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HOUSING ASSESSMENT

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The Malawi Railway Restructuring Project

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LIST OF ACRONYMS

ADMARC	Agricultural Development and Marketing Company
GOM	Government of Malawi
MR	Malawi Railways
NBS	New Building Society
NMR	New Malawi Railways
NPA	Non-Project Assistance

CURRENCY

US\$1.00 = 7.23 Malawi Kwacha (July 1994)

HOUSING ASSESSMENT

MALAWI RAILWAY RESTRUCTURING PROJECT

1. INTRODUCTION

1.1 Background. Malawi Railways is undergoing a process of restructuring with the objective of becoming more efficient, viable, and commercially oriented. One aspect of the Railway's condition that merits special attention is housing. On the one hand, the Railway owns about 2,400 housing units; in the interests of divesting itself of non-operational assets, the Railway must plan on the disposition of this housing stock. On the other hand, the provision of housing assistance (an allowance or a house) is a necessary part of a compensation package for employees. Complicating matters, the question arises as to what housing benefits should be included in a retrenchment package for those employees deemed redundant to a newly restructured Railway.

1.2 Scope of Work. The World Bank and the U.S. Agency for International Development (USAID) are supporting the Malawi Railways' restructuring effort by providing financial and technical assistance. The consultant was asked to investigate the key issues related to the housing stock currently owned and managed by the Malawi Railways (MR), to explore options for a housing scheme at MR/NMR, and to outline a program for the disposal of MR housing stock.

1.3 Methodology. The consultant spent two weeks in Malawi, based primarily at MR headquarters in Limbe. Meetings were held with MR management and staff and with the Committee for Staff House Ownership Scheme. MR housing sites -- scattered along the rail line and in large estates -- were visited. In addition, the consultant reviewed numerous MR documents and data sources, met with USAID and World Bank staff, and other institutions involved in the provision of housing.

1.4 Report Structure. Section 2 that follows presents the current housing situation of the Malawi Railways -- the employees, the MR housing stock and its costs, and the MR policies related to housing. Section 3 identifies, defines, and discusses the several issues of vital concern in the consideration of the disposition of the housing stock, and in the implementation of a home ownership scheme. The framework for a housing plan is proposed in Section 4. Finally, Section 5 suggests next steps and actions.

2. HOUSING FOR EMPLOYEES OF THE MALAWI RAILWAYS: THE CURRENT SITUATION

2.1 Malawi Railways Employees. The Malawi Railways has reduced in size from about 5,000 employees at its peak to about 2,100 employees at present. During 1993-94, 1,200 employees left due to retrenchment and natural attrition, and it is expected that an additional 1,000 will be retrenched by April 1995, bringing the total employees of the New Malawi Railways to about 1,100. These numbers are central to planning housing assistance for retrenched employees and for the permanent workforce.

Malawi Railways provides housing assistance to all its employees. Those residing in housing owned or leased by MR, whether or not paying monthly rents to MR, represent about 69 percent of employees (1,458). The remaining 31 percent (642) receive a housing allowance¹ of 15 percent of salary to be used as the employee wishes. These employees live on their own on the limited private housing market, live with other family members, or live in self-help housing, that which they have built themselves on MR land and with MR encouragement (by MR provision of a week's paid leave to the employee).

2.2 Malawi Railways Housing Stock. The MR housing stock of about 2,400 units is in estates with up to 1,000 units, in small groupings in the immediate areas of railway stations, and scattered along tracks and sidings throughout the rail system. Except for the traditional housing for MR managers, located in Limbe, the quality of MR housing is generally poor. Units are poorly constructed, minimally maintained, and/or lack adequate access to potable water and sewerage.²

Some 200 MR housing units are reserved for the 200 MR positions that are regarded as essential to train operations according to function and location. Although these positions and staff that hold them are not formally identified, they generally include management, locomotive drivers, station masters, chief permanent way inspectors, and track maintenance personnel.

