XD-ABH-303-B

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO ZIMBABWE

1 Pascoe Avenue
P.O. Box 6988
Harare, Zimbabwe

Telex No. 24428 ZW
Fax No. 722418
Phones: 720630/720739/720757

GUARANTY AUTHORIZATION

Program No. 613-HG-004

PROVIDED FROM: Housing Guaranty Authority

FOR: Government of Zimbabwe

Pursuant to the authority vested in the Mission Director by the Foreign Assistance Act of 1961, as amended (FAA) and the delegations of authority issued thereunder, I hereby authorize the issuance to eligible U.S. investors (Investors) acceptable to A.I.D. of guaranties pursuant to Section 222 of the FAA of not to exceed United States Dollars Fifteen Million Only (U.S. $15,000,000) in face amount. The guaranties shall assure against losses as provided in the housing guaranty standard terms and conditions (22 C.F. R. Part 204) with respect to loans, including any refinancings thereof. These guaranteed loans shall be made to the Government of Zimbabwe (Borrower) to support the provision of shelter-related infrastructure for the urban poor.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans and any refinancing thereof shall extend for a period of up to thirty (30) years from the date of each disbursement of the loans and may include a grace period of up to ten (10) years on repayment of principal, a grace period on repayment of interest, and such other terms and conditions as are agreed to by the Borrower and the Investor, subject to the approval of A.I.D. The guaranties of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate or rates of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the Foreign Assistance Act of 1961, as amended (FAA), and shall be consistent with the rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.

3. Fee: The fee of the United States shall be payable in U.S. dollars and shall be equal to one-half of one percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a

fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

4. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

In accordance with the provisions of the Federal Credit Reform Act of 1990, I hereby authorize the obligation of United States Dollars Three Million Forty One Thousand ($3,041,000) to cover the subsidy cost of Authorization No. 613-HG-004 and for use of United States Dollars Fifteen Million ($15,000,000) in guaranty authority. Action must be taken to obligate these funds by no later than August 31, 1992 by issuance of a Letter of Advice. The guarantied loans must be disbursed by no later than September 30, 1997, after which time the obligated funds expire.

Ted D. Morse

Ted D. Morse
Director
USAID/Zimbabwe

Date: Aug. 31, 1992

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GUARANTY AUTHORIZATION (Authorization No. 613-HG-004)

Project: Private Sector Housing
Project No.: 613-HG-004
Borrower: Government of Zimbabwe

Clearance:	Initial	Date
USAID/Zimbabwe		
PDIS:PKBuckles	PKB	31 Aug 92
RHUDO:JKolker	JK	8/31/92
CONT:MLewellen	ML	8/31/92
DDIR:SSpielman	[illegible]	31 Aug 92

AID/W:

PRE/H:JSTEIN	(REF STATE 277115)
PRE/H:SGIDDINGS	(REF STATE 268643)
PRE/H:DGROSSMAN	(REF STATE 277115 & 268643)
PRE/H:DLEIBSON	(REF STATE 277115 & 268643)
FM/LM:DNEWMAN	(REF STATE 277115 & 268643)
GC/PRE:PWEISENFELD	(REF STATE 268643)
GC/PRE:DSARRO	(REF STATE 277115)
AFR/PD:JGOVAN	(REF STATE 268643)

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August 31, 1992

Mr. Bernard Chidzero
Minister
Ministry of Finance
Private Bag 7705
Causeway
Harare
Zimbabwe

Dear Sir:

This letter constitutes official notice that pursuant to the request of the Government of Zimbabwe for assistance, the Agency for International Development ("A.I.D.") has agreed to guarantee additional loans to the Ministry of Finance or such other financial institutions as the Government of Zimbabwe ("Borrower") and A.I.D. may agree, of up to Fifteen Million United States Dollars (US $15,000,000) to finance low-income shelter projects in Zimbabwe. This Guaranty is denominated 613-HG-004 and represents the first tranche of the US$50 million Housing Guaranty Program for private sector housing.

The goal of this program is to increase the level of homeownership for low income households in Zimbabwe's urban centers. The program will increase low income household access to affordable shelter in urban areas.

A.I.D.'s commitment to guaranty a borrowing is valid for a period of twenty-four (24) months from the above date. If the borrowing has not taken place within the period specified, A.I.D. reserves the right to withdraw the commitment to guaranty. Attached to this letter is a statement of the terms and conditions of the loan guaranty. We will continue to work with the Government of Zimbabwe on program implementation and look forward to working with you toward successful implementation of the program.

Sincerely,

Ted D. Morse
Director
USAID/Zimbabwe

INFORMATION SHEET

Zimbabwe Private Sector Housing Program
A.I.D. Program No. 613-HG-004

BORROWER: Government of Zimbabwe

A. Terms and Conditions:

1. Term of Guaranty: The loans and any refinancing thereof shall extend for a period of up to thirty (30) years from the date of each disbursement of the loans and may include a grace period of up to ten (10) years on repayment of principal, a grace period on repayment of interest, and such other terms and conditions as are agreed to by the Borrower and the Investor, subject to the approval of A.I.D. The guaranties of the loan shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate or rates of interest payable to the Investor pursuant to the loans shall not exceed the allowable rates of interest prescribed pursuant to Section 223(F) of the Foreign Assistance Act of 1961, as amended (FAA), and shall be consistent with the rates of interest generally available for similar types of loans made in the long, term U.S. capital markets.

3. Fee: The A.I.D. fee shall be payable in U.S. dollars and shall be equal to one-half of one percent (1/2%) per annum of the outstanding guarantied amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

4. Selection of Investor: At a time agreed to by A.I.D. and the Borrower, A.I.D. will publish an announcement informing interested and eligible U.S. investors, as defined in Section 238(C) of the FAA, of the A.I.D. authorization and inviting such investors to communicate with the Borrower directly. The text of such announcement will be agreed upon by A.I.D. and the Borrower prior to its publication.

5. Approval of Investor: A.I.D.'s concurrence in the selection of the Investor is necessary prior to the Borrower's signing of each loan commitment. This concurrence will be based upon receipt of copies of such proposals, including name, interest rate, related fees, special conditions, and the reasons for the Borrower's proposed selection as well as a copy of the commitment the Borrower proposes to sign.

6. Termination of Commitment: A.I.D.'s commitment to guaranty loans to the Borrower is valid for a period of 24 months from the date of this letter. Should the Borrower fail to execute a Loan Agreement within that period, A.I.D. reserves the right to terminate its commitment to guaranty.

7. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.l.D. may deem necessary.

B. Implementation Documents

1. Private Sector Housing Program Implementation Agreement, as amended, covering the project between Borrower and A.I.D.

2. Loan Agreement (or equivalent agreement) covering the loan between Investor and Borrower.

3. A loan-associated Paying and Transfer Agency Agreement, between the Borrower and the A.I.D.-approved Paying Agent (the Riggs National Bank of Washington, D.C.) to facilitate loan financing.

4. Standard Terms and Conditions covering the guaranty of the loans between the Investor and A.I.D.

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GUARANTY AUTHORIZATION (Authorization No. 613-HG-004)

Project: Private Sector Housing
Project No.: 613-HG-004
Borrower: Government of Zimbabwe

Clearance:	Initial	Date
USAID/Zimbabwe		
PDIS:PKBuckles		31 AUG 92
RHUDO:JKolker		8/31/92
CONT:MLewellen		8/31/92
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GC/PRE:PWEISENFELD	(REF STATE 268643)
GC/PRE:DSARRO	(REF STATE 277115)
AFR/PD:JGOVAN	(REF STATE 268643)

PD-ABH-303

Zimbabwe Private Sector Housing Program
613-HG-004 (Loan)
613-0236 (Non-Project)
613-0235 (Project)

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List of Acronyms

AEPRP	African Economic Policy Reform Program
AFDB	African Development Bank
BLR	Base Lending Rate
BUA	Bank Unit Account
CP	Conditions Precedent
CIFOZ	Construction Industry Federation of Zimbabwe
CDC	Commonwealth Development Corporation
CMB	Cotton Marketing Board
EFF	Extended Fund Facility
ERS	Export Retention Scheme
ESAP	Economic Structural Adjustment Program
ESAF	Enhanced Structural Adjustment Facility
FER	Framework for Economic Reform
GDP	Gross Domestic Product
GLF	General Loan Fund
GOZ	Government of Zimbabwe
HG	Housing Guaranty
HNCD	Housing Negotiable Certificate of Deposit
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
MEC	Ministry of Education
MOF	Ministry of Finance
MIC	Ministry of Industry and Commerce
MLGRUD	Ministry of Local Government, Rural and Urban Development
MPCNH	Ministry of Public Construction and National Housing
NPA	Non-Project Assistance
ODA	Overseas Development Administration
OGIL	Open General Import License
PRE/H	Office of Housing and Urban Programs
PSIP	Public Sector Investment Program
RBZ	Reserve Bank of Zimbabwe
RHUDO/ESA	Regional Housing and Urban Development Office for East and Southern Africa
ROGIL	Restricted Open General Import License
SIDA	Swedish International Development Agency
SITC	Standard Industrial and Trade Classification
USAID	United States Agency for International Development
US$	United States Dollars
ZBCA	Zimbabwe Building Contractor Association
ZESA	Zimbabwe Electiral Supply Authority
ZIC	Zimbabwe Investment Center
ZISCO	Zimbabwe Iorn and Steel Company
Z$	Zimbabwe Dollars
Note:	US$1=Z$5 as of August 1992

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Program Development Participants

Program Design Co-Manager:	Patricia Buckles	Chief, PDIS, USAID/Zimbabwe
Program Design Co-Manager:	Joel Kolker	Housing Officer, RHUDO/ESA
Design Considerations :	Stephen Spielman	Deputy Director,USAID/Zimbabwe
Program Considerations :	Margot Ellis	Program Officer,USAID/Zimbabwe
Economic Considerations :	Richard Harber	Economist, A.I.D./Washington
Legal Considerations :	Donald Keene	A.I.D. Regional Legal Advisor
Commodity Procurement :	Christine Lyons	Commodity Officer, REDSO/ESA
Contract Considerations :	David Osinski	Contracts Officer, REDSO/ESA
Technical Analysis (Cons):	Richard Martin	Contract Advisor, RHUDO/ESA
Technical Analysis (Fin) :	Simon Gray	Contract, Merchant Bank
Technical Analysis (Affor)	Lazarus Murahwa	Contract, Merchant Bank
Technical Analysis (Stand)	Colleen Butcher	Contract, Plan Inc.
Economic Analysis :	Mervyn Ellis	Contract, Standard Chartered
Cost Benefit Assessment :	Sue MacKenzie	Contract, Standard Charetered
Socio-Cultural Feasibility	Diana Patel	Contract, ICSC
Instit/Political Feasibil:	Emery Roe	Contract

Program Review Participants

Programmatic :	Ted Morse	Director, USAID/Zimbabwe
:	S. Spielman	Dep. Director, USAID/Zimbabwe
Financial :	Mary Lewellen	Controller, USAID/Zimbabwe
Technical :	Mike Lippe	Director, RHUDO/ESA
Legal :	Donald Keene	Regional Legal Advisor

1. EXECUTIVE SUMMARY

1.1. Recommendations

USAID/Zimbabwe recommends approval of a US$77.68 million Zimbabwe Private Sector Housing Program to assist the Government of Zimbabwe in developing a more supportive policy enabling environment for sustainable delivery of low income housing. The program has three components: (i) a US$50 million U.S. Housing Guaranty (HG) loan; (ii) a US$25 million Non-Project Assistance (NPA) cash grant from the Development Fund for Africa (DFA); and (iii) US$2.68 million in DFA grant resources for technical assistance.

Terms on the fixed rate HG loan are approximately 8.25 percent over thirty years with a ten year grace period on the principal. Unlike traditional housing construction programs, the HG dollar loan funds will not be disbursed directly to build houses; they will be combined with the NPA cash grant funds and complemented with technical assistance to support housing sector policy reform initiatives designed to create a more supportive economic policy environment for sustainable low income shelter delivery. The proposed policy reforms, their sequencing, and their timing are discussed in Section 6.4.

The first year requirement for program cash grant funds (US$10 million) will be met with African Economic Policy Reform Program (AEPRP) funds. The remaining requirements will be met with Mission FY 1993 (US$5 million) and FY 1995 (US$10 million) Operating Year Budget (OYB) resources.

1.2. Program Summary

1.2.1. Objectives

The proposed program goal is to increase the level of home ownership for low income households in Zimbabwe's urban centers. The program purpose is to increase low income household access to affordable shelter in urban areas. The objectives are supportive of Zimbabwe's Economic Structural Adjustment Program (ESAP) goal of reducing the role of Government (and the resulting fiscal deficit) and increasing reliance on market forces, while stimulating indigenous construction capacity and employment.

1.2.2. Constraints Addressed

The proposed program will address inappropriate sector policies identified during program analysis which presently impede the delivery of affordable low income housing in Zimbabwe, including: (i) lack of foreign exchange for plant and equipment in the building materials industry, resulting in limited quantities of high priced materials available only after long delays, thereby increasing the costs of housing construction; (ii) inadequate incentives for attracting private financial resources into low income mortgage lending,

resulting in limited financing available to low income households; and (iii) regulations and building standards which make shelter unafordable to the majority of low income wage earners and thus discourage private participation in site development.

The proposed program conditionality, designated uses of program derived foreign exchange and local currency, and technical assistance are designed to address the above cited constraints in all three sub-sectors simultaneously, as resolution in only one or two of the areas, while necessary, would not be sufficient to achieve program objectives.

1.2.3. Expected Outputs and End of Program Status

The Program outputs will be policy reforms. In-depth implementation feasibilty assessments conclude that implementation of the proposed policy reforms should result in the following conditions at the end of the program:

(a) Increased production of more affordable housing for low income households, as a result of reduced building and site development standards;

(b) Increased levels of private sector financing for low income mortgages, as a result of the introduction of new financial instruments and a modified financing incentive structure;

(c) An increased role for the private sector in housing construction finance, as a result of greater reliance on private developers, planners, and builders;

(d) Expanded production of lower cost building materials and more employment opportunities, as a result of increased efficiency and capacity in the private construction and building materials industries; and

(e) A broadening and deepening of the financial sector through the creation of new financial instruments and competition that will facilitate expanded investment and growth.

Primary beneficiaries will include approximately 43,200 low income households who will have increased access to mortgage financing for purchasing housing, and who will find more affordable units available as a result of changed policies and regulations which are expected to reduce construction costs by at leas 40 percent. Semi-skilled and un-skilled workers will benefit from the creation of at least 8,000 new jobs. Indigenous businessmen will have greater opportunity for participating in construction activity.

1.2.4. Program Strategy

There are three key aspects to the program's planned financial sector assistance strategy. The first aspect relates to the policy environment. Program resources will be disbursed based upon completion of key policy and regulatory changes required to improve the enabling environment for sustainable low income shelter production, financing, and delivery. Technical assistance will be provided in concert with policy reviews to examine the

merits of introducing new financial instruments and systematic financial sector changes in the medium term that will optimize the investment of private sector savings and investment into low income housing.

The second aspect of the design strategy relates to the uses of the program resources once disbursed, and responds to a "transitional" need for immediate resource requirements in the sector while the policy changes help the financial system develop mechanisms to attract new capital and ensure low income mortgage lending on a sustainable basis over the longer term.

The U.S. dollars disbursed upon initiation of policy reforms will accomplish two shorter term, "transitional" phase objectives: (1) provide immediate foreign exchange support for imports; and (2) trigger the availability of local currency counter deposit resources. The local currency counter deposits will provide: (a) immediate resources for the National Housing Fund to produce lower cost, affordable primary structures; and (b) immediate liquidity to the private Building Societies to enable them to maintain low income mortgage lending during the high inflation period accompanying economic structural adjustment.

The local currency support for the building societies is referred to as a "transitional" measure because it is expected that once economic structural adjustment measures bring inflation under control, low income mortgage rates can be deregulated, and building societies will be able to raise their own private finance at rates that allow for affordable low income mortgage lending.

The third aspect of the strategy relates to longer term objectives and recognizes the housing financial sector as the entry point to analyze the policy constraints that may hinder financial sector deepening and promotion of more competition in the financial sector in general.

The program design has been developed in concert with the Government and the private sector. The proposed policy changes and interventions are based upon extensive discussions and negotiations with GOZ officials, including: the Reserve Bank of Zimbabwe (RBZ), the Ministry of Finance (MOF), the Ministry of Public Construction and National Housing (MPCNH), the Ministry of Local Government, Rural and Urban Development (MLGRUD), the Ministry of Education and Culture (MEC), the Ministry of Industry and Commerce (MIC), the Surveyor General, and numerous local authorities.

Discussions with the private sector have included: the building societies, the construction industry, land surveyors, urban planners, housing developers, real estate corporations, engineers, quantity surveyors, discount houses, commercial banks, merchant banks, and industrial concerns which provide employee housing. USAID also met with cooperative groups and held a series of focus group meetings with low income households to ascertain their concerns and perceived needs.

Government commitment at the highest levels to carrying out the reforms proposed herein is evident from the considerable changes advocated in dialogue with the GOZ which have been already initiated. Some minimum housing

standards have been reduced and the role of the private building societies in the provision of low cost shelter has been significantly expanded. Appropriate building technologies have been accepted, and Government now recognizes that the private sector is an equal partner in the provision of shelter for the urban poor.

1.2.5. Financial Plan

As shown below, it is planned that, subject to the availability of funds and mutual agreement of the Parties to proceed with the Program, A.I.D. program resources totalling US$77.68 million will be obligated in three tranches over the five year life of the Program, based upon Government of Zimbabwe (GOZ) implementation of proposed policy changes affecting the low income shelter sector.

Planned Obligations

TRANCHE 1: 1992	(a) US$15 m. in HG Loan resources, (b) US$10 m. in Cash Grant resources, (c) US$ 2.68 m. in TA Grant resources
TRANCHE 2: 1993	(a) US$20 m. in HG loan resources, (b) US$ 5 m. in Cash Grant resources
TRANCHE 3: 1995	(a) US$15 m. in HG loan resources, (b) US$10 m. in Cash Grant resources.

The table below shows for the HG Loan and Cash Grant resources the U.S. dollar and local currency counter deposit (c.d.) commitment plan, based on an illustrative currency exchange rate of US$1.00 = Z$5.00. Throughout the life of the program, the local currency requirements will be calculated using the highest rate of exchange which, as of the date of the U.S. dollar disbursement, is not unlawful in Zimbabwe, unless A.I.D. otherwise agrees in writing.

As shown, it is expected that Program loan resources from a US$50 million HG will be released in three tranches (US$15 million in Year 1, US$20 million in Year 2, and US$15 million in Year 4) over the five year life of the Program.

The Program also plans to provide US$25 million in cash grant funds to be disbursed simultaneously with the loan funds in three tranches (US$10 million in Year 1, US$5 million in Year 2, and US$10 million in year 4) over the five year life of the Program.

The cash grant funds will be matched with a counter deposit of local currency to be used -- along with GOZ counter deposits from the HG loan, and in combination with matching Building Society resources -- to fund low income mortgages, and to fund a USAID established and administered Trust Fund.

US$2.68 million in grant resources also will be provided under a separate Project Grant Agreement for technical assistance and training.

YEAR	1 1992	2 1993	3 1994	4 1995	5 1996	TOTAL
US$ thru OGIL:						
(m) AID HG Loan	15.0	20.0		15.0		50.0
AID Cash Grant	10.0	5.0		10.0		25.0
Z$ thru National Housing Fund (NHF)						
(m) GOZ HG c.d.	35.0	50.0		40.0		125.0
GOZ Budget	25.0	25.0	25.0	25.0	25.0	125.0
SUB-TOT	60.0	75.0	25.0	65.0	25.0	250.0
Z$ thru Building Societies						
(m) GOZ HG c.d.	40.0	50.0		35.0		125.0
GOZ CG c.d.	45.0	22.5		45.0		112.5
BS	85.0	72.5		80.0		237.5
SUB-TOT	170.0	145.0		160.0		475.0
Z$ to A.I.D. Management Trust Fund						
(m) GOZ CG c.d.	5.0	2.5		5.0		12.5
SUB-TOT	5.0	2.5		5.0		12.5
TOTAL Z$	235.0	222.5	25.0	230.0	25.0	737.5

1.2.6. Resource Use and Flow of Funds

The U.S. dollar Program resources will be made generally available to finance imports on the Open General Import License (OGIL). The GOZ will provide an equivalent amount in local currency for low income plot development and for mortgage financing through the Building Societies. The private Building Societies' resources will match the GOZ local curency allocated for low income mortgage financing.

