, Rural and Urban Development (MLGRUD).** Linkages with this ministry are through the Department of Physical Planning, (DPP), the Urban Councils Section, (UCS), and the Minister. DPP approves city layout plans, comments on matters of subdivision and consolidation, and zoning and advises the Minister accordingly.

It therefore deals with matters relating to land-use planning policies. The UCS is in charge of preparing the statutory instruments relating to Borrowing Powers and acquisition of land on the urban fringe. It must also thoroughly scrutinize the accounts of council to ensure its capabilities to service loans.

**Ministry of Public Construction and National Housing (MPCNH)** is linked on matters related to national policies and strategies on housing such as on residential space standards, provision of sites and services and homeownership.

**Surveyor General's Department:** This is the central controlling point of land and all surveys must be checked and scrutinized by the Surveyor General to ensure correctness.

**Ministry of Finance, Economic Planning and Development:** This Ministry is only involved when the council must acquire external finance in the form of issuing stocks, bills, bonds or debentures in order to create an estates account for estate development.

**Parastatals:** are involved in the preparation of land use plans. Z.E.S.A. (Zimbabwe Electricity Supply authority) and P.T.C. (Posts and Tele-Communications) are required to give comments on layout plans so as to ensure that their service lines and servitudes are not tampered with.

**The Private Sector:** The Harare City Council interacts with this sector in matters of finance, land acquisition, consultancy, contracting to carry out various services related to land development, provision of construction and building materials as well as equipment.

Source: Adapted from A.N. Kinyungu "The Institutional Framework for the Land Delivery System for Housing in Harare, Zimbabwe" Master's Thesis Department of Rural and Urban Planning, University of Zimbabwe, 1992.

## Annex 4

### Auctioning Stands: Objections and Replies

1. The proposed auctioning scheme disadvantages the poor, since they always pay more than the cost of servicing for stands, even though the premium decreases with time.

REPLY: To gauge whether the poor are disadvantaged by a particular scheme, one needs to consider the alternative. Suppose the alternative is something like the present system, with a fixed price, set at the average cost of servicing. Suppose even that the true average cost is recovered, so that upon the initial borrowing, say for 1000 stands, exactly the same number of stands can be serviced on the next round. On the second round of the scheme under consideration, another 1000 stands are allocated from the SLQ. This compares with 1,500 stands from the *managed competition* scheme. Of course, the sale prices of the 1,500 stands from the managed competition scheme are greater than the fixed price from the SLQ scheme. But the poor, by the fact that they are willing to pay the greater price (when in fact they always have the option of refusing, by not making a bid) are telling us that they prefer that more stands are available at a higher price, to the situation where fewer stands are available at a lower price. The managed competition scheme has been "revealed to be preferred" by the target clients. Actually this is indicated by the fact that current resales to qualified buyers occur at a substantial premium.

2. Since the price of serviced stands in the managed competition scheme is higher than under the current scheme, housing will be less affordable, thus defeating the purpose of the scheme.

REPLY: There are three parts to the reply to this criticism. First, consider what genuine *affordability* consists in. It considers not only the outlays on a particular house, but the alternatives to making those outlays. The focus of the program on affordable housing arises because so many of the poor reside in *non-affordable* housing. Under the present scheme, what is considered affordable housing is produced in such low quantities, that most poor people face the prospect of residing in their current and very *unaffordable* circumstances for a very long time. The affordability criterion should properly include not only affordability to those housed by the program, but also the lack of affordability imposed upon those who fail to be housed for a long time by the program.

Second, land cost is but one expenditure, and not the most significant one in producing housing. It is always possible by altering design, materials or standards, to decrease expenditure on another component of the house. The serviced land constraint is the most binding of the constraints facing those who desire to increase low cost housing in Zimbabwe.