As shown on Table 1 below, MR housing is grouped by type, for each of which an employee in a given grade is eligible, if a unit of that type is available in a suitable location. Types A, B, and C are the poorest quality units and are intended for employees in grades S10 and below. The bulk of MR housing are Type C, and most of those are located in a single estate, Mpingwe, near Limbe. The largest three-bedroom units and the three units reserved for the most senior MR managers are located at Limbe.

¹ The MR housing allowance went into effect only recently, and is payable retroactive to October 1, 1993 to all MR employees at that time, including those that have since been retrenched.

² In the context of Malawi's colonial history, it is interesting to note that the terminology used prior to independence to identify housing suggested a qualitative condition still very much in evidence -- African Compound, Indian Quarters, and European Housing.

Table 1. Number of Malawi Railway Housing Units, by Type and Employee Grade

Unit Type	Employee Grade	Number of Units
A	W1, W2, W3	178
B	S11, T2	265
C	S10, T1	1,061
Platelayers		9
D	S9, SC3	174
E	S8, SC2	117
F	S5, S6, S7, SC1	145
S	S1, S2, S3, S4	51
MGT	M1, M2, M3	3
TOTAL UNITS		2,392

2.3 Housing Conditions and Values. A brief review of several MR housing sites suggests the kinds of issues faced in the development of a new housing scheme. About 24 employees and families are housed rent-free on MR land at Mudi Gangcamp in Blantyre. There are four Type A units to a building, each unit with its separate open air kitchen in the rear. Six such buildings at this site house track maintenance personnel, one of the lowest grades of MR workers. Waste from the area and its pit latrines drain into a stream below, where it contributes to the pollution of a larger stream.

Track maintenance and station employees reside rent-free in Type B and D units at Mudi Camp. Water is provided by a central standpipe; a communal toilet serves the families. Small animal corrals and growing plots are community owned.

At Chirimba Gangcamp, track maintenance workers reside rent-free in 30-year-old, detached one-room, brick units with tin roofs. The area has communal outhouses and standpipes. On adjacent land owned by MR, employees have constructed their own thatched roof and brick units over the past five to ten years; these employees, mostly key personnel, were provided land and time to build their own units.

Platelayers and track supervisors typically reside in areas located every seven to ten kilometers along the track. In Chilaweni, MR collects a nominal rent from employees. Reliable and hygienic well water is available.

The Maleule housing serves the stationmaster and staff (key personnel such as the ticket taker and train operations personnel), MR2 and MR3 employees, and platelayers as well. Some self-help housing has been constructed here.

Passenger trains no longer serve Lirangwe; freight service has been reduced. Many units -- self-help, Types A and D -- are vacant as a result of recent retrenchment.

Namatunu is a relatively busy station; few employees have been retrenched. Housing with communal standpipes is provided for MR4 station masters.

Mpingwe, located near Limbe, is by far the largest MR housing estate. Constructed mostly in the mid-1940s, its 7,000 residents live mostly in 800 brick units. Some unclassified MR laborers live in dormitory housing. Water and sanitation facilities are shared. Sets of four units surround a pit latrine, which regularly overloads and must be relocated. Little suitable land remains for more such moves. The consequent poor hygienic conditions make Mpingwe a serious health hazard.

Limbe estates is home to about 125 employees, mostly MR headquarters staff.

2.4 *Malawi Railways Housing Expenses and Subsidies.* The 2,400 housing units owned by the Malawi Railways are managed and maintained at a high cost to the MR. The MR house rent and water charges schedule (Table 2 below), even if adhered to, would produce income seriously short of expenses. Rent collections from employees range from 4 to 92 Kwacha per month; water charges range from 2 to 58 Kwacha per month.

House rents and water charges are not collected from the majority of MR employees, those at the lowest grades. Even those at more senior levels, paying house rents and water charges according to the schedule, pay only two to three percent of their income³, a relatively small percentage, for their housing expenses (rent, water, electricity).