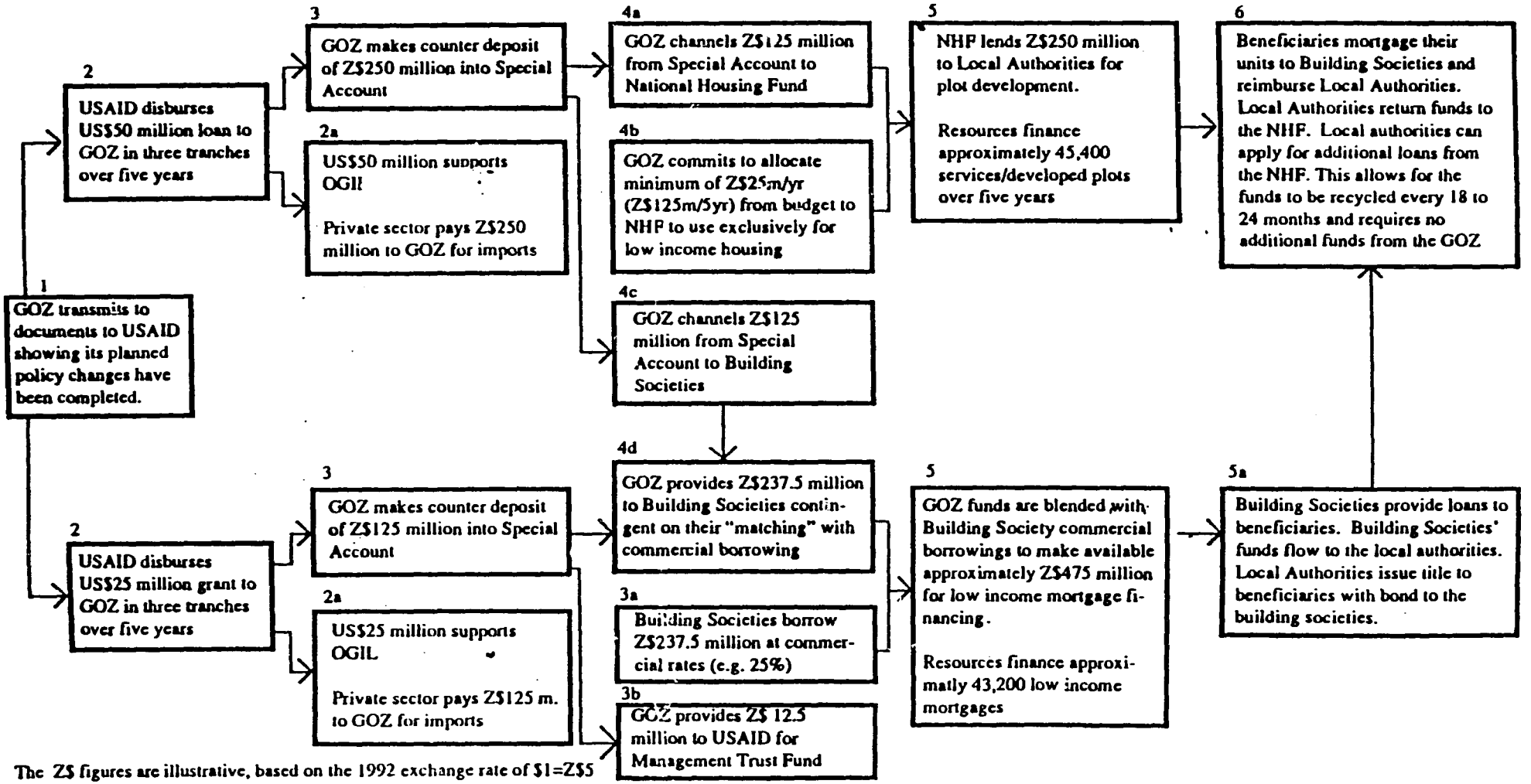
The flow of funds is diagrammed in the Chart on the following page. The local currency amounts shown are illustrative and are based on an official currency exchange rate of US$1.00 = Z$5.00. As noted above, throughout the life of the Program, the local currency requirements will be calculated using the highest rate of exchange which, as of the date of the U.S. dollar disbursement, is not unlawful in Zimbabwe, unless A.I.D. otherwise agrees in writing.

A. U.S. Dollar Funds

As shown in box 2a, once disbursed, the U.S. dollar loan and cash grant funds will be placed in special, non-commingled, interest bearing accounts to generally support imports on the Open General Import License (OGIL). Procedures for tracking the U.S. dollar disbursements are found in Sections C and D, below.

PRIVATE SECTOR HOUSING PROGRAM

Flow of Funds



The Z$ figures are illustrative, based on the 1992 exchange rate of $1=Z$5

As shown in Box 3, simultaneously with each of the U.S. dollar disbursements, the GOZ will make counter deposits of the local currency equivalent into special, non-commingled interest bearing accounts.

B. GOZ Counter Deposit to the HG Loan Funds

As shown in Box 4a, half the local currency equivalent of the HG loan funds (Z$35 million in Year 1; Z$50 million in Year 2, and Z$40 million in Year 4, for a total of Z$125 million over the five year life of the Program) will be channeled from the initial Special Local Currency Account to another Special Account in the National Housing Fund to be used exclusively for financing the servicing of plots and construction of a minimum support structure.

As shown in Box 4b, the local currency counter deposit resources will be complemented with the GOZ's normal budgetary support (at least Z$125 million over the life of the Program channeled to the NHF exclusively for low income housing construction finance).

Since the NHF resources will be recycled every 24 months (Box 6), the Program impact with respect to development of serviced plots will extend far beyond the five year scope of the program; ultimately, thousands of plots will be developed from the initial infusion and recycling of Program related resources.

As shown in Box 4c, the GOZ will transfer from the Special Local Currency Account the other half of the local currency equivalent of the U.S. dollar HG funds (Z$40 million in Year 1; Z$50 million in Year 2, and Z$35 million in Year 4, for a total of Z$125 million over the five year life of the Program) to separate Special Accounts in the private Building Societies.

C. GOZ Counter Deposit to the Cash Grant Funds

As referenced above and shown in Box 3, simultaneously with each U.S. dollar cash grant disbursement, the GOZ will make a counter deposit of the equivalent amount of local currency (Z$50 million in Year 1, Z$25 million in Year 2, and Z$50 million in Year 3, for a total of Z$125 million over the life of the Program) into a non-commingled interest bearing account Special Local Currency Dollar Account.

From the Special Local Currency Account, two transfers will take place: (i) Z$112.5 million will be transferred, as shown in Box 4d, to separate, non-commingled, interest bearing Special Accounts in the private Building Societies after the Building Societies have obtained "matching" amounts from commercial financial markets (borrowed at market rates), as described below (Box 3a); and (ii) Z$12.5 million will be transferred to a separate special, interest bearing A.I.D. administered Trust Fund Account.

D. Building Societies' Resources

The GOZ local currency counter deposit resources made available to the Building Societies as a result of disbursement of the HG and cash grant resources combined (Z$85 million in Year 1, Z$72.5 million in Year 2, and Z$80 million in Year 4) are to be blended with the Building Societies' "matching"

resources (Z$237.5 million) borrowed at market rates (presently 25 percent) to bring the average cost of funds to the Societies to half the market rate (currently 12.5 percent).

As shown in Box 5, the "blending" procedure will allow the total amount of program related and commercially borrowed resources (as much as Z$475 million using the illustrative interest rate structure) to be on-lent to low income households at the prevailing low income mortgage rate (presently 15 percent), with the Building Societies receiving only their normal 2.5 percent spread to cover administrative costs.

Should the low income mortgage rate rise or should the interest on market rate resources increase, the amount of "matching" funds the Building Societies would be required to borrow at commercial rates would have to be adjusted. However, the operational principal would continue to be to on-lend the resources at the low income mortgage rate prevailing at the time of the loan.

1.3. Reponse to A.I.D./Washington Guidance

1.3.1. PID Review

The ECPR review for the proposed Program Project Identification Document (PID) was held on December 6, 1991. The Mission has addressed all concerns transmitted in the PID ECPR Guidance cable, as referenced or summarized below.

(a) Zimbabwe Bilateral Program Focus - The ECPR guidance required that the PP/PAAD provide a plan for how the bilateral program would be focussed on no more than three sectors for intervention and indicate the degree of involvement of other Mission staff in the proposed housing program. A summary of the Mission's program strategy is presented in Section 3.3. USAID management is discussed in Section 8.2.

(b) Use of AEPRP For the Housing Sector - The ECPR conveyed its concern that absent a sufficiently strong justification with respect to benefits for the poor, there was a good possibility that Congress would object to the use of DFA funds in a sector, i.e., "housing", not specifically identified in the legislation. It was recommended that a Congressional Notification highlight the expected impact of the Program upon the poor and provide the opportunity for any congressional objection.

The Mission submitted a Congressional Notification which identified the potential program benefits to the poor. The notification also noted the expected job creation aspects of the Program, which demonstrates that the choice of sector is entirely consistent with the language of the HAC Report for the unenacted FY 1992 Appropriations Act quoted in the ECPR guidance cable. The Congressional Notification expired on August 25, 1992, with no objection.

(c) Program Assistance Level - The ECPR guidance indicated that if the grant portion of the Program required more than the US$10 million of AEPRP funds available in FY 1992, the additional resources would have to come from the Mission's operating year budget. The Mission is proposing to tap only the

US$10 million of AEPRP funds available FY 1992, and will use its own Operating Year Budget resources in FY 1993 and in FY 1995. All technical assistance requirements (US$2.68 million) are to be funded from the Mission's FY 1992 Operating Year Budget.

(d) Credit Reform Act - The ECPR guidance advised that PRE/H has earmarked up to US$20 million in FY 1992 Housing Guaranty Authority and associated appropriated funds (subsidy) for Zimbabwe. Similarly, for the FY 1993 budget process, PRE/H has included US$15 mililon in Housing Guaranty Authority and the required subsidy amount for the second tranche of the Zimbabwe program. Subject to the program implementation disbursement schedule, PRE/H will make available the balance of US$15 million HG Authority as required in the out years. As requested, the proposed program design effectively ties the accomplishment of policy reforms with the phasing of disbursements, and the obligation schedule satisfies the Agency's five-year HG disbursement guidelines.

(e) Real Interest Rates - The ECPR guidance requested that the program analyses assess the probability of interest rates in general reflecting the real cost of capital over the program period. The guidance further stated that if additional movement were deemed necessary, the program conditionality should include appropriate steps needed, if any, to have market-determined interest rates applicable to both deposit and lending operations of the building societies as one means of increasing long-term viability. The ECPR guidance stated that, in any case, the PP/PAAD should present the result of an analysis of the relationship between interest rates and the building societies' ability to avoid erosion of the capital/lending capacity during and at the end of the program period. The ECPR guidance also requested that the PP/PAAD examine prospects for desegmentation of financial institutions and the feasibility/desirability of building societies investing in NHF mortgages.

All of the ECPR concerns have been addressed in Program analyses and in the Program conditionality and convenants included in the Program Agreements. As discussed in detail in the Financial Sector Technical Analysis summarized in Section 7.1.2., and included as Annex III-A.2., there has been substantial movement in all interest rates in Zimbabwe over the last year. Deposits and lending rates in the financial sector have been deregulated, and interest rates now vary between 22 and 30 percent, depending on the terms. Interest rates for low income mortgages in the housing finance sector have increased by nearly 28 percent over the last 15 months, although the rates have not been deregulated.

The significant progress made to date notwithstanding, it is important to recognize the need for a transitional strategy to achieve Program objectives over the life of the Program. All mortgages in Zimbabwe carry a variable rate of interest and would increase substantially if housing finance interest rates were deregulated at this time. The private building societies presently have mortgage assets exceeding Z$1.7 billion, and large scale defaults would drastically impact on Zimbabwe's entire financial system. This view is supported by the World Bank and the IMF.

The result of the continued cap on mortgage rates is that there are negative interest rates in some segments of the housing finance industry. Mortgage rates vary from 15 to 30 percent, depending on the use of funds and whether the structure is owner-occupied. While there has been nominal growth in the building societies' deposits, the increase is below the rate of inflation. Government has also provided the building societies with tax concessions to raise funds specifically for low cost housing. As a result, the average cost of funds for the largest building society last year was 13.9 percent, while the average return on lending was 16.0 percent.

It is critical to note that the GOZ is still very much committed to deregulating the housing finance sector by the completion of ESAP, and is expecting that successful ESAP implementation will result in lower inflation and reduced interest rates, thereby allowing for low income mortgage interest rates to be real and positive without a "massive default" scenario.

f. Economic Analysis - The ECPR guidance requested a complete picture of the macroeconomic conditions in Zimbabwe and a comprehensive discussion of ESAP planned targets against accomplishments. The information is summarized in sections 2.2. and 2.3., and detailed in Annex III-B.

The ECPR guidance cable also raised the question of what degree of performance under the ESAP is required for success of the proposed program. One of the assumptions of the proposed program is that the ESAP is sustained and implemented. The implementation of the ESAP during the initial year has exceeded all projections, and the GOZ continues to push ahead with specific reforms. The faster than expected growth in imports and the resulting sharp deprec' ion of the exchange rate present a favorable progress picture, to date ction 2.4., addresses the issue of GOZ commitment to ESAP, and Sect .5., addresses the expected impact of the drought. The effects of the macroeconomy on the housing sector are highlighted in Section 2.6.

The continuation and expansion of the OGIL, the eventual full liberalization of interest rates, and moderate success at stabilization are the essential ESAP elements for the success of the proposed program. In their absence, the proposed program could achieve significant objectives in the character and mechanics of the land delivery system at a minimum, with some progress in the financial sector and building materials industry rehabilitation. Because both the loan and grant funds are being tranched, the program schedule, including the conditionality, can be adjusted to meet any alterations in the ESAP schedule.

g. Sectoral, Technical, Financial, and Socio-Cultural Analyses - The ECPR guidance requested a comprehensive description of the existing housing delivery system, including the role of the various participating entities, and any changes that could be expected as a result of the proposed policy changes. The sectoral constraints analysis is presented in Section 4., details of expected impacts of the proposed reforms on the land delivery, construction, and financial sectors are included in the feasibility analyses summarized in Section 7 and detailed in Annex III.

1.3.2. PAAD Review

An ECPR of the combined Program Assistance Approval Document (PAAD)/Project Paper (PP) document justifying the program was held in A.I.D./Washington on June 24, 1992 to review the subject Program. The Committee concurred with the Program in substance and form as submitted, but postponed final approval pending clarification, possible amendment, and modification as a result of the Committee's recommendation that the cash grant funds not be used to leverage additional resources through the purchase of blocked funds. The Committee recommended that the cash grant resources be used to support the Open General Import License (OGIL).

The Mission consulted with the GOZ on the issues raised during the ECPR and reached agreements that satisfactorily addressed all concerns. The results of the discussions were reported to A.I.D./Washington in HARARE 008510, dated 4 August 1992. As reported, the cash grant resources will be channeled through the OGIL, thus providing critical balance of payments support that will free up GOZ resources for urgent drought relief needs. The GOZ has agreed to provide the difference in resources which would have been leveraged through the purchase of blocked funds from its own budgeted resources, thereby ensuring that the expected program impact remains the same as in the orginal program design. The agreed upon modifications will not result in any significant change in program impact analyses as presented in the Program document submitted by USAID for the ECPR review.

Other concerns raised in the ECPR related to windfall profits and real posisitve interest rates. Both concerns are satisfactorily addressed in the Program conditionality and covenants. In STATE 277115, A.I.D. Washington approved the Housing Guaranty Loan, 613-HG-004, for Zimbabwe. In STATE 279565, A.I.D./Washington approved the non-project assistance and the technical assistance project elements of the Mission's submission as contained in HARARE 8510 and authorized the Mission to proceed with Program approval and authorization in the field.

2. PROGRAM CONTEXT

2.1. Key Development Indicators

By Sub-Saharan standards, Zimbabwe has a highly diversified economy, a well-developed business sector, a sophisticated financial system, skilled human resources and a sound infrastructure. In addition, it has a substantial natural resource base.

Zimbabwe's population in mid-1991, was estimated at 10.7 million, with a growth rate of 2.9 percent estimated in 1992. The urban population as a percentage of total population grew from 14 percent in 1965, to 27 percent in 1989, with annual urban growth averaging 6 percent over the 1980-1990 period. The Government estimates that 40 percent of the country's total population will reside in cities by the year 2,000. As in previous years, it is expected that the present drought will be accompanied by significant shifts in population from rural to urban centers, a good portion of which could be expected to remain in the urban centers even after rural conditions have improved.

In the period 1980 to 1990, the GOZ policy was directed towards redressing the socioeconomic inequalities which existed before independence. Much was achieved in this area, particularly in education, health, family planning and smallholder agriculture. Primary school enrollment rose from 1.2 million in 1980 to 2.2 million in 1989, and secondary school enrollment rose from 74,000 to 671,000. The percentage of children fully immunized more than tripled from 25 percent to 86 percent; infant mortality declined from 86 to 61 per 1,000 live births; life expectancy increased from 55 to 64 years; and the total fertility rate fell from 7.7 in 1970 to 4.9 in 1990.

Agriculture's share in GDP dropped from 15 percent in 1970, to 13 percent in 1990. However, the small farmers' share of marketed maize and cotton output rose from near zero in 1980 to over 60 percent in 1989. Nevertheless, Zimbabwe has a serious unemployment problem, as evidenced by the fact that there are about 200,000 school leavers entering the labor market each year, but only about 80,000 formal sector job openings. The balance is accounted for by the urban informal sector, the peasant farming sector, and the unemployed.

As the above statistics bear out, Zimbabwe's efforts to focus resources during the ten years following independence on achieving equity and correcting pre-independence distortions in the allocation of resources produced impressive results in the health and education of its majority population. The gains, however, were at the expense of growth. Per capita GNP fell from US$650 million in 1989 to US$640 million in 1990. The real growth rate in GNP per capita declined by .8 percent from 1980 to 1990. The aggressive downward management of the exchange rate during 1991 translated into a fall in per capita income to US$560 in 1991, based on the average exchange rate for 1991. However, if the current exchange rate is employed, the per capita income level is closer to US$400 per annum.

Although economic growth has comfortably exceeded population growth since 1980, there have been three distinct phases which characterize Zimbabwe's economic performance:

1. <u>The 1980/81 post sanctions boom when GDP rose by more than 10 percent a year</u>. Favourable weather combined with the taking up of excess capacity, resulted in cumulative growth over the two year period of 25 percent in manufacturing and 16 percent in agriculture. The rapid expansion of the public services sector helped fuel aggregate demand during the period.

2. <u>The six year period between 1982 and 1987, when the economy recorded average growth of only 1.4 percent -- well below the population growth rate of about 3 percent</u>. Recurring drought, combined with restrictive price and import controls led to declining private sector confidence and falling investment. Gross fixed capital formation declined as a percent of GDP from 20 percent to 16 percent, while private investment fell from 13 to 6 percent of GDP.

3. The economy turned around during the four years 1988 to 1991, when an average growth rate of 4.4 percent was recorded. Favorable weather patterns and improved terms of trade were the main factors accounting for the 7.3 percent growth rate recorded in 1988. Thereafter, the sustained upturn is accounted for by a series of government policy announcements -- beginning early in 1989 -- stating the GOZ's intention to restructure the economy. The beginnings of this process, which included the introduction of a range of export incentives and resulted in increased imports and greater flexibility in price and wage determination over the period, had the effect of raising private sector confidence and investment. Notably, almost all of the growth in output and employment during the past four years has been generated by the private sector. Following growth of 7.3 percent in 1988, GDP grew by 4.5, 2.1 and 3.5 percent in 1989-91, respectively.

A cautious approach to external debt management from 1982 onwards enabled the country to remain current on all external debt obligations, while at the same time effecting a major adjustment on the external accounts. This was achieved through import compression by exercising direct controls on the allocation of foreign exchange. By reducing the volume of imports by one third, the Government effected a shift in the current account from a deficit (excluding official transfers) of more than 11 percent of GDP in 1982 to approximate balance by 1987. Total debt outstanding declined from 56 percent of GDP in 1985 to 46 percent in 1990.

In spite of an ongoing fiscal imbalance of almost 10 percent of GDP during the 1980s, the authorities managed to keep inflation at manageable levels. Inflation averaged around 15 percent while nominal interest rates averaged 12 percent. Despite the existence of negative interest rates during much of the 1980s, the limited availability of consumer goods due to import compression helped to maintain a savings rate of about 20 percent of GDP and restore external balance.

Nonetheless, substantially reduced import volumes, strong anti-export bias, falling investment ratios, low capacity utilization, and severe bottlenecks in several sectors (particularly transport) were all side effects of the policy orientation during the 1980's. The fact that much of the growth in the early 1980's originated in the public services sector rather than in the material production sectors -- and Zimbabwe's mixed economic performance thereafter -- finally led to a recognition of the need to dismantle the extensive system of controls and make the economy more responsive to market forces.

The discussions below detail the effects of Zimbabwe's economic structural adjustment over the past two years, as well as the recent effects of the worst drought in this century.

2.2. Zimbabwe's Economic Structural Adjustment Program (ESAP): Targets and Status

2.2.1. The Program

Following the publication in January 1991 of a document entitled "Zimbabwe: A Framework for Economic Reform (1991-95)", the government began implementing a comprehensive program of structural adjustment aimed at increasing investment, growth and employment. The central components of the Economic Structural Adjustment Program (ESAP) are: (i) fiscal deficit reduction coupled with a more restrictive monetary policy, (ii) trade liberalization, (iii) domestic deregulation, and (iv) measures to alleviate the transitional impact of reforms on vulnerable groups by implementing a Social Dimensions of Adjustment (SDA) program.

By the end of 1991, Zimbabwe was well ahead of schedule in the implementation of several key aspects of its structural adjustment program. The program was speeded up during 1991, following a widening of the current account deficit on the balance of payments from 4.3 percent of GDP in 1990 to nearly 12 percent of GDP in 1991. This was due almost entirely to the faster than expected growth in imports during the first year of the program's implementation. Fiscal deficit reduction, exchange rate depreciation, trade liberalization, and tariff reform all proceeded more quickly than was anticipated when the program was presented to the donor Consultative Group meeting in March 1991. Presently, the greatest challenge to the program's success is the impact of having to import substantial amounts of foods as a result of the worst drought in this century. Section 2.3., discusses the expected impact of the drought on the macroeconomy.

2.2.2. Fiscal Policy

The central government deficit (excluding grants) is targeted to be reduced from 10.7 percent of GDP in FY90/91 to no more than 5 percent by FY93/94, with the reduction to be front-loaded in 1991/92. More specifically, it will be achieved by reducing parastatal deficits and rationalizing public sector employment. Subsidies and transfers to the Public Enterprise (PE) sector, which amounted to 3.8 percent of GDP in FY90/91, will be virtually eliminated by FY93/94. Some 5,000 civil service posts are to be abolished before the end of June 1992.

The Government accelerated its program of budget deficit reduction (and also tightened monetary policy) during the second half of 1991. The 1991/92 budget presented to Parliament in July 1991, provided for a reduction in the overall deficit (excluding foreign aid grants) from 10.7 percent of GDP to 8.2 percent of GDP. By providing for a 2.5 percentage point reduction in the deficit as a percent of GDP, the budget exceeded the ESAP target of a 0.9 percentage point cut in the fiscal deficit.

To tighten the fiscal stance further, the Government: (a) raised the minimum tariff rate to 10 percent; (b) imposed an additional 10 percent import tariff on those items included in the Open General Import License (OGIL) list at that time; and (c) withdrew the rebate of import duties for manufacturers for

domestic production. With the additional revenue expected from these measures, which became effective on October 1, 1991, the projection for the overall central government deficit was further revised downward to 7.1 percent of GDP in FY91/92.

(a) Public Enterprise (PE) Reform - Government has begun a far reaching program of Public Enterprise (PE) reform to virtually eliminate the burden of PEs on public finances by FY94/95. To improve monitoring, loss targets were set by the Central Government for the individual PEs, and each enterprise was required to submit action plans to meet these financial targets to the Ministry of Finance by April 1992. Government plans that transfers will be reduced from Z$640 million in FY 90/91 to about Z$40 million by FY94/95. The GOZ started clearing the backlog of unfunded subsidies in FY90/91 and this was completed in the FY91/92 budget for all losses up to June 30, 1991. Ceiling targets for PE losses have been set for the period up to 1994.