Third, consider the most striking feature of the present system of provision of low income housing, namely, the remarkably small number of serviced stands provided. One of

the features referred to above concerning housing cooperatives under the present scheme is that they may be better positioned than other entities to exploit scale economies in the production of housing. These scale economies concern how the average cost of producing housing depends on the number of houses that are produced at the same time. But the construction techniques used to produce housing in Zimbabwe exploit almost none of the scale economies inherent in housing production. There are a number of factors which contribute to this, but the most significant is that very large tracts of service stands on contiguous parcels are not available at one time.

3. While it is clear that an increase in serviced stand prices is necessary, it is better to accomplish this by periodically adjusting the fixed price, either by correcting the recovery formula, or even by incorporating a premium into the price so as to make accumulations for increased servicing, but keep the price fixed (with periodic adjustments), and below what would be the managed competition price. Such a scheme would result in the "best of both worlds" - increased stands and enhanced affordability.

REPLY: The proposal is to mix two kinds of regulation, regulation by competition, as envisioned in the scheme of managed competition and regulation by administrative authority, as is done at present, albeit with adjustments to correct for current problems. Proposals for managed competition inherently involve administrative regulation, as indeed does the present proposal, with its qualification of bidders and restrictions on resales. But proposals for managed competition are also extremely sensitive to the type of administrative regulation employed. In determining the appropriate "mix" of regulation by competition and regulation by administrative fiat, the essential element to examine is how the combined regulations operate at the level of incentives. One of the advantageous by-products of the scheme of managed competition is that which tracts of land to develop is straight-forward and thus it is easier to satisfy more fully and more rapidly the true desires of the low income clients, at the same time as maximally increasing the capacity of the Local Authority Housing Fund. With any of the fixed price schemes this is not possible. Any selection of plots achieves the same contribution to the Housing Fund. The periodic adjustment of prices serves only to insure that the fund does not get depleted or continues to accrue funds at a given rate, which in any case is a lower rate than for the managed competition scheme.

4. The difficulty of the unpredictability of the supply of stands is a serious one, but the proposed solution only substitutes the unpredictability of the auction price for the former unpredictability. The functioning of the underwriting scheme will be no easier under the proposed method of "managed competition."

REPLY: It is true that under the scheme of managed competition the price of serviced stands is not fixed, but it is fairly predictable. In fact, real estate companies in market economies routinely operate in an environment where prices can change. Such prices routinely do change, and sometimes the inability to predict the price accurately causes some problems. On the whole, though, prices are fairly predictable for professionals closely associated with the industry. A reasonably accurate estimate could be made, for example, of

the prices on the initial auction under the proposed scheme based upon asking prices for stands in high density neighborhoods as currently advertised in the classified advertising section of the newspaper. Within a short period of time, accurate prediction of auction prices should be possible based on experience from earlier auctions.

5. Won't bidders become confused or overenthusiastic and bid too much?

REPLY: Some individuals may have a tendency to bid too much. There are two safe-guards in such a situation. Since the property is immediately resalable at any price agreeable between qualified buyer and seller, the loss on any such mistake is limited - the buyer is not "stuck" with the property indefinitely. Secondly, prospective buyers may engage specialized counselors (actually housing cooperatives perform this role for their members in the course of things) to bid on their behalf. If it is found necessary, other methods can be engaged. Two possibilities are: a government sponsored consumer advocacy agency which will counsel bidders, or a "regret" period - say a two-day period during which a successful bidder can costlessly back out of the agreement without prejudice.

## Annex 5 List of Persons Met

### March 7, 1994

Mike Enders, USAID/Zimbabwe  
James McGregor, Consultant, Abt Associates Inc.  
Thomas Chiramba, Housing Program Advisor, USAID/Zimbabwe  
Killian Munzwa, Executive Director, Housing People of Zimbabwe

### March 7, 1994

Killian Munzwa, Executive Director, Housing People of Zimbabwe  
Doubles Masunda, Secretary of Mafaro Coop and Sect of Harare Task Force  
Lovemore Amidhu, Member, Management Committee, Marondera Coop and First Secretary of National Task Force  
Phanell Mkuze, Member of Management Committee, Highfield Coop  
Munhenga Barigane, Member of Management Committee, Tashinga Coop