A single example of the housing situation of a senior staff person shows that: (i) MR salary scale is low; (ii) employees pay little for housing; and (iii) market values for some housing are high. The employee earns slightly over 2,800 Kwacha per month, with over 20 years service to MR, and has resided for two years in an MR house whose rental market value is estimated at 3,000 Kwacha per month. He pays a house rent of 63 Kwacha, about 150 Kwacha per month for electricity (directly metered to his unit), and 35 Kwacha per month for water (which represents a small share of the common water meter charge). The 248 Kwacha he pays monthly for housing costs represents almost nine percent of his monthly income, which itself is less than what his unit could be rented for.

The provision of housing units to employees is heavily subsidized -- by about 700 to 1,000 percent -- by Malawi Railways. As shown on Table 3 below, nominal rents and water charges are collected by MR, while MR pays for water, electricity, maintenance, city rates, trash pickup, etc.

³ Income here and later is regarded as employee income only; family income, often a more useful measure, appears inappropriate in the context of Malawian extensive and dispersed family support structure, in many cases providing shelter at both the village and city.

Table 2. House Rents, Water Charges, and Mean Salary Per Month, by Employee Grade, in Kwacha

Employee Grade	House Rent	Water Charge	Mean Salary
W1	4	2	325
S11	8	5	429
S10, T2, T1	14	8	621
S9, SC3	20	12	922
S8, SC2	29	14	1,169
S7, SC1	40	16	1,410
S6	46	21	1,820
S5	52	25	2,129
S4	58	30	2,473
S3	63	35	2,973
S2	69	39	3,396
S1	75	44	3,673
M3	81	48	4,032
M2	86	53	4,419
M1	92	58	4,894

Note: The mean monthly salary for the two lowest employee grades, not shown above (W2 and W3), is 232 Kwacha.

Table 3. Housing Income and Expenses, FY ending March 31, 1994

INCOME:	Kwacha
Staff rents collected (payroll deductions) MR housing only	170,322
Staff water collected (payroll deductions)	59,633
Minor revenues collected from other rental properties on the private market, owned by MR	10,000
Total	239,955
EXPENSES:	
Staff water	652,928
Rent to Malawi Housing Corporation and others	134,727
Maintenance*	162,525
Construction, loan repayments, interest	0
City rates, staff quarters	485,268
Electricity (other than occupant pays directly)	45,727
Refuse pick up	46,371
Total	1,527,546

* The expenses for maintenance are those incurred by the office of the Chief Civil Engineer; the Civil Engineering Department currently employs about 95 people on physical works. In the case of Mpingwe, for example, there is a maintenance staff of about ten. A building foreman manages occasional painting and repairs to doors, windows, floors, plumbing and standpipes. There are also housing maintenance personnel based in Balaka, covering employee housing from Salima to Nayuchi.

Even the figures in Table 3 do not fully represent MR housing expenses. Expenses for staff water, for example, are estimated to be ten percent higher than actual usage, due to leakage, faulty pipes, continuous running, pilferage, and other users (e.g., clinics) on the same meter. In addition, an estimated five percent of management and office staff time is devoted to MR housing. In large estates, such as Mpingwe, there is also an MR assistant dealing with housing issues and a clerk.

2.5 *Malawi Railways Housing Policies.* The MR Conditions of Service make clear MR's dilemma of trying to find housing for its employees while at the same time recognizing it may not be able to. Thus, "Employees are not entitled as a right to be provided with housing. However, the Company may provide housing when available to such grades of employees as it may consider convenient."⁴

The Conditions of Service go on to deal with rental levels (with and without furniture), water charges, houses block-leased by the company from Malawi Housing Corporation or recognized landlords, and subletting (not allowed).

The Railways has a Senior Staff House Allocation Committee, which uses the following as criteria for unit distribution: seniority (grade); service (years); exigencies of service (key); and date of application. If available, an employee is assigned housing at his grade level, or below, but not above. House types reflect size, number of bedrooms, location, and plot size, though a clear distinction is not often made.