Following the launching of a reform program for the National Railways of Zimbabwe (NRZ), which has already achieved significant results, measures to strengthen the financial performance of other public enterprises were intensified the second half of 1991. These focused on reductions in losses through improved operating efficiency and cost based pricing and the elimination of subsidy arrears. A range of pricing procedures were liberalized and rationalization measures were introduced by some PEs.

Specifically, Air Zimbabwe was granted autonomy in the setting of international fares and approved procedures were simplified for the determination of domestic air fares. The Cotton Marketing Board (CMB) was permitted to negotiate producer prices directly with farmers. Prices were increased for electricity (38 percent), wheat (14 percent), milk (23 percent), and domestic air travel (20 percent). The Zimbabwe Iron and Steel Corporation (ZISCO) adopted import parity pricing for its output and raised its output price by 40-90 percent. Other rationalization measures taken included the closing of depots by the Grain Marketing Board and the Dairy Marketing Board and retrenchments in the case of the latter.

Several reforms were introduced during 1991 in the area of agricultural marketing, including the creation of independent Boards of Directors in the agricultural marketing boards and the abolition of maize movement restrictions between natural regions IV and V and between contiguous and non-contiguous communal areas. Government has stated that it will begin implementing further reforms including: (a) the separation of the commercial and social roles of the Grain Marketing Board; (b) the elimination of pan territorial and pan seasonal agricultural commodity pricing; and (c) the removal of maize and other crop marketing restrictions. By June 1992, crop marketing restrictions had been lifted in some of the regions of the country.

To contain PE losses at the targeted levels the GOZ is committed to taking (in addition to the measures outlined above) the following measures during 1992: The GMB's selling price for maize and wheat will be increased to ensure achievement of the financial target and a system for more frequent price reviews will be established, retail prices for maize will be raised correspondingly; for beef, the Cold Storage Commission will increase producer prices to the export parity level; for raw cotton, producer prices will also

be set at the export parity level and access to the Export Retention Scheme will be extended to cotton growers; the Zimbabwe Iron and Steel Company will retrench almost 1,000 workers and output prices will be raised further (with semi-annual revisions thereafter) to achieve export parity levels at the prevailing exchange rate; Air Zimbabwe will launch a comprehensive restructuring program, and has already in 1992 raised domestic and international fares to reflect recent increases in costs; the Posts and Telecommunications Commission and the Zimbabwe Electricity Supply Authority will be permitted to pass on cost increases in agreed cost categories to consumers without applying to the Government for specific approvals; prices for petroleum will be adjusted periodically and procurement procedures will be streamlined to limit the losses of the National Oil Company of Zimbabwe to the targeted level of Z$10 million in FY91/92.

Other sector wide actions will be taken to improve the economic performance of parastatals. The legal framework within which parastatals operate will be overhauled to ensure that boards of directors are given sufficient autonomy and responsibility to operate within their mandates; the respective roles of ministries, boards of directors and management will be clearly defined; parastatal boards will be given more autonomy in the hiring and firing of labor, in setting pay scales, and in procurement policy; all indirect subsidies, such as through customs duty exemption or access to borrowing at subsidized interest rates, will be phased out by the end of 1993.

(b) Civil Service Reform - Total central government expenditure is projected under the ESAP to decline from 48 percent of GDP in FY90/91 to 44 percent in FY91/92, with approximately two thirds of this reduction to come from a cut in current spending. This objective is to be achieved by limiting general wage increases to about 10 percent and by the deletion of some 5,000 authorized civil service positions by June 1992. A retention allowance equivalent to 0.5 percent of GDP (provided for in the FY91/92 budget) will be used to introduce differentiated pay raises based on merit to retain and attract engineering, managerial and other well-qualified staff. New measures will include better access to training programs and improvements of grading and promotion processes to facilitate quicker access to higher salaries and payment of retention allowances.

A Task Force, chaired by the Vice President, has been examining options for implementing the planned reduction in civil service employment. The Task Force has identified areas of overstaffing and duplication among government ministries as well as areas where civil service structures can be rationalized. Reviews of the first batch of (at least six) ministries have been completed, and this work will be continued in preparation for further civil service retrenchment beyond FY91/92 in accordance with the ESAP targets. It is anticipated that a sizeable proportion of the planned reduction in the civil service could result from natural attrition.

(c) Public Sector Investment Program (PSIP) - In accordance with the structural adjustment program, the PSIP gives top priority to infrastructure needed to support private investment and the associated increase in production and exports. Of the total capital budget for FY91/92, almost 70 percent constitutes infrastructure in agriculture, energy and water, transport and

communications and the housing and construction sector. Expenditure in these areas is primarily directed at the building of dams; the strengthening of the National Railways of Zimbabwe; the construction of roads and bridges; the digitalization program of the Posts and Telecommunications Corporation; and the first phase of the Urban II housing program.

The PSIP for the period up to FY94/95 is integrated into the Second Five-Year National Development Plan, which has now been finalized. It is planned that Government will focus on development of infrastructure to support private investment and will avoid direct investments in the productive sector. It is also anticipated that peace in the region should result in reductions in defense related infrastructural spending. The total PSIP is therefore targeted to decline as a proportion of GDP, from almost 10 percent in FY91/92 to about 7 percent in FY95/96. About 40 percent of the cumulative PSIP for the plan period is expected to be in the energy, water, transport, and communications sectors, whilst 22 percent is planned to be for agricultural infrastructure, and 10 percent for construction and housing.

The PSIP for FY91/92 was discussed and agreed with the World Bank and the African Development Bank and the program for FY92/93 will also involve consultations with these institutions. The GOZ has agreed that while the ESAP is being implemented, it will consult with both of these institutions on the PSIP on an annual basis or as and when such consultations are sought by either institution. The Government currently has a system that assesses projects by employing standardized calculations of their rates of return.

2.2.3. Monetary Policy

In the past, interest rates have not been used actively as an instrument of monetary policy. While interest rate policies in principle have taken into account money market trends and developments in the real economy and in prices, rates have until recently been unchanged in nominal terms for prolonged periods. The Reserve Bank lending/rediscount rate remained static at 9 percent from mid-1981 through November 1990 when it was raised to 10.25 percent. As a result, changes in interest rates have not reflected fluctuations in inflation and real interest rates have generally been negative.

A stated objective of monetary policy has been to contain inflation by keeping broad money growth below that of nominal GDP. During the 1980's, broad money growth was on average in line with the increase in nominal GDP growth. However, since the second half of 1989, domestic credit expansion picked up substantially. Initially, this was fuelled by strong increases in credit to the private sector associated with the higher import and investment demand arising out of the beginnings of the trade liberalization process and the ESAP in general.

A more active interest rate policy is a key component of the economic reform program currently being implemented. Consistent with the fiscal and balance of payments targets, monetary and credit policy will aim at containing overall demand and reducing the rate of inflation to about 9 percent by 1994. The existing methods used to control credit and money supply are to become more indirect and market driven.

Under the ESAP, a distinction has been made between the ultimate, intermediate and operational targets of monetary policy. Ultimate targets include high growth rates, low inflation rates and a viable external balance. Intermediate targets are variables which have a stable relationship to ultimate targets, including real interest rates and real exchange rates. Operational targets are variables that have a stable relationship to intermediate targets and can be controlled directly by the monetary authorities. These include market liquidity and short term interest rates.

(a) Reserve Bank of Zimbabwe (RBZ) Operations - In February 1991, the RBZ responded to the rapid expansion in domestic credit referred to above by tightening monetary policy through: (i) an increase in the rediscount rate from 10.25 percent per annum to 13 percent; (ii) an increase in the Base Lending Rate (BLR) from 12 percent to 15 percent (the BLR plus a cap of 2 percentage points set the upper limit on bank lending rates for productive purposes); and (iii) an increase in the reserve requirement for banks to 10 percent of all deposit liabilities.

These measures left the RBZ discount rate substantially lower than bank lending rates, and as a result, the discounting of private paper (mainly pre-shipment bills issued by tobacco exporters) by the RBZ, continued to rise substantially through mid-1991. Moreover, the RBZ's holding of government stock and treasury bills increased markedly as these government papers were not taken up by private investors at an interest rate acceptable to the monetary authorities. Thus, net domestic assets of the RBZ expanded by 120 percent and domestic credit expansion of the banking system increased by 36 percent in the twelve months to end-September 1991. Despite a sharp fall in net foreign assets emanating from the rapid growth in imports due to the expansion of the OGIL, the broad money supply (M2) grew by 40 percent in the twelve months to end-September 1991.

With inflation accelerating and the balance of payments deteriorating, the RBZ took further monetary policy action in early September 1991. In an effort to limit the growth of credit, the RBZ raised the Base Lending Rate from 15 to 17.25 percent and also raised controlled interest rates across the board. Deposit and lending rates were raised by an average of 15 percent. The Reserve Bank announced that future issues of government stock would be by tender, leading to more market determined interest rates.

At the same time, the RBZ increased the rediscount rate from 13 to 15.75 percent and announced that it would adopt a less accommodating rediscount policy. The rediscount window for government stock at the RBZ was closed completely and the rediscounting arrangements for private paper were redesigned to tighten access. A three-tier classification of bankers acceptances rediscountable with the Reserve Bank came into operation on September 6, 1991. Class "A" bills were defined as acceptances bearing a CD1 number and drawn from financing exports. So as not to discourage exports, these bills would be eligible for re-discount with the Bank at the finest rate. Class "B" bills were defined as bankers' acceptances drawn to finance either exports or imports but without a CD1 number and having less than 30 days to maturity. Class "C" bills were defined as bills drawn for the same purpose as Class "B" bills but having more than 30 days to maturity. Class "C" bills would have a higher re-discount rate.

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In mid-November, the statutory reserve requirement for banks was again raised, from 10 percent to 12.5 percent of liabilities to the public. Government stock of nearly Z$500 million were sold (primarily to the non-bank public) during November-December 1991 at an interest rate of 24-25 percent through open market sales and auctions. On December 20, 1991, the rediscount rate for the finest paper was raised further to 20 percent.

As a result of the above cited measures, monetary conditions tightened sharply from late September and short term interest rates became positive in real terms. By late December 1991, bank lending rates had increased to 25.7 percent on a weighted average basis. Compared with an inflation rate of 23.5 percent for 1991, this left interest rates as a whole substantially positive on an ex-post basis.

In late December, the Reserve Bank once again effectively closed its money market accommodation window in an effort to slow money supply growth and satisfy the performance criteria for RBZ accommodation levels and domestic credit expansion agreed with the IMF. Once again, 90 day NCD rates climbed to above 35 percent in an unprecedentedly tight market, and wide variations have been experienced in short term interest rates since September 1991. This has essentially been due to the frequent and counteractive changes in the accommodation policy of the RBZ as it has attempted to come to grips with the operational targets agreed with the IMF and at the same time fund the market shortage.

Following a limited reopening of the discount window in January 1992, 90 day NCD rates stabilized at around 30 percent, but the pattern which emerged since the end of September 1991 was repeated in early March when the rates climbed to around 45 percent as the RBZ once again closed its rediscount window. On March 17 the RBZ reversed its policy yet again by lowering the statutory reserve ratio from 12.5 percent of liabilities to the public to 6.25 percent. The move injected some Z$340 million of high powered money into the banking system, and short term rates fell immediately to around 30 percent.

(b) Money supply - As outlined above, monetary policy has been tightened considerably following the start of discussions for an IMF supported ESAF program. After registering growth of 40 percent during the twelve months to end-September 1991, the growth in the broad money supply (M2) slowed rapidly through the end of 1991 -- to around 26 percent on an annual basis. M2 growth fell further, to 21 percent on a twelve month basis in January 1992. Essentially, this was achieved through the use of increased reserve requirements and a tightening of the Reserve Bank's discount operations. Under the new IMF supported program, broad money growth is targeted to rise by no more than 20.5 percent in the twelve months to end-December 1992. Consistent with this rate of monetary growth, private sector credit is programmed to increase by about 16 percent in 1992.

(c) Interest Rate Controls - During the first year of the ESAP, progress towards the complete elimination of administered interest rates has been much more rapid than was expected. The Framework for Economic Reform (FER), published in February 1991, stated that the base lending rate would be abolished by the end of 1993. In fact, both the administered base lending rate and the "cap" on lending to the productive sectors (also scheduled under

the FER to be abolished by the end of 1993) have already been abolished with effect from December 20, 1991.

Interest rate floors remain on savings and demand deposits and for consumption and personal lending, but the floors are well below the rates currently being applied (monetary banks are currently offering 35 percent on call accounts in response the severe shortage of liquidity that has arisen as a result of restrictive RBZ operations). A ceiling remains on deposit rates for non-resident controlled account holders. There is no intervention in fixed deposit rates.

Initial steps toward strengthening prudential supervision will be taken during 1992, including the adoption of a revised Banking Companies Act providing the legal basis for on-site inspection, expanded coverage of RBZ supervision -- widened to include building societies and finance companies -- and the introduction of capital adequacy ratios.

2.2.4. External Sector

The GOZ has been unequivocally commended by the IMF for the policy measures which were introduced during 1991 to strengthen the external position. These included the short term offshore commercial loans raised to finance expansion of the OGIL, the maintenance of export competitiveness via exchange rate depreciation, and greater domestic demand restraint.

(a) Exchange Rate - During the two years to mid-1991, the Zimbabwe dollar had been depreciating at an annual average rate of 16 percent in trade weighted terms. Based on the Framework for Economic Reform's original assumptions, it was thought that continued downward management at roughly the same rate would be sufficient to support the program's objectives and continue the resource shift in favour of the export sectors. However, following the very much greater than expected increase in imports (due to the expansion of the OGIL), the authorities staged a sharp depreciation of about 38 percent in the third quarter of 1991. The move was designed to: (a) tighten demand management; (b) protect against any reversal of progress already made in trade liberalization; and (c) open the door for negotiations with the IMF for a long term facility.

Subsequently, there has been little movement in the nominal exchange rate, with the authorities indicating that they intend to maintain the exchange rate relatively stable in nominal terms, while safeguarding external competitiveness in real terms by maintaining tight fiscal and monetary policies. The Reserve Bank's commitment to exchange rate stability through 1992 was confirmed in the third week of January when -- for the first time -- the local currency was managed upwards in order to counteract some slippage which had taken place due to movements in the major currencies to which the Zimbabwe dollar is linked.

It should be pointed out that the maintenance of a stable exchange rate in nominal terms implies an increase in the exchange rate in real terms as long as Zimbabwe's inflation rate remains higher than that of its main trading partners. An increase in Real Effective Exchange Rate (REER), in turn,

implies some erosion of the advance made in this area during 1991. However, the IMF/IBRD is satisfied with the fact that Zimbabwe implemented an upfront adjustment of the exchange rate and achieved a depreciation of more than 30 percent in the REER during 1991. Subsequently, it has been agreed that a stable nominal exchange rate should be maintained to restore confidence and provide an anchor for price expectations. This was to be supported by the continued tightening of fiscal and monetary policies.

(b) Trade Liberalization - The GOZ is committed to a phased program of trade liberalization, moving away from the administered foreign exchange allocation system to a market based system by 1995 at the latest. With the exception of a few goods to be excluded only on the grounds of defense or overwhelming public interest, all items will be importable through the OGIL system by 1995. The key objectives of Zimbabwe's external trade reforms are: (i) to simplify the system and make it more transparent and predictable; (ii) to ease the access to imports; (iii) to reduce direct government involvement in import decisions; and (iv) to reduce the level and dispersion of effective protection provided to different sectors and products.

The trade liberalization process started in October 1990, in line with the FER strategy, with the introduction of a small Restricted Open General Import License list (ROGIL) list. The ROGIL list was expanded in February and July 1991, to cover 11 percent of SITC categories. The ROGIL was initially directed toward providing imported inputs for the cement, packaging, textiles, and mining industries. In addition, steel products not produced by the Zimbabwe Iron and Steel Corporation were included in ROGIL to benefit the manufacturing sector in general. In order to access the ROGIL, each producer is required to obtain an importer's licence issued by the Ministry of Industry and Commerce, specifying the goods the producer is allowed to import. The specified goods would need to be inputs required for the producer's own operations. The producer would obtain foreign exchange for the importation of these inputs by presenting the license to a bank.

An unrestricted OGIL system was introduced in July 1991. In contrast to the ROGIL, the importation under the OGIL system does not require an importer's license, in effect allowing anyone to import the goods included in the OGIL list. The initial OGIL list covered raw materials, intermediate goods, and finished products. No capital goods have been put on OGIL. The unrestricted OGIL list has been maintained and covered 14 percent of imports (based on the value of imports) at end-1991.

In 1991, imports were also liberalized through modifications of the No-Currency- Involved (NCI) scheme. Under this scheme, holders of foreign exchange have been allowed since July 1991 to utilize their funds to import any consumer goods, up to Z$15,000 per transaction with a special limit of Z$50 000 for cars (compared with a previous limit of Z$5,000 for all purposes). In addition, the regulations regarding access to and resale of such imports have been made more flexible. There are currently no restrictions on the frequency of accessing the NCI scheme (compared with the previous maximum of one transaction per month) and goods can be resold after one year (compared with the previous limit of two years). In addition, provisions for the immediate resale of NCI imports have been introduced. The

limits were further raised to Z$30 000 for general purposes and Z$100 000 for cars in December 1991. NCI imports remain a fairly insignificant part of total imports, however.

The export retention scheme (ERS), under which exporters are entitled to retain foreign exchange amounting to a prescribed share of their export receipts, was modified in December 1991: (i) The retention ratio was increased to 15 percent of exports in the July-December 1991 period for all exporters, and exporters were given the opportunity to claim for export retention every three months (previously every six months); (ii) exporters were allowed to utilize the retention certificates for the importation of any merchandise except for a small negative list (previously foreign exchange could only be used for the importation of inputs for existing lines of production); and (iii) the imported goods were made freely transferable. Transferability effectively adds freely available foreign exchange to that available through the OGIL system, thereby contributing significantly to the import liberalization program.

The greater reliance on the ERS for liberalizing imports has the advantages -- when compared with the strategy relying only on OGIL expansion -- of minimizing the potential for aggravating the balance of payments position (as the ERS imports depend on actual exports), and of scaling back government decisions regarding what goods should be imported, thus limiting the potential for bottlenecks.

The revised strategy for import liberalization was publicly announced by the authorities on December 20, 1991. This strategy involves further increases in the ERS ratio to 25 percent for exports in January-June 1992; 30 percent in July 1992-June 1993; and 35 percent in July-December 1993. The unrestricted OGIL list will be expanded to 20 percent of imports (based on import values of the preceding year) by December 1992 and further to 35 percent by June 1993. The private sector now has access to imports without licensing restrictions under the OGIL and ERS. As a result of the expansion of the OGIL and the modification of the ERS, it is estimated that by January 1992, 50 percent of total imports (excluding petroleum and aid-executed imports, which together correspond to about 20 percent of total imports) were freely importable.

2.2.5. Domestic Deregulation

The Government recognizes that the full benefits of trade liberalization and fiscal and monetary reform cannot be realized in an economic environment encumbered with excessive controls. The ESAP therefore includes the gradual removal of: investment approvals, price and distribution controls, labor and wage regulations, and other rules and guidelines which tend to inhibit growth, particularly of small-scale and informal sector activities.

Specifically, a number of products have been moved from the category of strict control, while price controls have been removed altogether for a substantial number of other products. Prices of goods accounting for 16 percent of domestic production (as measured by the weights in the Producer Price Index) were decontrolled during 1991, mainly by the removal of maximum mark-up controls concurrent with the placement of goods on the unrestricted OGIL

list. As a result, at the end of 1991, retail prices subject to direct or mark-up controls had been reduced to about 40 percent of domestic production, a substantial decline from 60 percent at the end of 1990. This means that about 60 percent of domestic production is now free of any price control.

The remaining price controls are managed flexibly for a large number of goods. Of the eight goods remaining subject to strict or direct price controls, the price of bread was raised by 75 percent between January and April 1992, and milk by 46 percent. The price of maize meal was raised by 20 percent, sugar prices increased by 83 percent and cooking oil prices by 110 percent. Prices for petroleum products have been reviewed regularly to ensure a timely pass-through of changes in world market prices, with the frequency of the reviews increasing since 1991. According to the IMF, there are no subsidies in the aggregate to petroleum products.

New legislation was passed in December 1990 which permitted employers to retrench workers for financial or economic, as well as disciplinary reasons. The basic thrust of Government policy in this area has been to move away from direct intervention towards collective bargaining and to establish time-bound procedures for settlement of matters pertaining to job security and retrenchment. Employment councils are progressively being established for all industries and activities, and they will be responsible for resolving all disputes regarding labor issues. The requirement that approval for retrenchment be sought from the Minister of Labor has been discontinued. Direct Government intervention in wage setting has been virtually eliminated. Wage agreements are now reached in employment councils and boards without any parameters being set by the Government, other than statutory minimum wages which are well below prevailing averages.

Recent policy steps to encourage investment have included the establishment of the Zimbabwe Investment Centre (ZIC); the adoption of a new investment code; increased flexibility in external remittance of dividends and profits for export oriented projects; the signing of international investment protocols; and the liberalization of the sale to foreign and domestic investors of blocked funds at a freely determined discount for domestic investment projects (these are funds arising from limitations on external remittability for pre-independence investments).

2.2.6. Social Dimensions of Adjustment (SDA)

While the ESAP's objective is to raise the overall standard of living it is also recognized that during a transitional period, certain population groups will be adversely affected by the reforms. To shield the poor and vulnerable groups from these transitional hardships associated with the ESAP, the Government has released a white paper outlining plans to mitigate possible negative effects of the ESAP. Specifically, a Social Development Fund (SDF) has been established to support social welfare measures and employment promotion. This fund is to be financed from a variety of sources, including contributions from donors. Support will be provided to labor intensive public works, the non-formal and small-scale enterprise sectors, and rural resettlement programs. The SDF will also be used to finance a variety of training activities.

The central part of the GOZ's strategy to address the social dimensions of adjustment process will be to facilitate the creation of more employment opportunities through the use of the SDF. Support will be provided to labor intensive public works and to the non-formal and small scale enterprise sectors. The fund will provide training grants for outplacement, in-plant exposure, and self employment preparation in both the non-formal and formal sectors. It will also provide grants for the support of guidance, counselling, and related research and information activities.

The GOZ has stated that the price of maize will have to be increased to reduce the losses of the Grain Marketing Board. In an attempt to address the effect that this will have on food deficit households, Z$30 million has been set aside through the SDA for a food grain subsidy aimed at maintaining nutritional standards for the poor.