### March 7, 1994

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Killian Munzwa, Executive Director, Housing People of Zimbabwe  
James McGregor, Consultant, Abt Associates Inc.  
Chapeta Bustard, Chairman, K/K Coop  
Richard Tonguy, Secretary, K/K Coop  
Mungony, Treasurer, K/K Coop

### March 8, 1994

Thomas Chiramba, USAID/Zimbabwe  
C. B. (Barry) Evans, Department of Works, City of Harare  
N. A. Kinyungu, Department of Valuation, City of Harare  
N. Motsi, City Treasurer  
Killian Munzwa, Executive Director, Housing People of Zimbabwe  
P. Mbano, Research Officer, Department of Housing and Community Services, City of Harare  
T. Mungate, Coops Coordinator, Department of Housing and Community Services, City of Harare  
A. D. Folokwe, Asst. Director of Housing, Department of Housing and Community Services, City of Harare

**March 8, 1994**

Thomas Chiramba, USAID/Zimbabwe  
Tafangombe, Under Secretary for Housing  
Makuwe, Administrative Officer for Housing  
Killian Munzwa, Executive Director, Housing People of Zimbabwe

**March 9, 1994**

Thomas Chiramba, USAID/Zimbabwe  
Shoko, Training  
Chivhu, Administrative Officer  
Mangoro, Registrar of Coops  
Matanyaire, Deputy Permanent Secretary (Operations)  
Killian Munzwa, Executive Director, Housing People of Zimbabwe

**March 9, 1994**

Thomas Chiramba, USAID/Zimbabwe  
R. Chigumete, Assistant Surveyor-General  
Munhaiwa, Deputy Registrar of Deeds

**March 10, 1994**

Thomas Chiramba, USAID/Zimbabwe  
Chinzou, Town Planner  
Mbiriri, Deputy Director, Department of Physical Planning  
Sheba Chitekwe, Program Officer, Housing People of Zimbabwe

**March 10, 1994**

Thomas Chiramba, USAID/Zimbabwe  
Sheba Chitekwe, Program Officer, Housing People of Zimbabwe  
Chitando, Under Sect, Urban State Land Office  
Chivore, Asst. Sect, Urban State Land Office

**March 10, 1994**

Thomas Chiramba, USAID/Zimbabwe  
Sheba Chitekwe, Program Officer, Housing People of Zimbabwe  
Manett Senteni Mpfu, Registrar of Banks, Financial Institutions, Building Societies and  
Stock Exchange  
Stanley Meda, Registrar of Pension and Provident Funds  
Mushayandevu, Senior Administrative Officer

**March 15, 1994**

James McGregor, Abt Associates Inc.  
Killian Munzwa, Executive Director, Housing People of Zimbabwe  
Ted Galante, MMS Investments  
Silva, MMS Investments

**March 16, 1994**

Ted Morse, Mission Director, USAID/Zimbabwe  
James McGregor, Abt Associates Inc.  
Thomas Chiramba, Housing Program Advisor, USAID/Zimbabwe  
Mike Enders, USAID/Zimbabwe

**March 16, 1994**

A. N. Kinyungu, Department of Valuation, City of Harare  
Thomas Chiramba, Housing Program Advisor, USAID/Zimbabwe

**March 17, 1994**

Masanzu, Deputy Director, Dept of Housing and Community Services, City of Harare  
P. Mbano, Research Officer, Department of Housing and Community Services, City of Harare  
T. Mungate, Coops Coordinator, Department of Housing and Community Services, City of Harare  
Thomas Chiramba, Housing Program Officer, USAID/Zimbabwe

**March 17, 1994**

Thomas Chiramba, Housing Program Officer, USAID/Zimbabwe  
C. B. Evans, Department of Works, City of Harare  
William Mabika, Department of Works, City of Harare