The MR Committee for Staff House Ownership Scheme has been reactivated in recent months. The Committee is trying to develop a plan for a home ownership scheme, one which is consistent with the guidelines provided by the Department of Statutory Bodies.⁵

Malawi Railways is currently beginning a process to rent some of its 200 housing units along the Western Extension (from Salima through Lilongwe and Kanengo to Mchinji). Now that the Government has granted MR the authority to sell its assets⁶, MR could consider selling these same units. Except for housing for some key staff, MR will not be needing most of these units: the line has already been reduced to siding status for seasonal or occasional freight use only and there is no longer any passenger service.

⁴ Malawi Railways Conditions of Service and Staff Regulations, January 1, 1992.

⁵ It should be noted that the Department's June 1994 guidelines provide many concepts and features useful to any MR housing scheme. However, the guidelines, like other proposals, require financing from the parastatal that establishes a plan, or from an outside source for initial capitalization of a scheme.

⁶ With this authority, Government requires that any transactions be transparent and that the sales proceeds flow to the existing MR.

3. ISSUES

In the development of a housing program for the Malawi Railways, a number of important issues must be considered.

3.1 National Housing Picture. Housing for Malawi Railways employees is only a small part of a national housing problem. Indeed, were it not for such a serious national housing shortage, and poor spatial distribution of housing, there would be little pressure on Malawi Railways to provide housing assistance to its employees. A few numbers are instructive: Malawi's population, currently about ten million, has been growing at about 3.5 percent per year in recent years. Urban areas now represent more than ten percent of the country's population, and are growing at a rate of eight percent per year. The rural to urban migration, generally brought about by people in search of economic opportunities in urban centers, has led to an extremely tight, unresponsive housing market. As many as 60 percent of the urban population live in squatter settlements, and earn too little to purchase or rent or build adequate shelter.

There is very little public or private financing available in Malawi for housing. The Malawi Housing Corporation has been able to build only 10,000 units in its 30 year life; nearly all of those are rental units. Private sector financing, nearly all found in the New Building Society and affordable by a very limited segment of Malawians, is inadequate.

The Government of Malawi is now embarking on a process to develop a national housing policy.⁷ Headed by the General Manager of the Malawi Housing Corporation, a national level committee will be formulating a policy that reflects housing as a productive component of the economy, rather than simply a social or consumption good. The policy will define the target market, establish goals and objectives, identify financial and institutional resources, examine lending instruments, and propose an implementation plan.

The most clearly articulated goal of the old and the new Government of Malawi is that each family should be able to own its own home.

These factors emphasize the importance that Malawi Railways, and other large employers, statutory bodies or not, should assist their employees with housing.

3.2 Other Statutory Bodies. The Department of Statutory Bodies has been developing a home ownership scheme suitable to the parastatals under its authority. Besides Malawi Railways, these include ADMARC, ESCOM, Air Malawi, and others; ADMARC already is implementing a scheme. In June, the Comptroller of Statutory Bodies distributed draft guidelines for a home ownership scheme. These guidelines contain a number of elements that Malawi Railways should consider in the development of its own scheme.

3.3 Location of Malawi Railways Housing and Land. A Malawi Railways housing scheme will ultimately divest MR of its housing stock and land suitable for housing.

⁷ The policy formulation committee will have as a starting point the chapter on Housing in the Government's Statement of Development Policies, 1987-1996. Though the data in that chapter, prepared in 1987, are out of date, the concepts and proposals remain sound.

It can be anticipated that much of the housing and land to be divested will be located in the urban areas of Blantyre and Lilongwe; there will be a high demand and consequent high price for housing in those areas. Some of the MR housing stock and land, however, is located in areas that at one time served the needs of the railway, but for which there is now little if any demand, by MR or other parties. These factors will be important in the implementation of a housing scheme.

3.4 Valuation of Malawi Railways Housing and Land. The Mullock Report⁸ was commissioned by MR in late 1993 to provide a guide for a program of divestment of MR property surplus to its needs. It was prepared in anticipation of MR restructuring that is now being planned. Mullock valued freehold and leasehold property of the MR.