Communal areas have been exempted from primary school fees, which have been introduced from the beginning of 1992 as part of efforts to increase cost recovery. The threshold below which medical care will be provided free has been raised from Z$150 per month is Z$400 per month, to correspond with the threshold for liability to pay income tax. Retrenched civil servants will be paid compensation and provided with training and related assistance to help them find employment.

2.2.7. Program Financing

The successful implementation of the economic reform program will require a greater inflow of external resources to the economy during 1992-94 than was originally envisaged. At the end of 1991 it was estimated that the total financing needs for the period 1992-94 were US$2.64 billion (about US$500 million more than was indicated at the 1991 Consultative Group meeting in Paris). This increase reflects the larger than expected widening in the current account deficit to nearly 12 percent of GDP, and the lower than expected inflow of donor financing in 1991. Of the total requirement of US$2.64 billion for 1992-94, about US$1.6 billion would be required to service debt.

As of the end of 1991, about US$685 million of the total amount required for 1992-94 was accounted for by disbursements out of existing loan and credit commitments. This left US$1.9 billion for 1992-94 to be met out of new loan and credit commitments. In its documentation supporting Zimbabwe's request for funding at the 1992 Paris Consultative Group meeting, the World Bank stressed that a substantial share of the finance would need to be in the form of grants and long-term loans to avoid excessive debt service payments.

The GOZ successfully raised just under US$1 billion at the 1992 Consultative Group meeting in Paris for the period 1992/93. Of this amount, funds of US$370 million had already been committed by the end of 1991. In addition, quick disbursing loans from the World Bank and the IMF contributed over US$300 million to the total requirement and these were further complemented by the African Development Bank loan of some US$170 million. As described below, the drought has changed the financing requirements dramatically.

2.3. Macroeconomic Performance and Expected Drought Impact

In general, the economy responded positively to the first year of the ESAP. Despite difficulties which emerged with demand management and the balance of payments, real GDP growth in 1991 turned out at 3.6 percent. Recently released data indicate that a substantial increase in domestic investment was achieved in the first year of the program; gross investment as a share of GDP was estimated at 22 percent in 1991, up from 17 percent in 1988.

Encouraging growth was recorded in formal sector employment in 1991 (4.8%), when an estimated 60,000 new formal sector jobs were created. Notably, almost all of the new employment generated by the economy since 1987 has been in the private sector.

Zimbabwe's external competitiveness also improved as the currency was managed downwards aggressively enough to achieve a substantial fall in the exchange rate in real terms. It was not without costs. Inflation accelerated from 17.7 percent at the end of 1990 to 28.2 percent at the end of 1991. This mainly reflected increased domestic demand; higher energy prices; the further liberalization of domestic price and wage controls; the expansionary monetary policy up until September 1991; and the sharp depreciation of the exchange rate which raised import costs. In effect, the aggressive downward management of the exchange rate during 1991 translated into a fall in Zimbabwe's per capita income, from US$650 in 1989 to US$560 in 1991. The latter figure is based on the average exchange rate for 1991. However, if the current exchange rate is employed the per capita income level turns out at closer to US$400 per annum.

Based on the considerable progress described above, as of the end of 1991, the specific macroeconomic objectives agreed between the GOZ and the IMF/IBRD for 1992 were: (1) increase the real GDP growth rate to 4 percent; (2) limit the rate of inflation to 15 percent by the end of the year; (3) keep the external current account deficit unchanged at 12 percent of GDP; and (4) achieve a level of gross foreign reserves equivalent to 2.5 months of imports.

Following the early 1992 recognition that the country was beginning to feel the effects of the worst drought in this century, none of the above targets remain within reach, and the consensus forecast for real GDP growth has been further lowered to perhaps -10 percent, with agricultural output projected to fall by about 40 percent. The IMF is currently adjusting its 1992 performance criteria and re-appraising the medium term adjustment framework for the ERP in light of the drought.

Currently, the estimated impact of the drought is an increase in the financing gap by US$500 million. With the Consultative Groups and the IBRD's plans for a US$150 million drought "add-on" to the structural adjustment program and advancing US$35 million in Bank projects from 1993 to 1992, plus other donor contributions, the IMF assumes that the $170 million funding gap for 1992 has been closed. It is expected that the impact of the drought on the funding gap will be alleviated by a decrease in non-drought related imports in 1992 and 1993 as a consequence of a tightening of monetary policy and the postponement of non-essential government projects, as well as the adverse impacts of the drought on investment, incomes and production.

The financial impact of the drought on the economy not withstanding, there is an early consensus that, assuming a return to normal rainfall patterns in the 1992/93 agricultural growing season, it is reasonable to expect GDP growth of about 6 percent in 1993 and 4-5 percent growth thereafter (ie. through 1995). This revised medium term scenario is likely to be adopted because: (i) the indirect and spread effects of the drought beyond 1992 are not yet known, and (ii) because there is a history of agriculture (and the economy in general) rebounding fairly strongly following previous droughts when weather patterns return to normal.

The target for budget deficit reduction for the 1991/92 fiscal year was revised to 3.6 percentage points of GDP (ie from 10.7% to 7.1%), following the increase in customs revenue introduced in October 1991 referred to above. However, the additional expenditure demands in terms of food imports, supplementary feeding programs, and food for work programs means that this latter target is no longer achievable. At best, the 1991/92 budget deficit (excluding grants) is now expected to turn out at 8.7 percent of GDP.

Under the IMF supported program for 1992, inflation is targeted to fall to 20 percent by end-1992, although this projection was overly optimistic. However, in the light of the drought -- which will restrain both aggregate demand and supply -- the current consensus is that consumer price inflation will average about 36 percent during 1992 and end the year at about 37 percent on a twelve month basis.

Before the drought, it was anticipated that the large external imbalance which had emerged during 1991 would be contained during 1992, with a current account deficit of US$590 million (or 11.8 percent of GDP) being projected. However, the balance of payments outlook has since worsened considerably. Negative GDP growth this year and a possible further depreciation of the exchange rate translates into a projected current account deficit of US$960 million, or 19.3 percent of GDP in 1992.

2.4. Expected Impact of the Macroeconomy and the Drought on the Housing Sector

As a result of the drought, it will take three years for an estimated 6.8 percent fall in per capita incomes in 1991 to be recovered. However, a component analysis of demand and expenditure in GDP indicates that after falling by 4 percent in 1992, private consumption is likely to rise in real terms by an annual average of 6.7 percent over the three year period 1993-95. This should be made possible by the reduction in the share of Government expenditure in GDP, as anticipated under the ESAP.

In 1991 real wages in the urban economy fell by 4.5 percent. An even steeper fall can be expected in 1992 as inflation remains high and the economy contracts. Thereafter, however, this trend is likely to be reversed as (i) a return to more normal rainfall patterns and an improvement in investor confidence lead to positive growth in per capita incomes, and (ii) inflation subsides due to appropriately restrictive demand policies.

Interest rates, except for a limited number of categories, are now determined by competitive and market related considerations. Since the beginning of March 1992, some monetary banks have been offering interest rates of 35 percent per annum on call deposits in an effort to attract resources. Interest rate controls still remain for: (i) savings and demand deposits and for consumption related and personal lending, but these are floors which have not yet technically been abolished and are currently well below prevailing rates; and (ii) for building society deposit and mortgage rates.

The rapid increase in private sector lending during 1991 means that lending has grown faster than deposits and bank lending ratios have thus risen from 55 percent of deposits to about 80 percent of deposits. With the restrictive monetary policy translating into very low growth in the bank's deposit base, there is little room left (if any) for further growth in bank lending. Furthermore, the commercial banks are anticipating a further increase in the demand for credit. As a result, liquidity will remain tight and interest rates (i.e., 90 day NCDs) are expected to remain high -- and positive -- fluctuating around 30 percent at least until the middle of 1992.

The view that the current difficulties facing the building societies are essentially of a short-term nature is a consensus one. The IMF/IBRD supported ESAP is designed to achieve a rapid reduction in inflation. The medium-term macro scenario developed in this report suggests that interest rates, while remaining positive, will fall together with inflation as the ESAP is implemented. Short term interest rates are projected to fall below 15 percent early in 1995; while inflation is projected to fall to an annualized average of 10 percent in 1995.

Projections made for the external debt and debt service through 1998 assume that half of the US$400-500 million impact of the drought on the balance of payments will be provided for by grants and the other half by long term concessional financing with similar terms to that of the HG loan. Based on these assumptions, it is expected that the cost of the drought will be reflected in the debt service ratio through 1998. The HG loan component of the debt service ratio will not exceed 0.13 percent through 1998.

Because the success of the proposed program is less tied to the achievement of specific and time-bound benchmarks than it is to the GOZ's overall commitment to move in the direction as set out in the ESAP, the hiccup in ESAP implementation caused by the drought should not have a profound impact on the proposed housing program's feasibility. Indeed, the program is sufficiently flexible in its design to be able to withstand a range of possible adverse scenarios.

Also, it is important to note that the implementation of the proposed program is far less politically contentious than the implementation of the ESAP, where vulnerable groups are clearly at risk. In fact, the proposed program implementation should be publicly perceived as protecting vulnerable urban

groups by providing access to low income housing affordable to families below the median income. By providing this targetted assistance, the proposed program is highly complementary to the GOZ's Social Dimensions Program.

In addition, the overall ESAP will be strongly supported by the positive impact that the proposed program will have on the supply side of the economy, e.g., in generating construction activity and employment. Finally, the private enterprise sector can be expected to benefit markedly from the broadening and deepening effect that the program will have on the real economy and on the monetary sector.

2.5. Assessment of Commitment to Macro and Sectoral Policy Reform

The Framework for Economic Reform (FER) document presented an economic adjustment and stabilization program which was to be implemented over a period of five years. The faster than expected growth in imports and the resulting sharp depreciation of the exchange rate, however, led to an acceleration of the overall ESAP timetable. In effect, in 1991, and before the drought, Zimbabwe jumped from a slow track adjustment path to a fast track one. Also, a three year Extended Fund Facility (EFF), to be converted to an Enhanced Structural Adjustment Facility (ESAF), was negotiated with the IMF. This development signaled the speeding up of the adjustment program, a factor confirmed by the revised trade liberalization schedule, where the key long range benchmarks all pointed, at the end of 1991, to the completion of the trade liberalization process by 1994/95.

Performance in 1991 was matched with political will. The GOZ borrowed short-term from commercial sources to avoid any slow down in 1991, while awaiting the disbursement of longer term concessional donor financing. After it became evident early in 1991 that there would be a substantial time lag before disbursement of the donor's pledges, the GOZ successfully raised nearly US$400 million in short term credits from overseas commercial banks. The financing was used to expand the OGIL system in March and July 1991, enabling the GOS to demonstrate its commitment to the trade liberalization process. After drawing on its existing overdraft lines with commercial banks, the GOZ also secured a bridging loan worth US$155 million together with three other new short term trade facilities. The non-availability of donor credits would otherwise have translated into a critical loss of momentum in the trade liberalization process.

There are two major risks associated with the ESAP. The first is that political support could weaken as some of the transitional hardships become more apparent and Government policies are questioned. The GOZ, however, has shown the political will to maintain the program as witnessed by the 1992 price increases for bread and maize meal. In anticipation of possible problems, the GOZ is intensifying a campaign to make the objectives and measures of the program better understood by all segments of society. It is also implementing a Social Dimensions of Adjustment program, designed to install a social safety net to alleviate some of the effects of adjustment on the poor.

The second, and perhaps more critical risk in the immediate time frame, is that the needed external financial support for ESAP, particularly during these initial years of the program and in the context of a resource draining

drought, might be slow in materializing. This could negatively affect the program implementation. However, the implementation of the initial measures of the program as outlined in the previous section, suggest that the process of structural change in Zimbabwe is irreversible, thereby reducing these risks to some degree.

The commitment to ESAP is important for program success, but a commitment to modify policies in the shelter sector in the context of ESAP is also important to guage. As discussed in the Socio-Cultural Feasibility Assessment for the proposed program, with structural adjustment, the policy environment in Zimbabwe has changed dramatically. Under the ESAP, urban development and housing are seen conceptually and operationally, as part of the overall strategy in which the cities, through privatization processes being promoted, are expected to play an important role in national economic growth. Furthermore, the Government recognizes that the present minimum standards for urban infrastructure and low income housing are inaccessible to the poor on a cost recovery basis, and that the climate is now right to review these minimum standards and make them as flexible as possible and therefore cater to the vulnerable groups on a cost recovery basis.

Indeed, it is apparent that the Government's housing policy is shifting from one based on the housing needs of the population to one based on the people's willingness and ability to pay. The feasibility of the approach depends on the Government's ability to restrict its intervention to those areas where it has comparative advantages, i.e., the provision of infrastructure, the mechanisms for establishing and transferring property rights, and a regulatory framework that can allow the private sector to provide housing finance.

3. PROGRAM RATIONALE

3.1. Sector Selection and Choice of NPA Modality

As noted in the ECPR review, a major reform program in the housing sector in Zimbabwe is consistent with: (i) Zimbabwe's status as a lower middle income country; (ii) Zimbabwe's successful movement over the last year from a self-defined economic reform program to a World Bank and IMF-approved structural adjustment program; (iii) the change in Zimbabwe's credit rating from "D" to "C-" (OMB Passback); and (iv) the focus of the program's conditionality on the private sector provision of services for low-income beneficiaries.

In addition to the above-mentioned factors, the Mission has considered a number of related programmatic concerns in selecting low income housing as the most appropriate sector for assistance. Foremost among program concerns is the sector's importance to achieving the Government's broader structural adjustment objectives, including increasing reliance on market forces, reduction of the role of government in the economy, and increasing employment. Complementing this overarching programmatic interest is the Mission's program strategy and long term experience in the housing sector.

The Mission has been active in the housing and urban development sector in Zimbabwe since shortly after independence in 1980, at which time the first US$50 million Housing Guaranty "aided self-help" scheme was initiated. That program is now completed. Under that program, the Reserve Bank of Zimbabwe received untied foreign exchange, with the local currency equivalent on-lent to the National Housing Fund (NHF) within the Ministry of Public Construction and National Housing (MPCNH). The NHF subsequently lent resources to local government authorities which constructed, through private contractors, individual plots. Low income beneficiaries received building material loans from the local authorities and were responsible for the construction of their own houses, primarily through small, private contractors.

Between 1984 and 1990, the HG Program financed more than 22,000 units, representing nearly 40 percent of the low cost urban shelter built during this period. Cost recovery was excellent, with an arrearage rate below 4 percent. MPCNH and the local authorities successfully managed and implemented all aspects of the first HG program. In fact, USAID and the RHUDO consider this first HG program one of the most successful housing and urban development projects in Sub-Saharan Africa.

A February 1988 evaluation confirmed that the first US$50 million HG program exceeded its original goals. Among other findings, it was determined that the GOZ made substantial gains in developing its institutional, technological, and financial capacity to provide shelter for the urban poor. The Government also demonstrated its capacity to implement the desired principles of aided self-help and full cost recovery. The program was not, however, designed to address policy impediments, such as: (i) involving the private sector in financing lower income mortgages; or (ii) addressing the problem of expensive, limited building materials. The Mission has learned that these policy constraints must be taken into account if the Government is to succeed in establishing a system for low income housing delivery that would continue on a sustainable basis without additional assistance.

The Mission believes that it is now time to move beyond building houses, and to begin to address the fundamental policy constraints which limit the production of low income shelter on a <u>sustainable</u> basis. Moreover, the first HG program greatly facilitated access to information and substantively enhanced the Mission's understanding of the key issues and constraints to sector development. In addition, the work of other donors (detailed in Section 3.4.), especially the World Bank, has deepened the Mission's knowledge of related sectors, such as the construction and materials production industries, and broadened our understanding of the interlinkage of the constraints network.

The Mission finds a policy reform approach approrpriate not only to the phase of development in our interventions in the sector, but also in concert with the policy directions announced by the GOZ. As discussed in Section 2.2., above, specific financial sector reforms consistent with the desirable direction in housing finance have been recommended in the ESAP framework. Also, the success the GOZ attached to the first program has helped to reinforce GOZ interest in working with A.I.D. on the new sector program.

3.2. Relation to GOZ Development Goals and Priorities

As detailed in Section 2.3.1., in January 1991, the Government of Zimbabwe announced its Framework for Economic Reform (1991-1995), a comprehensive program embracing macro-economic policy reforms, trade promotion, domestic deregulation and sectoral initiatives. The policies announced under the ESAP address the very ills that inhibited economic growth and investment in the 1980's. The urban housing situation is a manifestation of past deleterious economic policies to be addressed through the structural adjustment program and the Second Five-Year National Development Plan, 1991-1995.

As noted in Section 2.1., Key Development Indicators, nearly thirty percent of Zimbabwe's population resides in urban areas. Moreover, Government anticipates substantial increases in the urban population and recognizes the need to improve urban investments and services. The demand for residential accommodation in the urban areas since independence has been influenced by demographic and economic factors, including the natural increase in population, rural-to-urban migration and income distribution patterns. Urban area population is expected to double by the turn of the century, further aggravating the current inadequacies of the urban housing sub-sector.

Performance in the construction sector increased in the early years after independence and fell thereafter. Value added in the construction sector rose in 1981 and slowed thereafter, recording a negative 4.7 percent growth between 1980 and 1990. Fixed capital formation in the sector rose in real terms from Z$12 million in 1980 to Z$24 million in 1982, declining continuously thereafter. The construction sector grew at an average annual rate of 5.4 percent during the period 1985-1990. The sector currently employs 74,400 people, representing 7.7 percent of non-agricultural formal sector employment in Zimbabwe, a significant indication of the important role of this sector to the economy as a whole.

By the GOZ's own admission as stated in its Second Five-Year National Development Plan, 1991-1995, performance of the housing sub-sector was" very much below requirements", as "demonstrated by the growing waiting list in the main urban areas, particularly in Harare and Bulawayo and the general mushrooming of squatters and squatter camps". The housing waiting list in Harare, alone is growing at a rate of 1,200 units per month, largely consisting of low income housing units. Both the public and the private sectors failed to meet the demand for shelter in the high as well as low-density residential areas.

The rationale for the past failure to supply adequate housing infrastructure includes the construction industry's acute shortage of new plant and machinery caused by the lack of access to foreign exchange, the shortage of surveyed land due to inadequate manpower and equipment, the deficiencies in the availability of building materials and excessive building and infrastructure standards. The GOZ acknowledges the critical shortage of professional and technical manpower including architects, engineers, valuators, and physical planners -- especially those with sufficient middle management and supervisory skills for on-site responsibilities.

In addition to acknowledging the past failures in the provision of residential shelter, the Government recognizes that the targets for fiscal austerity under ESAP, particularly related to these urban investments, must be borne by increased private sector participation in the housing sector. The proposed Private Sector Housing Program supports and reinforces the GOZ's intended efforts in public sector deficit reduction by: engendering significant savings in the urban sector, expanding private sector intermediation in housing finance, and ensuring the financial independence and viability of urban local authorities as suppliers of urban services. The potential introduction of new financial instruments suggested under the Program will deepen and strengthen the private financial sector. As stated in the Framework for Economic Reform, the Government will endeavor to: (a) preclude a reliance on central Government transfers to the urban sector for recurrent expenditures; and (b) minimize reliance on central financing of capital works.

Importantly, the drafters of the economic Framework recognize the implicit adverse social and economic consequences of economic policy reforms on certai "vulnerable" groups. The Framework includes a social safety net to shield disadvantaged and vulnerable groups who will suffer declining welfare arising from economic stabilization and adjustment measures. According to a survey of socio-economic characteristics by household type, a worker earning the minimum wage in manufacturing in 1988 spent 55 percent of his/her total expenditures on foodstuffs, and 18 percent on rent, fuel and lighting. The heavy expenditure on such non-discretionary items reflects the relative poverty of urban low-income households. By addressing the urban low-income housing needs in Zimbabwe, the Private Sector Housing Program will ameliorate the effects of the ESAP on one of the more vulnerable groups, thereby reducing the GOZ's safety net requirements for that group.

The GOZ has identified the development of the construction industry as crucial for future investment activities in the economy. In the period covered by the Second Five-Year National Development Plan, the following objectives have been established by Government:

(1) Enhance the capability of the construction industry;

(2) Improve the availability of housing at affordable prices;

(3) Facilitate and increase individual, group, community and private sector participation in the provision of houses;

(4) Reduce the rate of urban sprawl and promote optimal land use patterns;

(5) Improve the sector's skilled personnel requirements.

The following GOZ strategies will be utilized to achieve these objectives:

(1) Raise funds for planned maintenance of Government institutions;
(2) Ease foreign exchange regulations to facilitate the revitalization of the construction industry;

(3) Remove restrictions that unnecessarily restrict the role of the private sector in servicing land or developing residential housing (houses or flats)
(4) Decentralize Government through construction in provincial capitals and district centers;
(5) Train personnel in the fields of architecture, valuation, estate management, engineering and quantity and land surveying;
(6) Initiate new forms of housing development with varied design options to minimize infrastructure and construction costs.

The outcome anticipated is the increased availability of residential plots and finished housing as the private sector is allowed to service land, thereby reducing the reliance on local authorities as the sole suppliers of serviced residential stands. The GOZ also acknowledges the likely relaxation of legal requirements to improve the output of surveyed land and houses. Moreover, the Government recognizes the need to restore the capacity and productivity of the construction industry through the provision of foreign exchange, which in the longer term, will improve the international competitiveness of the industry, resulting in foreign currency earnings. With the progressive implementation of the structural adjustment program, the building materials industry productivity is expected to grow.

In sum, under the ESAP and the Second Five-Year National Development Plan, Government is redefining its role from a provider of goods to a facilitator of economic growth. In this context, the Zimbabwe Private Sector Housing Program complements the attainment of stated ESAP goals and National Development Plan strategies. Specifically, reforms in the construction sector will increase employment opportunities, particularly for semi-skilled and unskilled workers; meet expansion needs related to new investments in the agriculture, manufacturing, and mining sectors; and strengthen the capacity of indigenous building contractors. Also, the policy agenda in the proposed program includes shifting the burden of responsibility for the provision of housing from the public to the private sector, expanding the private capital market, and creating new private investment opportunities. Finally, the reforms related to land delivery and infrastructure will increase opportunities for private sector housing developers, make the building sector more efficient, and in turn, will make more affordable housing available to Zimbabweans.

3.3. Relation to USAID/Zimbabwe Program Strategy

The United States' program of economic assistance to Zimbabwe began with the country's independence in April 1980. Through 1991, $449 million had been committed, including $87 million in Southern Africa Regional Program (SARP) funds, to directly benefit Zimbabwe. The vast majority of funds, $345 million, was committed between 1980 and 1985 to fund post-war reconstruction activities and to support majority participation in national development. After a period of minimum U.S. donor support, fueled by an increasingly vocal expression of anti-American sentiment by the Government of Zimbabwe, increased levels of assistance were resumed to reflect significant political and economic change in Zimbabwe. Politically, Zimbabwe vastly improved its relationship with the United States, as exemplified by its leadership role on the UN Security Council during the Gulf War. There are expanding individual

freedoms and opportunities for participation in the government. Economically, the GOZ has recognized that past concentration on redressing social imbalances and inadequate private sector expansion have resulted in inadequate levels of economic growth.

In response, the Government embarked on the World Bank/IMF endorsed Structural Adjustment Program in 1991 to re-orient Zimbabwe's macro-economic, trade and sectoral policies to promote investment, generate employment and expand opportunities for growth. The program is detailed in Section 2.2. USAID/Zimbabwe's programs are designed to advance one or more of three strategic objectives:

(1) Enhance the private sector's capacity to respond to this liberalized economic environment;

(2) Support the Structural Adjustment Program's sectoral objectives in agriculture and housing;

(3) Strengthen Zimbabwe's family planning services and AIDS control program.

The Mission's decision to pursue policy reforms in the housing sector is consistent with USAID/Zimbabwe's strategic objective of supporting ESAP's sectoral objectives in housing and it will also help to achieve a key structural adjustment objective of increasing reliance on market forces and reducing the role of government while expanding employment opportunities.

The Mission's current portfolio embraces an array of initiatives to encourage policy reforms and parastatal restructuring, including the current grain marketing reform program, which should reduce the GOZ's role in grain marketing and expand private sector participation as a means of increasing efficiency while reducing the fiscal deficit. Similarly, the proposed Private Sector Housing Program is designed to enhance the private sector's capacity to support economic growth and market liberalization advocated by the GOZ under its ESAP. The Mission's projects are also designed to support structural adjustment objectives. For example, the Mission's support in family planning is directed towards promotion of cost-recovery and sustainability through the increased participation of the private sector in the delivery of family planning services. The Mission also provided the GOZ with foreign exchange for the purchase of railroad equipment as a part of the effort to alleviate the effects of the drought.

In addition to USAID/Zimbabwe's focus on advancing the implementation of the structural adjustment program to support Zimbabwe's conversion into a market-oriented competitive economy, is its complementary project support to the private sector to strengthen the economy's competitiveness and increase growth. Specific activities are encouraging the development of export processing zones, and facilitating sub-contracting, spin-offs and other mechanisms which should increase efficiency. Similarly, USAID's training portfolio has been redesigned to shift support to private sector training to help the business sector re-tool and prepare itself for a more competitive environment resulting not only from successful ESAP implementation, but the re-emergence of South Africa as a competitive trading partner in the region.

The third area of Mission concentration is in AIDS control and in strengthening Zimbabwe's impressive family planning services, including enhanced cost recovery and private sector participation in the delivery of services.

The proposed Private Sector Housing Program's policy context is consistent with the Development Fund for Africa's (DFA) strategic objective, "improving management of African economies by redefining and reducing the role of the public sector and increasing its efficiency". The housing program will address each of the following targets defined under the DFA objectives:

1. Improved stability in African economies: better management of debts and better fiscal and monetary policies - The local currency generated through the sector loan will help the private sector to finance urban housing infrastructure, decreasing the burden on the government's budget, and reducing the budget deficit.

2. Reduced government involvement in production and marketing of goods and services. - The private sector will be the primary agent of housing sector finance and development.

3. Improved equity and efficiency in providing key public goods. - The critical shortage of housing will be addressed through improved availability and efficiency of housing finance and delivery mechanisms.

Moreover, the DFA strategic objective of "strengthening competitive markets so as to provide a healthy environment for private sector-led growth" will be advanced through liberalized factor markets by the liberalization of interest rates, deregulation of credit, and mobilization of financial resources.

Importantly, the Program is targeted to address the basic human need for shelter and will support reforms to provide housing that is both adequate and affordable.

3.4. Complementarity with Other Donor Assistance

In addition to USAID, the other major donor active in the housing and urban sector is the World Bank. The Bank began operations in Zimbabwe at independence, and its Urban I program is now nearing completion. The primary thrust of Urban I was to assist the private building societies in Zimbabwe and to provide more long term financing for low cost shelter. The program stressed lower cost housing and infrastructure designs and sound cost recovery procedures.

The GOZ has now embarked on a comprehensive shelter and urban infrastructure development program totalling US$580 million. A part of this program includes a second World Bank loan, Urban II, for US$80 million to be used to procure plant and equipment for the two Ministries and for local authorities involved in the implementation of the program. Some foreign exchange will also be programmed for the building societies to meet their expanded computer needs. Urban II became effective in January 1990 although it is in its first year of implementation.

The GOZ's comprehensive shelter and infrastructure program also includes financing commitments from other sources. The single largest contribution will total US$242 million over five years for housing finance provided by the building societies. The GOZ contribution will total US$223 million over the same period and will be used for community facilities, electricity, primary infrastructure, maintenance, and institutional development. The balance of US$35 million is being provided by other donors in the form of soft loans or grants for training and institutional development.

The World Bank's Staff Appraisal Report identifies several risks in the program's implementation. Of major concern to the GOZ and the World Bank are the current problems in the private construction and building material industries. The concern relates to a lack of foreign exchange for plant and equipment, transport, and spare parts. Obviously the foreign exchange problem has major repercussions beyond the scope of shelter and affects both the public and private sectors. However, Urban II assistance, in terms of plant and equipment, is limited to the public sector.

The World Bank is also considering a separate program for the private construction industry with several policy objectives tied to making it more export-oriented. While it seems likely that this program will proceed, no final decision has been made. USAID has worked closely with the World Bank during its initial study and there has been general agreement on the division of support. Under the proposed program, World Bank funds would be targetted to the construction industry while USAID funds, through the Private Sector Housing Program, will be channelled to the building material industry in order to increase their capacity. USAID and the World Bank will continue to coordinate during the implementation of both programs. Should the Bank's construction program fail to materialize, USAID will reappraise the situation.

Another major concern regarding the implementation of Urban II is the ability of the building societies to mobilize the funds necessary for housing finance. Nearly half of the total financing programmed under Urban II is to be generated by the building societies. During the implementation of Urban I, the building societies were at times unable to generate sufficient finance to meet demand and, as a result, there were substantial delays. Both the GOZ and the societies are concerned about the ability of the housing finance institutions to raise the funds required to meet projected housing mortgage demand. The concern related to finance is particularly germaine at the present time when funds are being withdrawn from the societies and placed in commercial banks, which are paying higher interest rates. USAID and the World Bank have worked together to alleviate this concern and believe that the issue can be addressed through the proposed reforms to the housing finance sector in the Private Sector Housing Program.

Several other donors are sponsoring urban and shelter related programs including the Swedish International Development Agency (SIDA) and the British Overseas Development Administration (ODA). In general, these activities have involved specific training or technical assistance projects. Neither the United Nations Development Program or U.N. Habitat presently have programs in the shelter or urban development sector in Zimbabwe. USAID and the World Bank are the only two donors undertaking comprehensive programs in the urban sector.

4. SECTOR CONSTRAINTS ANALYSIS

Housing Situation - In the past in Zimbabwe, the existing housing stock has served as a relatively elastic source of supply, absorbing additional people as lodgers, which has led to increased overcrowding. Until recently, this elasticity was sufficient to avoid squatting, but now overcrowding has reached a point where the existing housing stock cannot absorb additional people. National occupancy rates in the high density areas vary from nine people per 200-300 m2 plot in some areas to 30 people per 200-300 m2 plot in other areas. Approximately 66 percent of the population of the high density suburbs are lodgers either renting a room in the main house or a shack on the plot. The critical level of demand for housing is being reached and manifests itself in spontaneous squatter settlements.

Although there has been an average annual production of 12,000 to 14,000 low cost units over the last five years, the GOZ estimates that only a third of urban housing demand is being met. Continuation of the shortfall supply could result in an additional one million inadequately housed urban dwellers by the year 2000.

The MPCNH acknowledges a waiting list for Harare of 7,000 households, increasing at a rate of 1,200 per month. The waiting list for all the urban areas is 500,000 with 70 percent deemed to be low income households. True demand is probably much higher, since many households see themselves as unable to afford the present low income housing units and therefore do not bother to register.

The GOZ was sensitive to the issue of housing at the time of independence, and from 1981, promoted private ownership of formerly publicly owned housing in the high density suburbs. Concerned in the early 1980's with a transformaton from capitalism to socialism, the GOZ saw their housing policy as a redistributive mechanism for redressing colonial income and wealth inequalities and to this end were concerned to improve the standard of accommodation offered to the lower income levels. In 1983, the MPCNH issued a policy directive specifying a minimum plot size of 300 square meters and a minimum house size of approximately 55 square meters consisting of two bedrooms, a living room, a kitchen, a shower that could be converted into a bath, and a separate toilet.

The cost of building this four-roomed house in 1983 was approximately Z$7,850, while the same four-roomed house in 1992 costs approximately Z$35,000. The four-roomed core was to be completed through aided self-help in 18 months from the time of allocation. The development standards and time frame proved too ambitious given the financial resources of the low income group. In many instances, the standards set in 1983 have led to inceased overcrowding where beneficiaries have taken in lodger families to meet building costs; the standards have also created a false expectation among the population of a "right to an affordable four-roomed house."

A household survey conducted in January 1992, using a representative sample of urban households found that, on average, owner households are currently enjoying the use of four rooms for living and sleeping. The cost of doing so

requires that houses and infrastructure designed for single family dwelling units support 3.4 households on each unit. Nationally, occupancy rates range from 9 to 11 people per plot in Bulawayo and Harare, to 23 people per plot in Chitungwiza. Severe overcrowding not only produces social tensions and domestic stress but also overloads urban service networks.

The survey also found that In spite of national minimum standards calling for a four roomed core house, the majority of urban residents are lodgers. Lodger families, whatever their size, age of children, etc. have to make do with an average of only one room for living and sleeping. They pay more rent per month for this one room than the whole house mortgage payments paid by the owner.

In older housing areas of the country (e.g. Sakubva, Mutare) where the main house cannot be extended, lodgers are accommodated in backyard "cottages". Even if a household were only to receive a Building Society mortgage to construct an initial one roomed house, the chances are high that the household would either extend the main house or put up backyard "cottages" from personal savings to increase its income from lodgers. Local authorities have been unable to halt this trend.

The median household income from salaries or self-employment in January 1992 was found to be Z$550. An important regular additional income is rent from lodgers. The 1992 survey found the median monthly rent from lodgers and other sources to be Z$170. This gives a monthly median income of Z$720. Average household budgets are very close to and even slightly exceed median income levels. Any increases in mortgage repayments would have to be met by households cutting into the minor budget items or, more likely, food. Increases in interest rates and building costs will certainly have a severe impact on already fully stretched household budgets. The only way to offset the increases is a reduction in plot sizes and building standards and more efficient infrastructure design. There is a willingness on the part of households to accept this.

The household survey provided quantitative confirmation that: (a) de facto, the majority of the urban population is already living in overcrowded conditions; (b) the desire to own one's own home is strong; (c) there appears to be an unlimited willingness to pay more for accommodation of one's own; (d) there is a high degree of willingness to accept smaller plot sizes and gravel roads in exchange for eventual extra floor space; and (e) finally, the majority of households would opt for an undeveloped stand rather than share a larger house with another family.

4.1. The Existing Housing Delivery System

As detailed above, the GOZ has promoted the policy of aided self help schemes and home ownership since Independence, when low income households were allocated serviced lots and received loans for the construction of their housing units. In addition to the development of new housing in furtherance of its home ownership policy, the GOZ authorized local authorities to sell their rented housing stock to sitting tenants. The sale price was based on capitalizing the monthly rental payable, discounted for each completed year a

tenant had occupied the property. In both cases the mortgages between the beneficiary and the local authority are repaid over a maximum period of 25 years at interest rates which vary depending on each local authority's average cost of money.

The National Housing Fund (NHF), which is administered by the Ministry of Public Construction and National Housing (MPCNH), has traditionally been the major vehicle through which the GOZ provides housing finance for low income beneficiaries. Funds are provided to the NHF in the form of loans from the Ministry of Finance (MOF). The NHF in turn lends the money to local authorities whose requirements are vetted and approved by MPCNH and Ministry of Local Government, Rural and Urban Development (MLGRUD). Complementary funds for off-site infrastructure are provided through the General Loan Fund (GLF) operated by MLGRUD.

Prior to FY86/87 the NHF loans to local authorities were used to finance both the on-site infrastructure and superstructures. The local authorities acted as developers with planning approval provided by MLGRUD and construction undertaken by private contractors. Private consulting engineers managed the work. Since 1988, there has been a gradual shift in responsibility as the private sector has become the primary provider of long term housing finance for people in the low income groups. The NHF loans to local authorities have thus been largely for construction finance to provide the on-site infrastructure. Again private contractors and consulting engineers undertake and oversee the work. However, the system now enables the local authorities to recover the cost of their development by selling the lots to the public who, in turn, finance them through the building societies.

Until the mid 1980's, the building societies were reluctant to finance shelter for low income households. Their market niche was middle and high income households and their profit margins were attractive. However, given the large financial resources potentially available from the private sector, the GOZ, with support from USAID and the World Bank, pushed the societies to address the massive demand for shelter for the low income groups. In 1987, the GOZ gave tax free status to the income from certain investments in the building societies (known as "Class C" shares) which significantly lowered the cost of funds to the societies. The reduced cost of these shares and the high level of computerization within the building societies operations allowed the housing finance industry to handle more business at lower margins. As a consequence, the building societies were able to expand the number of annual low income mortgages from zero in the mid-1980's to approximately 5,500 today.

The revised system of housing delivery relies principally on the public sector to finance the initial infrastructure and the private sector to finance the superstructure. Yet despite the positive changes in this system, the output of low cost housing has been hampered by the lack of building materials, shortfalls in the supply of long term housing finance, and expensive minimum building standards.

4.2. Housing Finance Constraints

The constraints facing the building societies are both transitional and long-term. The implementation of the ESAP has caused a variety of distortions in the financial system which have negatively affected the housing finance industry. The most important is the high interest rates which make it difficult for building societies to compete in the money market. However, all parties agree that the full implementation of the ESAP will alleviate this constraint.

The longer term problem is a quantitative one. No definitive figures are available, but it has been estimated that nearly one in four Zimbabweans is seeking shelter, with some 500,000 units required to meet this demand. Once sufficient serviced plots are in place, there will, therefore, be a rapid growth in demand for long term finance from the building societies.

a. Transitional Constraints

Implementation of the ESAP has required the GOZ to balance two important objectives insofar as they affect the building societies. The primary monetary policy measure is to tighten up liquidity in order to stabilize the macroeconomic situation in a period when trade and price controls are being lifted. This involves financing GOZ expenditures with private savings, which consequently increases the cost of money to positive rates. Money market rates, depending on the nature of the funding, now vary between 21 and 36 percent. These rates obviously act as bench marks for bank rates.

On the other hand, the GOZ is concerned that allowing mortgage rates to rise to market levels will result in massive defaults and will make shelter unaffordable. The MFEPD and the RBZ believe that low income mortgage rates cannot increase any further during the transition. This position is supported by local World Bank representatives. These two policy stances obviously present a major problem to the building societies. To maintain the existing mortgage rate to low income earners during the transition, the societies cannot compete for deposits with the monetary/banking sector.

In 1990 the building societies had record levels of liquidity which they were unable to lend due to constraints in the building material and construction industry. However, in August 1990 the GOZ made its first move to liberalise interest rates in the money market and the banking system, which led to a tightening of the monetary situation and greater competition for deposits in which the building societies, with their controlled lending rates, could not compete. It was not until February, 1991 that the building societies were allowed to increase their mortgage and deposit rates.

In July and August, 1991 the Zimbabwe dollar was devalued by 37 percent, and there were rapid increases in the money market and bank lending rates. Fluctuations in the money markets increased, and rates went up to a level at which the building societies could not compete. This led the monetary authorities to make a further adjustment to building society rates in September 1991. The building societies continued to express concern that these adjustments were not adequate to reduce their risk of decapitalization.

The only competitive building society deposit was the tax-free share which enables the societies to avoid decapitalization.

The average cost of funds to the largest building society, as of the end of January 1992, was estimated to be 13.9 percent and their average return on money was 16 percent. Variations on these percentages occur in the other building societies depending on their debt and asset portfolios.

In order to assess the effects of interest rate movements on the building societies, an analysis of their share and deposit levels was carried out from June 1991 to January 1992. Over the seven month period the value of total shares and deposits attracted into the building societies rose by 4 percent. Inflation figures for the period have not as yet been published. However, with annual inflation estimated at 25 percent it can be concluded that, in real terms, decapitalization of share and deposit levels did occur over the period.

Disaggregating the figures into the various modes of investments in the building societies gives a clearer picture of recent trends in the flow of funds. Permanent shares, which are funds from corporate and larger investors, accounted for about 30 percent of the investments in building societies as of January 1992. These shares witnessed declines of 10 percent from June 1991 to January 1992, due to their low rate of return when compared to other investments.

The building societies have, over recent years, also taken on a banking type role for the lower income groups. These groups have limited access to higher return investments in the banking and monetary sector and principally utilize savings accounts offered by the building society system as a channel for their monthly earnings. These accounts represented about 42 percent of the building societies' deposits and shares in January 1992, and grew by 6 percent over the period.

The tax free Class C Shares, which are linked to reinvestment in low income housing, represented about 27 percent of the shares and deposits of the building societies in January 1992, and grew by 22 percent over the period. This form of investment in the building societies thus increased in real terms. These shares, with a nominal return of 12.65 percent, over the period provided an effective return of approximately 25 percent for both individual and corporate investors. As a result, the tax free shares have become a more important sources of income for building societies over the transitional period.

Building societies also offer subscription shares and fixed deposits which have lost their attraction as these instruments account for less than 1 percent of the value of their shares and deposits. The outflow of these funds is a result of more competitive rates from the commercial banks.

b. Long Term Constraints

It is expected that, in line with the experience of structural adjustment programs elsewhere in Africa, interest rates will come down. In the case of

Zimbabwe, it is anticipated that by 1995 rates in the market will be such that building societies can compete for funds while also retaining mortgage rates comparable to those prevailing at present. However, a substantial unmet demand for shelter, and particularly low cost shelter, will remain. Until the liquidity crisis arose in 1990, the building societies were providing an average of 5,550 low cost mortgages per annum. Yet a 1989 study undertaken for USAID found that demand was approximately 38,000 units per annum and it is believed that this number has increased.

Numerous problems limit the ability of the sector to meet this demand and, despite the recent high levels of liquidity, housing finance is a concern over the long run. Specifically, the building societies lack a variety of competitive instruments to secure additional finance from private investors. Their greatest assets, the mortgages, are held without any mechanism to leverage additional finance.

4.3. Construction and Building Material Constraints

A study completed in June 1991 for the World Bank found that the construction industry had an annual turnover in 1990 of approximately US$350 million, or about 6.5 percent of GDP. Despite the importance of the construction sector in the economy, both the building materials manufacturing industry and building and civil engineering contractors experienced severe difficulties in the latter half of the 1980's due to frequent breakdowns of their plant, vehicles and equipment.

For example, the World Bank study showed that half of the civil engineering contractors' plant was more than 10 years old and 33 percent was more than 15 years old. The study gives examples of the delays caused by outdated and unreliable plant. A recent rural roads project in an agricultural area took about twice the time (two years) and cost 40 percent more than if it had been constructed by a contractor owning the typical mix of old and new plant that most contractors in an open economy would possess. A high rise apartment block took six months longer than the 24 months that would normally be required and cost about 12 percent more than if proper plant had been available.

Severe shortages of building materials have also had a dramatic effect on the economy. For the large contractors, the main response has been to increase their prices, which ultimately has an inflationary impact on the economy. Small contractors, who are trying to cope with severe shortages and parallel market prices, are often forced into bankruptcy and leave jobs uncompleted and debts unpaid.

The root cause of these difficulties is an acute lack of foreign exchange. The World Bank study estimates that the industry has incurred direct plant operating cost increases of approximately Z$33.5 million per year as a result of poor equipment. The same study estimates that total demand for new plant and equipment in the sector exceeds US$87 million.

The analysis undertaken for the Private Sector Housing Program examines the constraints in the construction and building materials industry from the

perspective of the housing sector, where the impact has been greatest. Major actors in this analysis are the small contractors and individuals who have the least economic power and influence to overcome shortages and breakdowns.

The constraints experienced fall into two categories: (a) poor output due to lack of spare parts; and, (b) insufficient capacity due to lack of machinery. These constraints affect both the materials manufacturers and the building contractors. The two categories are strongly interrelated. Newer machinery would reduce the demand for spare parts and increase capacity and, in an open economy, a large proportion of the machinery still in use in Zimbabwe would have been replaced by new machinery. However, in the context of severe foreign exchange shortages, this has not been possible.

The study concludes that although some inputs and materials have been put on OGIL, as noted below, action is required to increase the production of the following basic construction materials:

a. Cement - The capacity of the cement industry is about 100,000 tons per month or approximately 10,000 tons per month below today's demand. Recognizing this shortfall, the GOZ has placed cement on OGIL. However, the cost of imported cement is about 30 percent higher than that produced locally. This is the most important material in the entire construction industry since it is a component in walls, floors, roof sheeting and pipework.

b. Bricks - The shortage of cement, and therefore cement blocks, has stimulated brick production, but, it is insufficient to meet the demand. This has led to bricks being sold at prices far above those recommended by the manufacturers.

c. Aggregate - Aggregate is an essential component for all concrete work, and is made by crushing rocks. Much machinery for the production of aggregate is antiquated, so periodic shortages occur.

d. Fibre Cement - The normal material for roof sheeting in low income housing developments is fibre cement. This has been subject to frequent shortages, and there are delivery delays of twelve months from date of order.

e. Door Frames - Door frames used in low income housing are made from sheet steel. Although the factories have the capacity to meet the demand, Zimbabwe Iron and Steel Company (ZISCO) is unable to supply the sheet steel required, and regular shortages occur due to inadequate foreign exchange to import it or to increase production.

f. Wall Paint - Wall paint is made from materials already on OGIL, and there are adequate supplies. However, gloss paints, essential for preserving steel and externally used wood, require different materials, for which specific import licenses are required, and shortages persist.

g. Pipes - Pipes are usually made out of either PVC or fibre cement. PVC is now on OGIL, and therefore the factory is working at full output. However, its capacity is inadequate. The capacity of the cement pipe factory is reduced by recurrent cement shortages (though to a much less extent than previously), and remains inadequate for the demand. Water fittings are generally available.