The valuations are estimates only based on limited inspections. For each station there is one valuation figure for the senior staff houses and another for the junior staff houses; these are mostly based on the average value of the houses in each group in that particular area. The figures for houses are based on the value with vacant possession regardless of actual occupation, except for those houses which are let out.

Each asset is normally a group of senior or junior staff houses at a specified station or within a specified urban area, but excludes any vacant land (apart from potential infilling plots, where the land is leasehold and could be sold without prior development) which is treated as Disposable Property.

The number of junior staff houses and rooms is sometimes stated as an approximate figure; what comprises a housing unit was often not clear or fixed. Single rooms may be combined into larger units or vice versa.

A house is regarded as a unit of at least two rooms plus kitchen and pit latrine (both sometimes shared). There is a great variation in the standard of junior staff houses and their state of repair. This is not always evident from the descriptions in the report but is reflected in the valuations.

It was also sometimes difficult to distinguish between junior and senior staff houses, or to decide whether some properties were better described as houses or resthouses (which are generally the same physically, and therefore included as housing).

Consistent with the generally poor condition and limited sanitary facilities, much of the MR housing stock does not have high monetary values. Mullock has valued the entire MR housing stock at 54.2 million Kwacha⁹, with an average unit value of 21,100 Kwacha. If the high value, high quality senior housing located in Limbe is excluded from those calculations,

⁸ Valuation Report for Malawi Railways Ltd., Chris Mullock, December 1993.

⁹ Compare this value with 623,898 Kwacha, the value placed on the entire housing stock in MR's accounting system, in which staff housing is shown as a fixed asset. The fixed asset valuation is simply the sum of the original construction costs of all units at the time of construction; it is thus a meaningless figure.

Table 4. Malawi Railways Housing Valuations, Mullock Report

	Total Value Kwacha	Number of Units	Unit Value Kwacha
Value of Property With Good Title			
Core Line	41,987,000	1,952	21,510
South Line	3,127,000	291	10,746
Western Extension	580,000	24	24,167
Subtotal	45,694,000	2,267	20,156
Hypothetical Value of Property Without Title			
Core Line	7,225,000	251	28,785
Western Extension	1,240,000	45	27,556
Subtotal	8,465,000	296	28,598
TOTAL	54,159,000	2,563	21,131

the average value of the units common for the lower-grade MR employees is only 11,994 Kwacha.

3.5 Malawi Railways Policies and Practices. A housing scheme must consider several realities:

- The salary levels of all grades of Malawi Railways employees are low compared to employees of other statutory bodies and parastatals. This makes an affordable scheme all the more important and all the more difficult to attain.
- The long range need for MR housing is only for those key employees in locations vital to railway operations.
- The majority of existing MR housing stock is in poor condition and lacks adequate infrastructure services.

- Employee housing is currently heavily subsidized by MR. MR must start collecting rent from those employees not paying, and increasing rent collected from others. A new housing scheme must be affordable by MR. This action is very important not only to reduce MR's subsidy, but to enhance the appeal of home purchase on economic grounds. An employee paying very little for housing will see little incentive to purchase that same unit. Indeed, the process must be accompanied by salary increases as well.¹⁰
- MR must identify those properties that can and should be divested -- those that are not necessary for key personnel, and that have clear title. MR must clarify the disposition of rest houses, vacant land, and self-help housing.
- A housing scheme must be equitable -- among MR employees, compared to other statutory bodies, and within the Malawi population.

3.6 *Permanent Employees.* A housing scheme must consider current MR employees as well as all future MR employees. A scheme must be part of the conditions of service, and regarded as part of an overall compensation package.

3.7 *Retrenched Employees.* Although a housing scheme is being developed for permanent MR employees, MR should consider housing benefits for retrenched employees as well. If an employee participates in a housing scheme, and is later retrenched, he should retain full benefits of the housing scheme; this will enhance home ownership and contribute to MR divestiture of its housing stock and land. If the retrenched employee had not participated in the housing scheme prior to retrenchment, his retrenchment package should include substantial assistance for housing. When retrenchment is complete, and there is a stable MR staff, some of the unhoused will take some of the newly vacated units.

¹⁰ An employee participating in an MR housing program will almost certainly be required to make monthly payments greater than what he is paying for rent. Thus, contrary to a suggestion by the Department of Statutory Bodies, employees will be financially worse off if, in a likely instance, their monthly housing costs rise from near zero to 100 Kwacha per month. This negative appearance can be challenged by a campaign that makes clear the benefits of participation.

4. FRAMEWORK FOR A MALAWI RAILWAYS HOUSING PLAN

4.1 *Rationale for Assistance.* Assistance to the Malawi Railways in restructuring should include housing for several key reasons:

- Housing is an established part of an employee compensation package.
- The disposal of housing units and land suitable for housing that are not necessary for rail operations is an essential part of making MR a commercially viable entity. Divestiture should not be viewed as an end in itself, but as one of the means by which MR will increase its efficiency.
- The proceeds from the sales are not needed to repay any kind of construction or long term debt, but rather can be used to help capitalize a housing scheme for the benefit of employees.
- A housing scheme that promotes home ownership supports a major tenet of Government economic and social policy.
- A housing scheme is responsive to the population's extremely high aspiration for home ownership.
- There is serious concern among MR employees that they will be homeless upon retirement, after years of service.
- An MR housing scheme will contribute to the alleviation of the enormous national housing need.
- As long as the conditions of service include eligibility to participate in a housing scheme, and housing is a major ingredient to a total compensation package, MR will be able to attract, retain, and motivate the right staff in the new railway. Conversely, if the new scheme is not included, compensation is less attractive to the better candidates for staff positions.

4.2 *Housing as Compensation.* A Malawi Railways housing plan must promote not only the divestment of the housing stock and suitable land, and the acquisition of the units and land by employees, but it must also assure housing assistance in the form of a housing allowance to unhoused permanent employees and assistance to retrenched employees wherever they go. They too should be assisted to purchase or construct a unit. The compensation package for a newly hired employee includes, in addition to salary, pension contribution, other non-monetary items, and a housing allowance. The severance package for a retrenched worker must also include adequate housing assistance. The housing allowance now set at 15 percent of salary is inadequate. It should be raised. The proceeds from the sale of MR housing and land

will be able to fund an increased housing allowance in both the compensation and the severance packages.

4.3 Housing Purchase Scheme: Objectives and Principles. The Malawi Railways Committee for Staff House Ownership Scheme held a meeting on July 8, 1994, to discuss the fundamentals of a housing scheme. The Committee concluded that a scheme must be practicable, manageable, and politically acceptable, and that both current and retrenched employees should be eligible. The Committee developed and agreed on the following Objectives and Principles of a Housing Scheme:

Objectives:

- a. To provide conditions under which MR employees can find *shelter*; a basic necessity of life.
- b. To encourage and facilitate *home ownership*, in conformance with national housing policy and the aspirations of the Malawian people.
- c. To *divest* MR of non-essential institutional housing and land suitable for housing, thus relieving MR of the financial burden of owning and managing housing.
- d. To provide a mechanism that is *self-sustaining* so that all future MR employees will have the same home ownership opportunity.

Principles:

- a. That all permanent employees are *eligible* to participate in the Scheme, regardless of seniority (grade and class), length of service (years), exigencies of service (key staff), or proximity to retirement.
- b. That the Scheme's features are *transparent* -- disseminated and implemented in a public and straightforward manner.
- c. That the Scheme is *affordable* to employees.
- d. That participating employees *contribute* to the Scheme, so that it is not a heavily subsidized program.
- e. That the Scheme base its financial calculations on the fair *market value* of the house.
- f. That MR employees who are *sitting tenants* have the first right to purchase their home utilizing the Scheme, followed by other MR employees, and then the general public.
- g. That *windfall gains* be expressly prohibited.

- h. That the Scheme provide for *equity* to MR employees in its methodology.
- i. That MR *retain housing* located at places where essential rail functions require accessibility by key staff.