The root of the problem for each of these items lies in machinery that requires constant maintenance and the replacement of worn or broken parts. Delays in obtaining import licenses for spares are a major factor in lost production which, in turn, significantly increases production costs by having plant and labor lying idle.

In addition to the building materials industry, there are also constraints related to contractors' vehicles, plant and equipment. These items were examined by the World Bank's consultants (Construction Industry Development Study, Giersing Rose A/S, Copenhagen) in 1991. They found that the construction industry incurs direct increases in plant operating costs of the order of US$12 million per annum due to the age of the equipment. This cost is passed to the consumer.

The World Bank report states that specific requirements include US$100 million for plant (some of which could be bought second hand from abroad), US$17 million for vehicles, and US$10 million for spares. Once this equipment had been bought the consultants estimated that a further US$20 million would be required annually for replacements of vehicles and plant, and US$10 million for spares.

It is important to note that these figures do not include the demand from building materials manufacturers. Cement and brick producers both use much heavy earthmoving machinery and transport, and are equally in need of more reliable equipment.

4.4. Land Development Constraints

The land delivery system in Zimbabwe is one of the most efficient in Africa. Titling, planning and building standards, and land acquisition procedures exist and are implemented.

However, there are several regulatory constraints that contribute to the difficulty in securing shelter for the low income groups. Generally, the constraints are: (a) public/private sector inequalities concerning the recovery of off-site infrastructure charges; (b) difficulties in bringing appropriate urban land onto the market; (c) inappropriately high land use and infrastructure standards; and, (d) unaffordably high minimum building requirements. The analysis for the Private Sector Housing Program identified the regulatory constraints in detail and specifically examined the associated costs and legislative reforms required to amend current practices.

a. Land Identification, Acquisition and Zoning - Land in urban areas is held under individual title and registered by the Registrar of Deeds. The registration is accompanied by a survey diagram or general plan filed in the offices of the Surveyor General.

Private developers acquire land in the free market. In cases where the local authority acts as the developer, land may be compulsorily acquired under strict guidelines. However, in many urban areas local authorities fail to identify land shortages as a constraint in sufficient time, and development is delayed by lengthy procedures to extend urban boundaries or make compulsory acquisitions.

All land within the major urban centers in the country is covered by zoning plans. Typically, these plans give local authorities little flexibility to permit development that is not in accordance with a stipulated zone, no matter how out of date. Since most urban centers are covered by zoning plans which are more than 20 years old, this can result in unsuitable development.

b. Layout Plan Preparation - Once a suitable block of land is acquired, a layout plan showing detailed plot boundaries is prepared for subdivision purposes. The layout must adhere to a number of planning and health standards. However, the volume of output of layout plans is low in comparison to the need. A review of layout plans approved over the past five years shows that, on average, 7,500 plots per annum are approved.

The low volume of output of plans is a reflection of lack of experience among planners in the public sector and lack of incentive structures for civil servants. In addition, the quality of these plans is often lacking due to: (a) a reliance on inadequate base mapping; (b) planners' lack of attention to detail; and, (c) planners' lack of appreciation of urban development costs and how the design of a layout impacts on costs. The result is both increased infrastructure costs due to poor design and delays in land surveying.

c. Land Survey - Surveying has been cited as one of the major bottlenecks in land delivery for low cost housing. The procedure is that once a layout plan is approved, a permit to subdivide is issued by the local authority. A registered Land Surveyor then places permanent beacons identifying the boundaries of each lot on the ground, following which the surveyor submits a cadastral survey plan to the Surveyor General's Office for approval. When this approval has been granted, the Registrar of Deeds issues certificates of registered title.

Various means of reducing delays in surveying have been suggested, ranging from the use of block survey only (instead of individual plot survey) to the simplification of the survey system, or making the requirements for registration of surveyors less rigorous. These measures would, each in its own way, reduce the level of accuracy with which the individual lot is identified. However, the cadastral system in place in Zimbabwe is considered by the GOZ to be appropriate and cost effective, and there appears to be unanimity in the country that little would be gained by reducing the requirements for accuracy. In fact, there has never been a land title successfully challenged in the courts in Zimbabwe and no title insurance exists.

The problem appears to lie more in other aspects. In numerous cases the surveying is delayed because of inconsistencies between an approved layout plan and reality on the ground. In some cases layout plans are not

surveyable. As a result of these constraints, private surveyors are only able to start surveying four months after commissioning. Once completed, approval from the Surveyor General's office takes ten months due to a lack of experienced personnel, a limited operational budget, and the lack of an incentive structure for personnel.

However, the major cause for delays is the shortage of manpower. Although 18 survey students have graduated from the University of Zimbabwe in the last three years, there are only 24 registered land surveyors working in Zimbabwe. This is because many surveyors leave the country once they are registered for more competitive remuneration packages offered elsewhere in the region. A primary reason for the low remuneration in Zimbabwe is that registered surveyors operate under a legislated prescribed schedule of fees which have not kept pace with inflation. The issue is further complicated by the surveyors' lack of vehicles. In addition, there is a need for more modern survey equipment in both the public and private sectors.

d. Infrastructure Services - Infrastructure services consist of roads, sewers, and water supplies both on and off the site of development. Two sets of issues are raised related to these services: (a) the system by which infrastructure costs are recovered; and, (b) the design standards which are utilized and their related costs.

All capital costs of the house, which include the dwelling unit, road access and storm water drainage, land and survey fees, water and sewerage connection fees, and capitalized interest, are recovered directly through the individual's purchase agreement. The capital costs of water and sewerage reticulation in publically developed projects are generally recovered from tariffs charged to all low cost housing areas, or in some cases across the city as a whole. Operation and maintenance costs, as well as administrative costs, are recovered from fixed monthly "Supplementary Charges". However, private developers, with some recent exceptions, have to bear the full capital costs of water and sewerage reticulation. This is passed on to home owners as an upfront item in the plot sale price. As a result, the plot sale prices in private developments have to be significantly more expensive than in the case of local authority developed plots.

The specifications and standards used for design of infrastructure for low cost housing development are laid down in a series of technical reports prepared by MPCNH and MLGRUD. Over the past decade, infrastructure costs have escalated rapidly. In 1982 a 300 square meter plot cost Z$1,500 to service, while the same size plot costs Z$7,000 today. There is a clear need to review the standards being implemented in light of the declining real incomes of low income households. This includes not only the plot size but also minimum road and sewer standards.

e. Building Standards - Minimum standards for superstructure built on all plots is governed by specific acts and regulations implemented by MLGRUD and MPCNH. Current standards call for external walls to be 200mm thick and a complete four room unit to be built within 2 years, with each room larger than 7 square meters. The cost of this unit is approximately Z$32,000. An affordability analysis, detailed in Annex III-C, demonstrated that this is not

affordable to urban households earning below the median income level. As a result, the majority of low income house owners take in lodgers in order to repay monthly mortgages. This leads to overcrowding of the housing stock; on average there is one family per habitable room and up to 30 people per plot.

Design standards used by some local authorities in low cost housing are above the existing minimum standards. Furthermore, these minimum standards for infrastructure often exceed what is actually required, thereby adding unecessary costs. Finally, ancillary land use standards for schools and other facilities, in Zimbabwe's low cost housing areas are high in comparison with standards used elsewhere in the region. This again adds substantial costs to the development.

5. PROGRAM STRATEGY

5.1. Addressing Constraints in Low Cost Shelter Financing

There are three key aspects to the program strategy to increase low income household access to mortgage finance: Transitional, Medium Term, and Long Term. The programmatic framework for each aspect is described below.

The Transition - Over the structural adjustment "transition" period of now until 1995, there is a need to provide an adequate flow of funds to ensure that the delivery of private, low income housing finance is not interrupted during Zimbabwe's period of structural adjustment. Therefore, the program proposes to use local currency counter deposits to raise the liquidity levels in the building societies and to use program technical assistance to identify short term instruments that will raise funds at a cost of money equal to the existing high density housing mortgage rate.

The objective of these measures is to raise additional finance for low income housing over the period of high inflation without necessitating a substantial increase in the variable interest rates. Once interest rates are positive, either by a decrease in the inflation rate or further increases in the average mortgage rates, building societies will be in a position to compete for additional resources and large capital assistance will not be necessary.

To achieve "transition" objectives, the program includes conditionality related to: (a) the channeling of local currency counter deposit resources to building societies for on-lending for low income mortgages; (b) the stimulation of building societies to access private sector funds to match program and GOZ local currency transfers, blending them for affordable low income household mortgage lending; (c) modifications in implementation of a new housing bond instrument, (d) changes in regulations governing the ceiling for building society surplus fund accounts, and (e) a continuous review of interest rates paid on tax-free shares.

The Medium Term - The program will achieve medium term results as well. Conditionality and technical assistance will be complementarily used to develop attractive instruments to increase financial sector lending capabilities in the medium term, when inflation is expected to be

substantially reduced and the building societies will be in a position to compete for market rate funds without causing massive defaults. This will require new investment instruments which the housing finance industry can issue in order to raise additional funds. Program conditionality and technical assistance will be used to ensure that systemic changes are undertaken in the financial sector to optimise the investment of private sector savings in low income housing, including the introduction of a Negotiable Certificate of Deposit financing instrument and elaboration of an action plan for the establishment of a secondary mortgage market in Zimbabwe.

The Long Term - Over the long term, there is a need to recognize that: (a) a fundamental component of the structural adjustment program is the de-regulation and expansion of the private financial market; and (b) financing of shelter is not independent of the overall financial market. Technical assistance resources will be used to conduct analyses to determine the potential influence of planned structural adjustment reforms related to the liberalization, deepening, and strengthening of the overall private financial market to enable the private sector to become the catalyst for economic growth and investment in low income shelter.

Specifically, the program will include conditionality and technical assistance to increase understanding of issues related to the current segmentation of the financial market in Zimbabwe, which appears to encourage financial institutions to restrict their activities or specialize in certain areas of lending or deposit taking. The analysis will examine, inter alia, how the resulting lack of competition may lead to higher interest rates and poor levels of service. Other areas for research include mechanisms to shift the provision of low cost shelter construction finance from the public sector to the private sector. Another identified area of research is the possible role of the municipal bond market in attracting private financial resources for financing muncipal infrastructure such as roads, markets, bus parks, etc.

5.2. Addressing Constraints to the Provision of Adequate Quantities of Low Cost Building Materials and Shelter Construction

The proposed program will address constraints in the construction and building materials industries through: (a) conditionality that requires expansion of the ROGIL to include industry related items, (b) the use of US$75 million in program foreign exchange to support OGIL imports, and (c) the provision of technical assistance and training to increase competition in the production of materials and diversification into more appropriate, cost effective production techniques and materials. The program inputs should result in more efficient, cost effective production of increased quantities of building materials to supply local demand at a lower cost to low income households.

5.3. Addressing Constraints in the Land Delivery System

The Private Sector Housing Program also proposes a series of policy reforms related to the land delivery system. The specific reforms are designed to reduce the cost of shelter and to increase the role of private developers and financiers in the servicing of plots and construction of a minimum housing

structure support for low income households. Specific reforms are proposed to reduce plot sizes, infrastructure requirements, and the size of school sites. Furthermore, the program will remove regulations which make privately developed plots more expensive than similar plots developed by the public sector. In addition to program conditionality, local currency counter deposits to the U.S. dollar loan resources and GOZ budget resources will be placed by the GOZ into the National Housing Fund to finance local government development of plots. Also, the local authorities will be encouraged to expand their use of the private sector for plot development, and the private sector role in housing development should be increased over time.

USAID recognizes that delays in the implementation of the ESAP or high level focus on the drought may affect program implementation. However, the tranching of financial resources and conditions precedent will enable the program to proceed as quickly or slowly as required. A detailed discussion of the risks is included in Sections 7.5 and 8.

6. PROGRAM FRAMEWORK

6.1. Program Goal and Purpose

The goal of the Private Sector Housing Program is to increase the level of homeownership for low income households in Zimbabwe's urban centers. The program purpose is to increase low income household access to affordable shelter in urban areas on a sustainable basis. At the end of the program four major conditions will exist, which will be measured as described below:

(a) More housing will be available at more affordable prices to low income households.

Measures: (i) An additional 45,400 serviced plots made available over the five year life of the program for low income households and a system in place to recycle financing for plot development every 24 months leading to a sustainable resource for plot development; (ii) Average cost of a habitable plot reduced by 47 percent in 1992 Zimbabwe dollars to Z$9,600 or less. (The measures assume an average cost of serviced plot to be Z$11,000).

(b) Private sector role in low income housing finance expanded by building societies' ability to attract more resources, thus increasing the flow of funds and low income household access to mortgage finance for stand purchase.

Measures: (i) At least an additional Z$235 million made available by the GOZ through building societies exclusively for low cost housing finance; (ii) Building societies able to access as much as an additional Z$235 million for low income lending; and (iii) 43,200 low income mortgages provided.

(c) Expanded building materials industry producing more efficiently, at lower cost.

Measures: Construction costs decreased by up to 10 percent in 1992 prices;

(d) Construction industry building more houses annually.

Measures: (i) volume of low income houses produced increased 10 percent per annum; and (ii) an additional 8,000 jobs created over the life of the Program. (The measure assumes 20 percent of total construction costs are for labor.)

(e) The financial sector will be liberalized and have improved capacity to respond competitively in attracting funds and lending for investment.

Measures: The building societies will be liquid, with enough financial resources to accommodate low income household demand for mortgage financing.

6.2. Program Outputs

The proposed program elements, including foreign exchange, local currency, policy changes, policy dialogue, and technical assistance will, with successful management and implementation, produce the following outputs:

CONSTRUCTION AND BUILDING MATERIALS INDUSTRIES

(a) Local building materials industry has increased access to foreign exchange to purchase equipment for plant expansion required to meet local demand. Achievement will be measured by evidence that the ROGIL has been expanded to include items required to accommodate at least existing production capacity.

(b) Building (construction) contractors have access to essential spares and equipment needed to increase construction efficiency and volume. Achievement will be measured by 10 percent increase per annum in volume of private construction works.

HOUSING FINANCE:

(c) Local government role in the provision of housing is limited to plot servicing and construction of minimum support structure. Achievement will be measured by reports indicating that: (i) Z$250 million has been made available to local government authorities through the National Housing Fund to be used for plot servicing and minimum support structure construction; (ii) the resources are recycled every 24 months; and (iii) off-site infrastructure costs are treated equally for public and private housing developments.

(d) Building societies have access to additional resources for lending to low income households for mortgages. Achievement will be measured by the amount of resources (at least Z$450 million) channeled by building societies to low income mortgage financing. In addition, the operation of new financial mechanisms will be monitored, as will the changing of regulations governing building society deposit, interest, and surplus fund rates.

(e) The financial sector deepened to improve capacity to respond competitively in attracting funds and lending for investment. Achievement will be measured by evidence that:

-- New financial instruments are approved and operational: HNCD, Housing Bonds, Housing Bond tax, etc.

-- Regulations governing interest rate ceilings on savings and deposits held by building societies' modified.

-- Analyses completed (and findings disseminated throughout the GOZ and private sector) of: ceiling for tax free shares, capabilities of private construction financial sector to supplement NHF, feasibility of establishing secondary mortgage market, how a municipal bond market could be supported, of potential for promoting increased competition in the financial sector through de-regulation.

LAND DELIVERY SYSTEM

(f) The land delivery system policies are modified to increase affordability. Achievement will be measured by evidence that the GOZ has implemented actions to ensure that:

-- Standards rationalized are for plot frontage, minimum size of plots, schools site sizes, minimum superstructure requirements, sewer sizes;

-- Road sealing/access requirements are reduced;

-- Land surveyor fees are de-regulated;

-- Local authorities are encouraged to use private sector planners;

-- Method for cost recovery of all infrastructure charges involves equal treatment of public and private developers of low cost shelter;

6.3. Program Inputs

The program will be supported with the financial and technical resources described below. A detailed description of the use and management of the financial and technical resources is included in Section 8.2.

(a) US$50 million in Housing Guaranty (HG) loan funds will be made available in three tranches over the life of the program. The U.S. dollars will be used to support the OGIL.

(b) The GOZ will contribute local currency in an amount equivalent to half the HG loan resources (Z$125 million), and Z$125 million from its own budget resources for deposit in the National Housing Fund for financing plot development. These funds will be recycled every two years and will create a sustainable fund to finance plots for the urban poor.

(c) US$25 million in DFA cash grant funds will be made available in the form of non-project assistance in three tranches (US$10 million, US$5 million, US$10 million) simultaneously with the loan funds, subject to the same conditionality. USAID will disburse the U.S. dollar resources to support the OGIL.

(d) The GOZ will transfer as a grant one half the local currency equivalent to the HG loan funds (Z$125 million) and the local currency equivalent to the cash grant (Z$125 million less 10 percent for the A.I.D. Trust Fund) to the building societies exclusively for low income mortgage financing during the transitional period.

(e) The building societies will raise "matching" resources to the GOZ local currency contributions to be dedicated exclusively for low income lending.

(f) US$2.68 million in DFA grant funds will be used for technical assistance and training to support reforms in the construction, housing finance, and land delivery sectors.

(g) Personnel input will include a USAID direct hire and a Personal Services Contractor to manage the program. USAID management input will also be provided by the Mission Director, Deputy Director, and their designees.

(h) The GOZ will provide the equivalent of Z$890,000 over the life of the program as in-kind contributions of the time of personnel in the MFEPD, MPCNH, MLGRUD, MIC, MEC, and the Reserve Bank of Zimbabwe. Specific expenses will include salaries, office space, and equipment for the personnel required to implement the program.

6.4. Program Components

The Zimbabwe Private Sector Housing Program proposes specific modifications to the existing shelter delivery system to address the constraints identified in Section 4. The underlying principle in seeking the reforms is to make the existing low income shelter sector sustainable and more responsive to the needs of beneficiaries and to make shelter more affordable. The formulation of the proposed modifications derives from an intensive dialogue with both the public and private sector as well as USAID's twelve years of experience working in the low income shelter sector in Zimbabwe.

It should be noted that the conditionality as presented in this document represents the substantive content of agreed upon actions. The precise language for each condition may be modified to reflect USAID negotiations with the GOZ, within the substantive intent of these conditions precedent. Similarly, additional conditions may be provided for in the Program Agreements which are not considered essential to the authorization of this program, e.g., completion of studies.

All conditions precedent are to be met "to the satisfaction of A.I.D.", and Program Implementation Letters (PILs) will be utilized to provide the Government with guidance in that regard. Additional, routine conditions precedent as to necessary foreign exchange account and local currency account will be included as required by A.I.D. guidance and regulations.

Table 1. Summary of Inputs and Outputs

	Year				
	1	2	3	4	5
USAID INPUTS (US$)					
HG Loan	$ 15M	$ 20M		$ 15M	
Cash Grant	$ 10M	$ 5M		$ 10M	
Technical Assistance	$2.68M				
GOZ INPUTS (Z$)					
HG Local Currency Equivalent	$ 75M	$100M		$ 75M	
Cash Grant Local Cur. Equiv.	$ 50M	$ 25M		$ 50M	
GOZ Budget Resources	$ 25M	$ 25M	$25M	$ 25M	$ 25M
PRIVATE SECTOR INPUTS (Z$)					
Building Societies/Priv. Sect	$ 85M	$ 72.5M		$ 80M	

Outputs (Z$)

a. 45,400 total plots for low income households
b. Financing for approximately 43,200 low income mortgages
c. 8,000 construction related jobs
d. Policy Changes

Assumptions:

a. Average cost and mortgage of Z$11,000 per plot
b. Exchange rate of Z$5 = US$1.
c. Of total construction, 20 percent labor component and average wage of Z$550/month

6.4.1. Construction and Building Materials Industry Reform

(a) Conditionality and Covenants:

Condition -

-- Prior to the first disbursement, the GOZ provides evidence that it has placed on the Restricted OGIL all items (primarily spare parts) as mutually agreed upon by the GOZ and A.I.D., to assist the building materials industry to (i) produce at full existing capacity; and (ii) expand production capacity (restricted to building materials industry).

Rationale - The interlinkages in the construction process are such that an assured supply of all materials is required to achieve the efficiency necessary to increase production. Program conditionality will require that items be placed on the ROGIL which will: (a) assist the building materials industry to produce at its existing full capacity (primarily essential spare parts, consummables, and raw materials to increase production for the domestic market); and (b) assist the building materials industry to expand production capacity (imports needed to incrementally expand a firm's existing capacity).

Condition -

-- Prior to the first disbursement, the GOZ provides evidence that it has placed on the Restricted OGIL:

(i) Spare parts, as mutually agreed upon by the GOZ and A.I.D. for work on housing projects requiring earth moving, road building, and the laying of water and sewage pipes (restricted to building and civil engineering contractors).

(ii) Mechanical components, as mutually agreed upon by the GOZ and A.I.D. required for the manufacture of concrete mixers and dumpers which are made in Zimbabwe but require imported engines and some other mechanical parts (restricted to manufacturers of such equipment).

Rationale - The program conditionality requiring the placement of specified spare parts, plant, and equipment on the Restricted OGIL will serve to reduce the cost of building materials by increasing competition. This is necessary because the building materials industry is dominated by large firms which, particularly due to an excess of demand over supply, have been trading virtually on a monopoly basis. In this regard, program conditionality will require that the GOZ make foreign exchange resources available through the Restricted OGIL (end users defined) to import items required for:

(a) new plant start-ups for comparable products;

(b) new plant start-ups or existing plant modification to increase the diversity of products (e.g., wooden door and window frames to compete with only steel doors and frames currently produced); and

(c) the establishment of smaller scale plants which can be geographically dispersed, and which use low cost, unsophisticated technologies (e.g., bricks, concrete blocks, roof tiles, door and window frames, etc.).

The World Bank is preparing a project to partially meet the needs of larger building contractors for new plant and spares, and what follows assumes that this project will proceed. The World Bank acknowledges that their proposed project will not be sufficient to meet the demands of the industry, and additional financing is required of the order of at least US$50 million. Therefore, the above cited condition related to the foreign exchange needs of the construction contracting industry will effectively complement the Bank project.