4.4 *Housing Purchase Scheme: Concept and Features.* With these objectives and principles in mind, the MR housing scheme concept should be one in which MR sells non-essential housing and land at prices based on market values. The scheme must be transparent, so that units and land are purchased by eligible, qualified buyers. The scheme is for permanent MR employees, though it can be utilized for retrenched employees -- those already retrenched and those to be retrenched.

A Housing Fund must be established. The Fund is initially capitalized by MR¹¹ and it is the repository of the proceeds of MR housing and land sales. The Fund holds employee and MR contributions in trust for the employee. A formula must be devised (based on years in service, grade, etc., not on unit value) that determines the amount available to the employee.

Several options for Housing Fund administration have been considered: MR itself, MR credit union, Malawi Housing Corporation, and the New Building Society (NBS). Of these, the NBS is clearly the most suited: It is a well functioning financial institution. It is neutral. It is capable and interested. It is already the financial institution utilized by other parastatals for their housing schemes. Initial capitalization by MR will negate NBS' weak liquidity position.

The scheme will have the following features:

- Units and land for sale will be identified by MR.
- The purchase price will be established through a market valuation process.
- The employee currently residing in the unit will be offered the opportunity to purchase the unit. If he does not accept the offer within two months, similarly graded MR employees will be offered the unit on a first-come, first-served basis. If no MR employee chooses to buy the unit, MR will seek to sell it on the open market. At the same time, MR employees will be offered the opportunity to purchase land.
- The purchaser will not be allowed to resell the unit or land during the first ten years of ownership.

¹¹ This could be an appropriate use for donor funding.

- The purchase price will be divided into two parts. One part -- 75 percent of the price -- will be financed from the Housing Fund. The other part -- 25 percent -- will be financed by private commercial sources, namely the New Building Society.
- The purchase scheme will provide a repayment of credit over a 20 year period.
- The 75 percent of the purchase price will be financed in the following way. Depending on the employee's grade (i.e., salary), he will repay the loan at a different interest rate. The highest grade employees will pay the full commercial rate, currently estimated to be about 28 percent. Middle grade employees will pay about 15 percent interest. The lowest grade employees will pay a zero percent interest rate.
- The 25 percent of the purchase price will be financed at the current market rate of the New Building Society.
- NBS will receive a management fee of 0.5 percent to 1.0 percent paid on the 75 percent part of the loan, by the purchaser.
- Interest payments of the employee will revert to the Fund, whether the interest is fully, partially, or not at all subsidized.
- The 75 percent part of the loan, deposited in the Fund, will not be in an interest bearing account.
- The interest paid by employee goes into the Fund; NBS consequently doesn't lose on any arrangement, and gains on all arrangements by collecting the management fee.
- The Fund is self-sustaining, that is, the employee's withdrawal from the Fund is less than the sales price, but the Fund realizes the full sales price, so 25 percent of the sales price is generated for the Fund; this contributes to the Fund's sustainability.

Capitalization of the Housing Fund to finance the entire scheme can be estimated at 46.2 million Kwacha, based on the following:

2,200 housing units to sell (an estimated 2,400 units less 200 to retained for key staff housing).

21,000 Kwacha, average price per unit (based on Mullock, and including all MR housing).

4.5 *Illustrative Cases.* Take a unit with a market value of 20,000 Kwacha, slightly less than the average of all MR units (including the highest price traditional houses). This amount is the purchase price.

1. 75 percent -- 15,000 Kwacha -- of the purchase price is financed from the MR Housing Fund. The employee, depending on grade, will fall in a specific grouping of interest rates. In this example, three options are presented: high at 28 percent, medium at 15 percent, and low at 0 percent.
 - a. for 20 years @ 28 percent, the monthly payment is 351 Kwacha
 - b. for 20 years @ 15 percent, the monthly payment is 198 Kwacha
 - c. for 20 years @ 0 percent, the monthly payment is 63 Kwacha
2. 25 percent -- 5,000 Kwacha -- of the purchase price is financed from commercial sources, NBS, at market rates.
 - for 20 years @ 28 percent, the monthly payment is 117 Kwacha