For example, as a result of program conditionality related to the expansion of items on the OGIL, civil engineering contractors working on housing projects requiring road building and the laying of water and sewage pipes will have access to needed foreign exchange for spares. Funds for new plant and equipment will be provided under the World Bank project.

Similarly, small scale building contractors will have increased access to building materials whose local production can be greatly expanded as a result of the increased access to mechanical components required for the manufacture of concrete mixers and dumpers (restricted to manufacturers of such equipment), which are made in Zimbabwe but require imported engines and some other mechanical parts.

The commodities to be placed on the OGIL can be fairly well differentiated from the items required by other sectors, and it is not expected that the demand will be excessive.

(b) Technical Assistance and Training

The technical assistance and training component related to the construction industry is important to increasing employment in the sector and expanding the production capacity of the sector, particularly for semi-skilled and un-skilled workers. The purpose of the technical assistance is to support the expansion of the number of firms producing building materials and the manner in which those materials are manufactured.

With respect to competition between contractors, it has long been a concern of the GOZ that small indigenous contractors have not thrived. USAID has already, under the ZIMMAN II project, embarked upon an on-the-job training and technical assistance project to help small contractors develop the skills necessary to compete effectively in the market place. This project, if preliminary results are positive, could be expanded under the Private Sector

Housing Program to widen its geographical coverage, and deepen it so as to benefit the very small scale contractors who are typically employed on individual house building contracts. This kind of technical assistance is essential to achievement of the program objectives because the vast majority of low income houses are constructed by small scale contractors. Approximately US$400,000 will be made available under the proposed program for this purpose.

The proposed program will also fund, through sub-agreements with non-governmental organizations in the region and/or the U.S., the establishment and expansion of existing small scale building manufacturing enterprises by increasing Zimbabwe's exposure to appropriate technology for the manufacture of building materials by small scale enterprises and by facilitating information exchange and technology transfer. In addition, workshops and meetings to expose a wider public to the concepts would be organized. The total cost of this activity is expected to be US$80,000.

Studies, workshops, and seminars will also be funded to expose Government officials, architectural and engineering consultants, and building and civil engineering contractors to the advantages of more labor intensive methods in the construction sector and to establish appropriate frameworks within which the new technologies can be successfully utilized. The effort will incude comprehensive studies of practices in Zimbabwe and comparable economies. Adoption of the new techniques and technologies should expand semi-skilled and unskilled employment opportunities in the construction industry. The cost of the activity is estimated at US$50,000.

6.4.2. Low Income Housing Finance Reform

(a) Conditionality

The Transition - In accordance with the Program Strategy set forth in Section 5, the objective during the transitional period of economic structural adjustment is to raise the liquidity levels in the building societies and to identify short term instruments that will raise funds at a cost of money lower than the high density housing mortgage rate. The analyses identified a number of possible mechanisms to assist the private housing finance industry over the transitional period. In February 1992, several of the measures recommended in the analysis were implemented by the GOZ. Program conditionality will support further changes required to maximize the impact of the adopted changes, as described below.

Condition -

-- The GOZ agrees that, over the life of the Program, local currency counter deposits equal to half the HG loan resources disbursed will be made available, along with local currency counter deposits equal to the tranched U.S. dollar cash grant funds (less ten (10) percent for the A.I.D. administered Trust Fund Account), on a grant basis to Building Societies to be blended with "matching", commercially borrowed resources to be used for the exclusive purpose of low income mortgage financing.

— Prior to the third disbursement, the GOZ will have successfully, and in conformance with the GOZ Framework for Economic Reform Program, moved low income mortgage lending to real, positive interest rates.

Rationale -

Implementation of the ESAP has required the GOZ to balance two important objectives insofar as they affect the building societies. The primary monetary policy measure is to tighten up liquidity in order to stabilize the macroeconomic situation in a period when trade and price controls are being lifted. This involves financing GOZ expenditures with private savings, which consequently increases the cost of money to positive rates. Money market rates, depending on the nature of the funding, now vary between 21 and 36 percent. These rates obviously act as bench marks for bank rates.

On the other hand, the GOZ is concerned that allowing mortgage rates to rise to market levels will result in massive defaults and will make shelter unaffordable. The MFEPD and the RBZ believe that low income mortgage rates cannot increase any further during the transition. This position is supported by local World Bank representatives. These two policy stances present a major problem to the building societies. To maintain the existing mortgage rate to low income earners during the transition, the societies cannot compete for deposits with the monetary/banking sector.

In 1990 the building societies had record levels of liquidity which they were unable to lend due to constraints in the building material and construction industry. However, in August 1990 the GOZ made its first move to liberalise interest rates in the money market and the banking system, which led to a tightening of the monetary situation and greater competition for deposits in which the building societies, with their controlled lending rates, could not compete. It was not until February 1991, that the building societies were allowed to increase their mortgage and deposit rates.

The average cost of funds to the largest building society, as of the end of January 1992, was estimated to be 13.9 percent and their average return on money was 16 percent. Variations on these percentages occur in the other building societies depending on their debt and asset portfolios.

It is expected that, in line with the experience of structural adjustment programs elsewhere in Africa, interest rates will come down. In the case of Zimbabwe, it is anticipated that by 1995 rates in the market will be such that building societies can compete for funds while also retaining mortgage rates comparable to those prevailing at present. However, a substantial unmet demand for shelter, and particularly low cost shelter, will remain. Until the liquidity crisis arose in 1990, the building societies were providing an average of 5,550 low cost mortgages per annum. Yet a 1989 study undertaken for USAID found that demand was approximately 38,000 units per annum and it is believed that this number has increased.

Numerous problems limit the ability of the sector to meet this demand and, despite the recent high levels of liquidity, housing finance is a concern over the long run. Specifically, the building societies lack a variety of

competitive instruments to secure additional finance from private investors. Their greatest assets, the mortgages, are held without any mechanism to leverage additional finance.

Condition -

-- Prior to the first disbursement, the GOZ will authorize in writing the building societies to offer competitive returns on investment to the depositors of surplus funds.

Rationale - Surplus funds are another potential source of finance during the transition. The funds are retained earnings of locally incorporated, foreign controlled companies. In accordance with exchange control regulations, the funds may be used to conduct normal business operations or to finance expansion of existing business operations. It is reported that there is approximately Z$200 to Z$300 million in surplus funds in the local economy. It is estimated that about half of these funds could be attracted into housing finance. In February 1992, the GOZ increased the ceiling for building society surplus fund accounts to Z$200,000 and raised the interest rate to 8 percent. However, there is a concern as to whether this interest rate increase will attract funds into the societies.

USAID has proposed the surplus fund instrument for low cost housing finance in the past. It is recognized that this is a short term instrument that will be eliminated by the completion of the structural adjustment program. Furthermore, it is likely to be a diminishing resource as competitive pressures reduce levels of liquidity. Notwithstanding the above, the Program will support the implementation of this measure as a short term instrument to improve the liquidity situation in the housing finance sector over the transition and will work to ensure that the rates offered by the societies are competitive.

Covenant -

-- Over the life of the ESAP, the GOZ on a semi-annual basis review and advise A.I.D. of the ceiling for tax free shares in light of GOZ fiscal targets and real effective demand for low income housing with the objective of modifying these ceilings, as economic conditions permit, to support structural adjustment.

Rationale - Tax-free shares are a housing finance vehicle introduced by the GOZ under the World Bank's Urban I program. They have proven to be an invaluable source of finance over the transition and are the only building society investment that is growing in real terms. The cost of funds to the societies is nominally 13.5 percent but the effective yield to the investor can reach 30 percent. In February 1992 the GOZ raised the ceilings on tax free shares from Z$180,000 to Z$250,000 for individuals and from Z$80,000 to Z$120,000 for companies. The growth in these funds will not be as strong as in the past because of the growing competition for funds, however, the building societies estimate that an additional Z$150 to Z$180 million could be raised over the coming year.

In utilizing tax-free shares, the GOZ is obviously balancing housing finance requirements with revenues foregone to the fiscus. While there may be more appropriate mechanisms to raise discounted funds, the existing system has resulted in substantial sums of housing finance for low income wage earners. The Private Sector Housing Program proposes, therefore, that over the structural adjustment transition, the tax free shares and ceilings be constantly reviewed in the light of the GOZ fiscal targets and the effective demand for low income housing.

The Medium Term - There is a consensus that in the longer term, inflation will decrease and the building societies will be able to compete for market rate funds without causing massive defaults. However, there remains a fundamental need to expand the investment instruments which the housing finance industry can issue in order to raise additional funds.

Condition -

-- Prior to the first disbursement, the GOZ will provide written approval, as authorized under the Building Societies Act, to permit the building societies to issue Housing Negotiable Certificates of Deposit.

Rationale - Based on the long term expectations of a changed financial environment, the proposed Private Sector Housing Program will support the development of a new instrument, termed the Housing Negotiable Certificate of Deposit (HNCD), which will increase private investment opportunities in the housing finance sector. The objective of the HNCD is to develop a security that is attractive to large savings institutions so that they can be used for financing housing. It is anticipated that major investors in these certificates will be pension funds and insurance companies looking for medium term investments.

Negotiable Certificates of Deposit are already being issued in Zimbabwe by the merchant banks. Substantial analysis has already been completed to support the introduction of the HNCD, and USAID expects the GOZ to permit the societies to offer the certificates shortly. The societies will offer one to three year HNCD's to finance their lending requirements. Although the HNCD may not be the cheapest mode of financing low income housing in tight money market conditions, the instrument is designed to expand and increase their portfolio. It is not intended that the HNCD replace other instruments which raise finance. To meet the requirements of the insurance companies and pension funds, the return on the HNCD will be competitive on the money market with securities of a similar nature. The HNCD will also be tradeable on the money market.

Finally, the GOZ is now satisfied that the use of the HNCD is prudent and will raise additional resoures for housing finance. They have agreed that the HNCD should constitute a maximum of 30 percent of a building society's liabilities to the public. The remaining task is to amend the Building Societies Act to permit the issuance of the HNCD.

Condition -

-- Prior to the second disbursement, the GOZ and A.I.D. will agree in writing to a scope of work and time frame for a program financed analysis which will determine the feasibility of establishing a secondary mortgage market by examining the financial implications for all parties and specifically recommending changes that will enable the packaging and trading of mortgages on the primary and secondary market.

Rationale - All the transitional and long term instruments discussed thus far will increase the liabilities of building societies as a means of raising finance. To supplement these mechanisms, facilitating sales of assets is also proposed. The past few years have seen the development of a secondary mortgage market in some developing countries, technically known as securitization. Securitization involves the packaging of assets, or mortgages, and selling them on the capital markets. This has the effect of raising funds for relending without increasing the liabilities of the building societies. It is anticipated that the pension funds and insurance companies will again be the major investors in the secondary mortgage market.

Securitization involves the reduction of the default risk specific to a borrower to insignificant levels. This technique is already in use in Zimbabwe through Government Stocks and Bank Acceptances. Similarly, building societies can securitize mortgages by packaging mortgages with the same maturity into an instrument for sale on the capital market. The secondary mortgage market also has the advantage of being responsive to the demand for housing finance. The societies will only utilize the secondary market when additional housing finance is required.

There are two mechanisms to securitize mortgages. The building societies can directly offer a mortgage backed bond for sale on the capital market or they could establish a subsidiary securities company which purchase mortgages and then issue bonds or shares. Both options will be examined during the technical analysis which will establish the details of the secondary market in Zimbabwe.

Nonetheless, several details still need to be settled. For example, investors want the instrument to be backed by the building societies so that there is no recourse to the mortgage holder and this will safeguard the investors against default. There is also a stamp duty on mortgages which would have to be paid each time a group of mortgages is sold. This will reduce the yield and their marketability.

The Long Term Phase - A fundamental component of the structural adjustment program is the deregulation and expansion of the private financial market. While the Private Sector Housing Program provides assistance to the housing finance sector, there is a realization that financing for shelter is not independent of the overall financial market. Thus, the program will examine and address issues related to the financial market which have implications for shelter and urban development.

Condition -

-- Prior to the first disbursement, the GOZ and A.I.D. will agree in writing and in accordance with the plan to deregulate the financial market by 1995, to the scope of work and time frame for a program-financed analysis of the financial sector with the objective of promoting increased competition within the sector.

Rationale - A general overview was undertaken as part of the housing finance technical analysis and the macroeconomic analysis for the development of the Private Sector Housing Program. However, a more detailed analysis of the financial sector is required to thoroughly examine the roles and functions of the various institutions involved in the financial market. This may best be done in coordination with other donors.

One potential problem is the segmentation which currently exists in the Zimbabwe financial market. Financial institutions restrict their activities or specialize in certain areas of lending or deposit taking. In Zimbabwe, this resulted from excessive regulation which limits the activities of financial institutions. There is evidence that the segmentation in the Zimbabwean financial system results in a lack of competition leading to higher interest rates and poor levels of service. The Private Sector Housing Program will work with the appropriate institutions, both in and out of Government, to analyize the overall financial market and specifically examine the impact of segmentation on competition.

Condition -

-- Prior to the second disbursement, the GOZ and A.I.D. will agree in writing to a scope of work and the time frame for a program financed analysis which will determine how the municipal bond market can be supported to provide additional resources to local authorities, by examining the needs of potential investors, the specific uses for funds, the potential Government savings, and the capability of local authorities to manage this new form of debt.

Rationale - In Zimbabwe, there is an overwhelming shortfall between the infrastructure and general operating needs of the local authorities and the funds provided through the General Loan Fund. The private sector could meet this need through the expansion of the municipal bond market.

Municipal bonds are already well developed in Harare and Bulawayo although they do require central government approval. In 1989, the City of Harare alone had Z$163 million outstanding in bonds. The attractiveness of municipal bonds may soon be reduced however, because municipal bonds currently constitute a prescribed asset for pension funds and insurance companies. Thus, these institutions are required to make investments in instruments such as municipal bonds. This situation will be drastically altered by the end of structural adjustment when all prescribed assets must be eliminated. Thus, municipal bonds may no longer be marketable since they will need to offer competitive interest rates and security.

Municipal bonds can take two forms. General Revenue Bonds are utilized when the funds raised are not for a particular purpose or when the municipality does not link repayment to revenue generated by a particular project. An example is a bond issued to finance municipal recurrent expenditure. The municipal bonds currently issued in Zimbabwe are general revenue bonds.

Dedicated revenue bonds are issued to finance a particular municipal project and usually link repayment with project revenues. For example, a bond issued to finance the construction of a market would be repaid using rents collected by the municipality from the market. The Private Sector Housing Program will consider the introduction of this type of revenue generating instrument in Zimbabwe.

Further specific analyses will need to be completed before municipal bonds can play a major financing role for local authority infrastructure and operations. For example, the administrative and fiscal behavior of municipalities will need to be reviewed and, in some cases, improved. Certain guidelines will also need to be established including ratios of debt to total municipal assets and the ability of municipalities to generate income for repayment. These guidelines will ensure that the municipalities have sufficient revenues to cover their commitments. There are other issues related to underwriting bonds, their tax status, and a rating system. The potential interests of investors in municipal bonds also needs to be determined.

Condition -

-- Prior to the third disbursement, the GOZ and A.I.D. will agree to the scope of work and time frame for a program financed analysis of the construction finance system to determine how it could be utilized to supplement the needs of the National Housing Fund, recommending alternative sources of construction financing, as appropriate.

Rationale - A further constraint to low income housing production in Zimbabwe is that the public sector is the only institution providing construction finance for low cost shelter. There is, however, an opportunity for the private sector to provide this bridging finance. Alternatively, there may be an opportunity to privatize the National Housing Fund, or have it operate as an independent body. The Private Sector Housing Program will examine each of these options.

(b) Technical Assistance and Training

Of all the technical assistance and training components, those related to the housing finance sector are the most critical in terms of the sustainability of the program. The expansion of the housing finance sector, as well as the overall economy, suggests that Government will no longer play a major role in the long term financing of shelter. The technical assistance to the housing financing sector is critical in developing sound management in the building societies and in the formation of alternative financing mechanisms for local authorities. Finally, the technical assistance component will examine opportunities for removing Government entirely from providing construction finance for low cost housing.

There are a variety of studies and specific training activities that will be required to implement the proposed reforms for the housing finance sector. As an initial step, USAID hopes to work with other donors to complete an indepth analysis of the private financial system. This will examine the roles of the various institutions as well as the regulatory environment. Specific constraints and opportunities will also be analyzed. If appropriate, a follow-on desegmentation study will examine how the existing finance system could be liberalized to increase competition and efficiency. Both local and US based consultants will be utilized for this analysis. The estimated cost is US$150,000 for the financial overview analysis and US$100,000 for the segmentation study.

Another immediate concern will be the portfolio management of the building societies. Throughout the UDI and post independence period, the housing finance industry in Zimbabwe has been relatively controlled in terms of the instruments available to raise and lend funds. During the structural adjustment period this situation has drastically changed. Competition between the societies, in terms of service, rates, and financing instruments has increased. As a result, training and technical assistance in regard to portfolio management will be critical. Likely sources for this assistance will come from the US and could be called upon several times over the life of the program. The estimated cost for this assistance is US$80,000.

The proposed Private Sector Housing Program also requires a number of studies which will assist in the development of new financing mechanisms. This includes an analysis to establish a secondary mortgage market and a municipal bond system. USAID anticipates having joint Zimbabwe/US teams to undertake the analysis at $130,000 per study. Possible exposure tours of the US may also be appropriate to expose Zimbabweans to alternative systems. Another study will examine the possibility of using private sector resources to finance the construction of high density plots. An alternative which will be examined would be to privatize the National Housing Fund. Approximately US$80,000 would be required to implement this analysis.

To complement this effort, specific training events will be designed to assist middle level management in the private building societies and GOZ officials who oversee and regulate the housing finance industry. A series of short courses in Zimbabwe will expedite this process. For example, an excellent course on housing finance is offered by the University of Pennsylvania. Other examples might be technical assistance and training to the building societies to enable them to better understand the needs and services required by low income residents, especially women. The estimated total for this package of assistance is US$120,000.

6.4.3. Land Delivery System Reform

(a) Conditionality

Condition -

-- Prior to the first disbursement, the GOZ will place on the OGIL system equipment for the survey industry and computer equipment for the building societies, as such equipment is agreed to by the GOZ and A.I.D.

-- Prior to the second disbursement, the GOZ will deregulate prescribed fees for land surveyors, as documented in an amendment to Statutory Instrument No. 200/90.

Rationale - In addition to improved services from urban planners, the proposed Private Sector Housing Program addresses some of the the critical problems facing the land survey industry. The program conditionality requires deregulation of the fee structure for land surveyors to permit them to charge a market rate for their services. This requires an amendment to current regulations, which will be initiated through the Surveyor General's office. Survey costs for low cost plots are approximately Z$200, or slightly over one percent of the cost of a plot with one room and wet block structure. Even the doubling of current fees would not result in a prohibitive cost increase. Another bottleneck affecting surveying is the lack of equipment. Expansion of the OGIL to include relevant items should reduce this constraint. By implementing the proposed reforms, the industry will retain skilled surveyors, surveyors will be able to procure much needed equipment, and long delays which prohibit the production of low income plots will be reduced.

Condition -

-- Prior to the first disbursement, the GOZ will approve and announce the reduction of the minimum plot frontages for detached houses from 12 meters to 8.5 meters and the reduction of the minimum stand sizes for detached houses from 300 to 150 m2.

Rationale - The current building standards are not affordable to low income households. The revised standards will make the development affordable to households earning between the 32nd and 50th income percentiles of urban households.

One of the most significant reforms proposed under the program will be to reduce the minimum plot size, a subject which has been the focus of discussions between the GOZ and donors since independence. Given the rapid increase in construction costs, and the effective decrease in urban incomes, the GOZ now recognizes that plot sizes must be reduced to make low income shelter more affordable. The program proposes to reduce the minimum plot size from 300 to 150 square meters with a minimum frontage of 8.5 meters. This will result in direct cost savings of 23 percent per serviced plot. The more efficient use of urban land will reduce urban sprawl, journey to work travel times, and the cost of bulk infrastructure.

Condition -

-- Prior to first disbursement, the GOZ will issue a written policy directive to Urban Local Authorities stating that, subject to local conditions, (a) the sealing of roads will be limited to bus routes and major connector roads; (b) insitu granitic materials will be used for wearing course on low volume plot access roads; and (c) 25 percent of the low volume plot access roads are to be left as unformed road reserves. This will be documented by a MPCNH/MLGRUD circular updating MPCNH's 1981 technical manual on "Design Approach to Roads and Storm Water Problems Relative to High Density Housing Developments in Zimbabwe."

Rationale - Substantial savings can be generated from rationalizing road standards. Limiting tarring to bus routes and major collector roads in low cost housing areas would effect a 35 percent savings on road costs. Using insitu granitic sands as the wearing course on roads would result in a further 27 percent savings.

Condition -

-- Prior to the First Disbursement, the GOZ will approve and announce the reduction of the minimum superstructure requirements to a wet block, comprised of a toilet and shower, and a one room slab (3 m x 3 m). If alternative minimum standards are deemed acceptable by the GOZ as a result of utilizing appropriate technology, the GOZ may substitute such minimum standards for the satisfaction of this condition, upon prior written agreement with A.I.D.

Rationale - Savings can also be made by reducing superstructure and building standards. Based on an indepth analysis by engineers, architects, and quantity surveyors, the Private Sector Housing Program will propose to reduce the minimum level of development at the occupation of the plot to be a wet block, consisting of a toilet and shower, and one room slab or foundation. Higher minimum standards will be permitted in developments using low-cost appropriate technology. The program will also propose to permit fair-faced external walls to be of a minimum thickness of 115mm in low cost housing development. This would be consistent with building standards in the region and achieve a cost savings of 10 percent for all habitable rooms. This will require an amendment to the Model Building By-laws by the Minister of MLGRUD.

Condition -

-- Prior to the first disbursement, the GOZ will approve, as documented in an update of the Ministry of Education circular on school sizes, a reduction in the minimum size of school sites by 15 percent.

-- Prior to the second disbursement, the GOZ will agree in writing to have the Ministry of Education, the Ministry of Local Government, Rural and Urban Development, and USAID undertake an analysis of the potential costs and benefits of further reductions in school site sizes in relation to possible cost savings for plots and the creation of additional stands for teacher housing.