Thus, the employee/purchaser makes monthly payments,

- at the high interest plan, 468 Kwacha (1.a + 2)
- at the middle interest plan, 315 Kwacha (1.b + 2)
- at the low interest plan, 180 Kwacha (1.c + 2)

As a result of this purchase, the employee is now living in a Type F unit (a small three-bedroom unit), with a market value of 28,000 Kwacha. The employee is in grade S5, S6, S7, or SC1, earning 1,754 Kwacha per month. Thus, at the high plan, he will be paying 27 percent of his income for housing expenses; at the middle plan, he will be paying 18 percent of his income for housing expenses; at the low plan, he will be paying 10 percent of his income for housing expenses.

In a second example, take a unit with a market value of 10,000 Kwacha, slightly less than the average of MR units (excluding the highest price traditional houses). This amount is the purchase price.

1. 75 percent -- 7,500 Kwacha -- of the purchase price is financed from the MR Housing Fund. The employee, depending on grade, will fall in a specific grouping of interest rates. In this example, three options are presented: high at 28 percent, medium at 15 percent, and low at 0 percent.
 - a. for 20 years @ 28 percent, the monthly payment is 176 Kwacha

b. for 20 years @ 15 percent, the monthly payment is 99 Kwacha

c. for 20 years @ 0 percent, the monthly payment is 31 Kwacha

2. 25 percent -- 2,500 Kwacha -- of the purchase price is financed from commercial sources, NBS, at market rates.

— for 20 years @ 28 percent, the monthly payment is 59 Kwacha

Thus, the employee/purchaser makes monthly payments,

— at the high interest plan, 235 Kwacha (1.a + 2)

— at the middle interest plan, 158 Kwacha (1.b + 2)

— at the low interest plan, 90 Kwacha (1.c. + 2)

As a result of this purchase, the employee is now living in a Type C unit (a small two-room unit), with a market value of 10,000 Kwacha. The employee is in grade S10, T1, or T2, earning 621 Kwacha per month. Thus, at the high plan, he will be paying 38 percent of his income for housing expenses; at the middle plan, he will be paying 25 percent of his income for housing expenses; at the low plan, he will be paying 14 percent of his income for housing expenses.

It is unfortunate, but inevitable that the higher-income MR employee, purchasing the higher value unit, will be paying a smaller share of his income for housing (depending on the payment plan used) than his lower-income colleague.

5. NEXT STEPS

In order to implement the housing scheme, the Malawi Railways must undertake several steps:

- identify staff positions essential to train operations.
- identify staff houses, suitable for those staff positions, to be retained by MR.
- agree on the features of the scheme outlined above. (Malawi Railways may consider a visit to Zimbabwe to observe how the National Railway of Zimbabwe housing scheme is working.)
- establish an equitable, sliding formula for employee participation.
- enter into discussions and negotiations with the New Building Society.

PERSONS INTERVIEWED

Malawi Railways Limited:

Frank Markham	General Manager
Enoch Limbe*	Deputy General Manager
Harry Tindwa*	Assistant General Manager, Traffic
George J. Kavwenje*	Chief Civil Engineer
Martin Ndenya	Chief Accountant
Elton Kuyenda*	Financial Accountant
Maston J. Banda	Personnel Manager
Elywin Nkhoma*	Company Secretary
Karuna Karan	Financial Planning Officer

**member of Malawi Railway Committee for Staff House Ownership Scheme*

Malawi Housing Corporation:

L. S. K. Msiska	General Manager
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The New Building Society:

N. E. Ntaba	Limbe Branch Manager
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Agricultural Development and Marketing Corporation (ADMARC):

W. L. Dambuleni	Assistant General Manager (Administration)
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World Bank:

Yash Pal Kedia	Sr. Railway Engineer, and Project Task Manager
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USAID:

Cynthia Rozelle	Director
Sam Scott	Deputy Director
Tom Lofgren	Policy and Program Officer