Rationale - Substantial savings can also be generated by reducing the land use standards for schools. The program proposes to reduce primary and secondary school sites by 15 percent. Sites would still be large enough to accommodate all the physical requirements mandated by the Ministry of Education. This reduction would also begin to put Zimbabwe's school sites at par with comparable schools in the region. If residential plot sizes are reduced to 150 square meters, the combination of reduced plot and school sizes would result in additional residential plots in a typical housing area. Moreover, the reduction in land consumption for schools would reduce servicing costs of each residential plot. In exchange for the savings, the program will propose establishment of a set aside for teacher housing adjacent to each school site to meet the critical shortfall of teacher housing. Finance would be provided by the building societies, as over 70 percent of the teachers maintain accounts with the housing finance institutions.

Condition -

-- Prior to the second disbursement, the GOZ will reaffirm in a circular to all local authorities that local authorities may use private town planners to prepare layout and local development plans for more timely housing land delivery.

Rationale - To resolve the shortfall between the supply and demand of plots, the program encourages local authorities to use the services of private sector planners. This will assist in increasing the number plots produced anually since the delays in lay-out plans will be reduced. One potential concern of the GOZ is the cost of using private planners. However, on a typical layout for 1,000 plots, private planning fees amount to Z$35 per plot. The added expense is easily justified by more timely and efficient land delivery.

Condition -

-- Prior to the third disbursement, the GOZ will issue a revised edition of the 1982 technical manual "Infrastructure Design Standards in Zimbabwe" which proposes reductions in sewerage and water design guidelines that will permit increased economies in the cost of stand servicing.

Rationale - Substantial savings can also be realized from reduced sewerage standards. The program will propose a reduced minimum pipe diameter of cover at the head of sewers for lengths of up to 32 meters (serving approximately 20 plots). This would effect a savings on sewer costs.

Condition -

-- Prior to the Third Disbursement, the GOZ will adopt a policy, as documented in a conference resolution of the Urban Council Association, that off-site infrastructure costs for low income housing projects are financed in a similar manner for both publicly and privately developed projects.

Rationale - A key objective of the Private Sector Housing Program is to eliminate the constraints which make the production of privately developed plots more expensive than those developed by the public sector. Program conditionality seeks to ensure that the cost of off-site infrastructure is either uniformly collected by the beneficiaries on site or through local tariffs.

(b) Technical Assistance and Training

There are several components of technical assistance and training related to the land development system which are important to the implementation of the Private Sector Housing Program. While less critical than the technical assistance related to the finance sector, they will assist in reducing the cost of housing for the urban poor and enable the private sector to become the primary provider of low income shelter.

One element is technical assistance to some of the local authorities to prepare long term statutory master plans or mid-term strategic land use and infrastructure delivery plans to guide the timely expansion of urban boundaries. In many developing countries these plans are bureaucratic exercises which are rarely utilized. However, the planning process in Zimbabwe is quite stringent and followed by the local authorities and private developers. It is not the intent to review and update each plan, but rather to assist local and private planners to achieve appropriate development plans. This would primarily take the form of "in-service training" and would complement the establishment of "Integrated Urban Infrastructure Development Plans" proposed by the World Bank under the Second Urban Development Project.

Technical assistance and training will be carefully targetted to the needs of each local authority and might include up-to-date aerial photography and specific assistance in land use development and zoning regulations. Coordination would be routed through the Department of Physical Planning, MLGRUD, but would be most effectively located at the local authority level. Locally run workshops on planning layout and design would be organized through the Zimbabwe Institute of Regional and Urban Planners. Local private planners would be used wherever possible and the estimated cost of this assistance would total US$40,000 over the life of the Program.

In some instances, US based land use training might be appropriate for senior officials. Two excellent courses are offered by the University of California at Berkeley and the Lincoln Institute of Land Policy in Massachusetts. The estimated cost of this external training is US$100,000.

As previously discussed, the constraints related to land surveying is one of the biggest bottle-necks in the land delivery system and this system must be improved in order to increase the production of low income shelter. As part of the technical assistance package, USAID, in conjunction with the Surveyor General and the Registrar of Deeds, will finance a review of the management and procedures of the land survey process. This analysis will identify specific problems and possible resolutions. The objective of the review will be to reduce the amount of time required to secure a land title. It is anticipated that a local consultant will undertake this analysis and the

estimated cost is US$20,000. One possible recommendation might be to identify short-term assistance from qualified surveyors to eliminate the backlog. This technical assistance could come from within the region and the estimated cost is an additional US$100,000.

The cost of shelter in Zimbabwe is unnecessarily high due to excessive infrastructure and development standards. The conditionality of the Private Sector Housing Program will reduce these minimum standards but there needs to be a complementary effort by private engineers, quantity surveyors, and architects to design appropriate standards. As part of this effort, the Program proposes to run a series of technical workshops with the professional societies. The aim will be to identify potential cost savings which will make shelter more affordable without reducing health and environmental standards. The series of workshops would run over the first two years of the program and would be conducted by local consultants. Following these a design manual for use by both private sector developers and the public sector will be prepared. The design standards will be reviewed towards the end of the Program and a revised and updated manual prepared in order to take account of the experience in the first four years of the Program. The estimated cost is US$55,000.

The Government has also requested that USAID examine the feasibility of increasing density levels for low cost shelter, particularly through the development of affordable apartments. A.I.D. will examine the feasiblity of decreasing the development costs associated with high-rise developments with particular attention paid to engineering and infrastructure standards. The estimated cost of this analysis is US$40,000 and it will be undertaken by a local architectural and engineering firm.

The housing cooperative movement in Zimbabwe has been relatively weak, but could form an important housing delivery mechanism. Technical assistance will be given though the cooperative organizations to assist them in developing a workable methodology for housing development. This will be provided by consultants from the US and/or the region, and will require $50,000. The housing cooperative movement in Zimbabwe has been relatively weak, but could form an important housing delivery mechanism. Technical assistance will be given though the cooperative organizations to assist them in developing a workable methodology for housing development. This will be provided by consultants from the US and/or the region, and will require $50,000.

7. PROGRAM FEASIBILITY ANALYSES SUMMARIES

7.1. Technical Analyses

7.1.1. Construction and Building Materials

An analysis of the construction industry, i.e., the producers of building materials and the contractors who assemble the materials, is included as Annex III-A.1. The analysis examined the industry's current status, problems, impact of the ESAP, resource demands, and the expected value of equipment and materials import requirements.

As described in detail in the constraints discussion in Section 4.3., the construction industry is a key sector in Zimbabwe's economy turning over Z$14.2 billion annually and employing about 85,000 people. The critical constraint is the lack of foreign exchange. The analysis demonstrated the very damaging effect on the national economy that inefficiency in the sector was causing and observed that while the introduction of the OGIL has improved the situation, demand still exceeds supply. The analysis identified the key resources required for rehabilitation and maintenance to meet existing capacity, and resources required for capacity expansion. Annex II-C specifies import needs over the next five years.

A detailed discussion of the program strategy proposed for addressing construction sector constraints is found in Section 5.2. The full description of the program interventions recommended by the analysis to overcome the identified constraints, including conditionality, technical assistance, and training, is included in Section 6.4.1.

7.1.2. Housing Finance

An analysis of the housing finance sector, Annex III-A.2., examined current structure, constraints, and alternative approaches to broadening and deepening the Zimbabwean private housing financial market to attract private investment for long-term housing finance. The principal analytical findings are discussed in detail in Section 4.2. The analysis made recommendations for program assistance, including a phased strategy for financial sector liberalization, technical assistance, and training needs. The recommendations were conceptualized taking into account economic conditions in the transition to a liberal economy and the long term objectives of the GOZ for the financial sector. All recommendations were taken into account in program design. Major findings are summarized below.

The analysis observed that Zimbabwe's financial sector is diverse and fairly sophisticated. It includes 3 Discount Houses, 4 Merchant Banks, 5 Commercial Banks, 4 Building Societies, 5 Finance Houses, and 60 insurance companies. In general, the sector is modelled on post second World War British financial institutions with clear segmentation of the market. For example, the Merchant Banks concentrate on acceptance credit finance and the commercial banks on overdraft finance, while building societies concentrate on mortgage finance. Until recently, the sector has been highly regulated with controls on interest rates, nature of deposit taking, and credit allocation. The financial sector is highly important in the overall economy; savings in various deposit taking institutions were Z$7.8 billion in June 1991.

The analysis found that substantial progress has been made in the provision of low income housing by private sector finance since the mid-1980's. The majority of superstructure development is currently being financed by private sector institutions (either buiding societies, employers, or individual savings), with infrastructure being largely dependent on Government funding. Building societies have committed over 25 percent of their portfolios for long term, low income housing finance and could be expected to maintain this proportion in the future.

The analysis concludes that while there was growth in the societies' portfolios, real decapitalization of the building societies was occurring from January 1992. This is attributed to the rapid rise in interest rates in the money market and banking sectors in the latter half of 1991, and the decision of the Reserve Bank to continue interest rate controls on the housing finance sector. The building societies' principal problem is their current inability to compete with money market and banking sector rates to attract financing resources.

It is the GOZ's intention to maintain low income mortgages at an affordable level (presently 15 percent) level over the transitional period, although all housing finance interest rates will be liberalized by the end of the ESAP. If interest rates increase to levels beyond the present rate of 15 percent there is the risk that US$1.7 billion of building societies could be lost through defaults. The World Bank and IMB concur with this policy.

The analysis recommended a three-pronged approach to address the liquidity problem of building societies, which was adopted for the program design and is presented in detail in Section 5.1. The strategy calls for: (i) a transitional (short term) phase, involving the provision of support to ensure that the delivery of low income housing by the private financial sector is not interrupted during Zimbabwe's period of structural adjustment; (ii) a medium term phase, involving support to ensure that systematic changes are being made to the financial sector to optimize the investment of private sector savings and investment into housing; and (iii) a long term phase, involving support to promote more competition in the financial system. The phases are not sequential, in that initiatives, including analyses, are undertaken simultaneously.

The analysis examined eleven potential transitional phase financial instruments. Of these, five were recommended for implementation, with three already being pursued by the GOZ and the building societies. A full description of the specific conditionality and technical assistance to support the sector objectives is presented in Section 6.4.2.

7.1.3. Land Delivery System

An analysis of the housing and infrastructure delivery system, Annex III-A.3., examined the prevailing system and constraints, and recommended actions to overcome the constraints. The detailed description of the existing delivery system is included in Section 4.1. A detailed presentation of the analytical findings on the principal regulatory bottlenecks in the housing delivery system is found in the Sectoral Constraints Analysis, Section 4.4. In addition to the foreign exchange shortage affecting the construction and building materials production industries and the inadequate incentives to attract financial resources to housing, the analysis identified a series of regulatory obstacles which limit the servicing of urban land by the private sector and make shelter development unnecessarily expensive. The analysis included a wide range of recommended actions to overcome constraints in the sector, including program actions to improve: land identification and acquisition, layout plan preparation, cadastral survey, infrastructure

services, and superstructure and building standards. All recommendations were taken into account in program design: in development of the program strategy for the sector (Section 5.3.), and in identification of appropriate interventions (Section 6.4.3.), including program conditionality.

7.1.4. Affordability

A microeconomic analysis of the affordability issue is included in Annex III-A.4. Major findings are summarized below.

Both HG loan and grant resources require that the program benefits be targeted to the urban poor. As part of the design analysis,a thorough investigation was undertaken to determine the median urban income in Zimbabwe and as of June, 1992 that figure is calculated to be Z$800 per month.

As a starting point, a 700,000 household income and expenditure survey, which took place between July 1990 and June 1991 was utilized. An increase in income for 1991 was based on figures provided by the Employers Confederation of Zimbabwe. In addition, the household survey undertaken as part of the program design revealed a number of other sources of income. Informal income, imputed income, rental income, and projected salary increases for 1992 are all included in the median urban income figure of Z$800 per month. A detailed computation of the median urban income figure is included in Annex III.A.

USAID recognizes that median urban incomes will change substantially over the life of the program. It is therefore anticipated that periodic adjustments to the median income figure will be required. The timing of these adjustments will be determined jointly by the GOZ and USAID.

A median low income of Z$800 per month would qualify for a mortgage bond of approximately Z$15,000, or unit cost of Z$15,790, inclusive of the 5 percent deposit. This would not be sufficient to meet the current minimum building structure of a wet block, four room slab, and kitchen, which (together with a serviced plot) cost Z$17,786. The situation is currently exacerbated by the tight liquidity situation in building societies, which have restricted their lending capacity over the past 6 months, resulting in a backlog of mortgage applications. Front-end costs, which include the 5 percent deposit, bond and transfer fees, and stamp duties are a constraint to some low income earners but to a lesser extent. In addition, some would-be homeowners are being constrained by the fact that they may not be able to finance recurrent costs associated with owning a house, such as electricity and water charges, and supplementary charges.

Affordability projections indicate that a median low income of Z$800 per month would in 1992 be able to afford to borrow up to Z$15,000 to finance the cost of a reduced plot size to 150 m2, with a wet block and one room slab costing Z$10,813, and use the balance to develop the plot. However, in view of the relatively high cost of building, the difference between the cost of a unit and bond size is narrowed as plot sizes increase above 150 m2 and as the development increases over the wet block and one room slab. In conclusion, unless current stipulated building standards are rationalized, there is a

danger that people below the median income would be squeezed out of the housing market due to reduced purchasing power.

Current estimates put the housing waiting lists of urban local authorities at 500,000 units. Assuming that 70 percent of the list is low income households, i.e., 350,000, there is a need to provide an average of 70,000 units per year over the next 5 years just to clear the current waiting list. The 80,000 units envisaged under the World Bank II 5-year program would therefore only cover one year requirements to clear the waiting list. The present economic situation of drought and economic adjustment is acting as a disincentive for a large numnber of low income earners to own a house. This may limit growth of the waiting lists, as some people may not bother to register. However, should housing production improve, anticipation and desire to own a house will increase. This could be the situation from 1995 onwards with the positive effects of the economic structural adjustment being felt and a reduction in mortgage rates.

7.2. Macroeconomic Analysis

A detailed summary of the Macroeconomic Analysis is presented in Sections 2.2. and 2.3. The discussion below highlights the analytical findings with regard to expected impact of the macroeconomy on proposed program implementation.

(a) Incomes - As a result of the drought, it will take three years for the estimated 6.8 percent fall in per capita incomes in 1991 to be recovered. However, a component analysis of demand and expenditure in GDP indicates that after falling by 4 percent in 1992, private consumption is likely to rise in real terms by an annual average of 6.7 percent over the three year period 1993-95. This should be made possible by the reduction in the share of Government expenditure in GDP, as anticipated under the economic reform program.

In 1991, real wages in the urban economy fell by 4.5 percent. An even steeper fall can be expected in 1992 as inflation remains high and the economy contracts. Thereafter, however, this trend is likely to be reversed as (i) a return to more normal rainfall patterns and an improvement in investor confidence lead to positive growth in per capita incomes, and (ii) inflation subsides due to appropriately restrictive demand policies.

(b) Building Societies' Liquidity - Interest rates, except for a limited number of categories, are now determined by competitive and market related considerations. Since the beginnning of March 1992, some monetary banks have been offering interest rates of 35 percent per annum on call deposits in an effort to attract resoures. Interest rate controls still remain for: (i) savings and demand deposits and for consumption related and personal lending, but these are floors which have not yet technically been abolished and are currently well below prevailing rates; and (ii) building society deposit and mortgage rates.

The rapid increase in private sector lending during 1991 means that lending has grown faster than deposits and bank lending ratios have thus risen from 55 percent of deposits to about 80 percent of deposits. With the restrictive

monetary policy translating into very low growth in the bank's deposit base, there is little room left (if any) for further growth in bank lending. Furthermore, the commercial banks are anticipating a further increase in the demand for credit. As a result, liquidity will remain tight and interest rates (i.e., 90 day NCDs) are expected to remain high -- and postive -- fluctuating around 30 percent, at least until the middle of 1992.

The view that the current difficulties facing the building societies are essentially of a short-term nature is a consensus one. The IMF/IBRD supported economic reform program is designed to achieve a rapid reduction in inflation. The medium-term macro scenario developed in this report suggests that interest rates, while remaining positive, will fall together with inflation as the economic reform program is implemented. Short term interest rates are projected to fall below 15 percent early in 1995; while inflation is projected to fall to an annualized average of 10 percent in 1995.

(c) HG Borrowing - Projections made for the external debt and debt service through 1998, assume that half of the US$400 million impact of the drought on the balance of payments will be provided for by grants and the other half by long term concessional financing with similar terms to that of the HG loan. Based on these assumptions, it is expected that the cost of the drought will be reflected in the debt service ratio through 1998. The HG loan component of the debt service ratio will not exceed 0.13 percent through 1998.

7.3. Cost/Benefit Assessment

(a) Background and Assumptions - The most direct impact of the program will be felt in the injection of counter deposit local currency funds, derived from OGIL support, into the National Housing Fund (NHF). This will become the seed capital for a revolving fund to finance the acquisition, planning, and development of urban land for low income housing. Over the life of the program, some 45,400 plots (infrastructure, wet block, and one-room slab) should become available.

As demonstrated in the affordability analysis, a median low income level of Z$800 per month would qualify for a 25 year mortgage of Z$15,000 (current interest rate of 15 percent per annum). Inclusive of the required 5 percent deposit, this equates to a unit cost of Z$15,790, insufficient to meet the current minimum building structure of a wet block (toilet and shower) and kitchen, which together with a serviced 300 square meter plot, costs Z$17,786.

If the recommendations put forward are implemented, the cost of a smaller plot (150 square meter) together with wet block and a one room slab would total Z$9,530. The unit cost of the plot takes into account reducing the area set aside for communal amenities (e.g., schools) but excludes the electricity (which would add a further Z$2,000 or 60 percent on to the cost of the plot). The balance between the cost of Z$9,530 and funds borrowed from building societies would go towards development of the plot.

At present, the building societies finance 40 percent of the low income housing finance market. If this market share is maintained, the building societies can be expected to finance 45,400 of the additional units associated

with the program. Assuming an average mortgage loan of Z$11,000, it can be expected that demand on their resources will increase by at least Z$130 million per annum. This increased demand will be met, in part, by the transitional activities suggested in the analysis of the finance sector to inject resources into the building societies. In conjunction with this, policy reforms and new instruments are designed to attract additional investment funds into low cost housing in the longer term.

Allied to this, the technical proposals directed at cost savings on the unit costs of serviced plots and super-structures will benefit the current flow of 12,000 units per annum. The Z$8,256 per unit cost saving will reduce the total potential costs by almost Z$100 million per annum. Of this, Z$40 million will be related to the units funded by the building societies.

(b) The Analysis - USAID financial support for the program will total US$77.68 million (equivalent to Z$388.4 million at the current exchange rate of Z$5.00 to US$1.00). The cost benefit analysis methodology followed was to project the stream of costs and benefits extracted from the various technical reports over a seven (7) year period and to calculate the resultant internal rate of return (IRR). The draw down of USAID funds (US$77.68 million) has been offset against the unit cost savings applied to the pool of housing coming on stream. Two scenarios are given.

- The unit savings are applied to only the incremental stream of housing derived from the USAID support of the NHF. In Year 5 a small positive IRR of 7 percent is projected, rising to 48 percent by Year 7.

- If the cost savings which will also apply to the current outflow of new housing (12,000 units per annum) are also taken into account, a positive IRR of 19 percent is projected in Year 3, rising to 88 percent by Year 7.

The following benefits have not been taken into account in the IRR analysis because they became enmeshed in the cost savings referred to above. To include these specifically would introduce an element of double counting.

- Expansion of capacity within the construction industry as a result of easier access to import requirements through the OGIL;

- Cost savings within the construction sector from improved maintenance and reliability of plant and equipment arising from OGIL imports

- 8,000 incremental employment opportunities arising from the accelerated housing construction program and which will be sustained over the five years of program implementation (Years 3-7);

- In the case of off-site infrastructural works, approximately 20 percent of the total costs are labor based, which, at the average 1991 monthly wage figure of Z$546, equates to approximately 1,500 positions;

- In the case of construction of housing super-structures, approximately one-third of the value of contracts is labor based, equating to about 4,000 new employment opportunities;

- Multiplier effect employment generated in allied services and industries supporting the construction sector, estimated to be one employment opportunity for each 1.6 positions created by the construction activities (2,500 jobs); and

- With the acute urban housing shortage and the high cost there-of, it is the norm to find one or more lodgers residing with low income families and, if this "tenant factor" were to be taken into account, the effective provision of low cost shelter arising from the program is conservatively doubled.

7.4. Socio-Cultural Feasibility Assessment

A Socio-Cultural Feasibility Assessment, Annex III-D, was conducted through household surveys and focus groups to assess whether there were any social or cultural factors which would prevent the proposed program from achieving its goal of provision of more affordable housing opportunities and solutions for low income households. More specifically, the assessment reviewed trends in urbanization, the existing low income shelter situation, and the potential beneficiaries. Participation of the beneficiaries was considered in terms of their motivation to acquire the proposed housing opportunity, their ability to obtain access to housing finance, and their ability to manage the building process. Assumptions made about the residential requirements of the beneficiaries were examined to assess their validity.

The principal findings of the assessment were taken into account in program design (particularly in the identification of technical assistance and training requirements), in the cost/benefit assessment, and in the Implementation Risk Assessment discussed in Section 8. A summary of the major findings follows.

(a) Urbanization - The urban population as a percentage of total population grew from 14 percent in 1965, to 27 percent in 1989, with annual growth averaging 6 percent over the 1980-1990 period. The increase can be attributed to a number of factors:

-- The removal of the influx control legislation (namely, the Land Tenure Act of 1969 and the Urban Areas Accommodation and Registration Act of 1946, which enabled the authorities to control the flow of blacks entering the urban areas).

-- The pressure of population in much of the communal lands.

-- The fact that average incomes in the urban areas are much higher than in the communal lands, and opportunities for employment are perceived to be greater in the urban areas

-- The impact of the 1983-85 drought on the rural ares.

-- The increased security of urban living resulting from the GOZ's extension of home ownership to occupants of formerly publicly owned rental housing.

(b) Housing Situation - The findings of the analysis are detailed in Section 4, the description of the constraints inhibiting the supply of adequate, affordable low income housing. Although there has been an average annual production of 12,000 to 14,000 low cost units over the last five years, the GOZ estimates that only a third of urban housing demand is being met. The MPCNH acknowledges a waiting list for Harare of 72,000 households, increasing at a rate of 1,200 per month. The waiting list for all the urban areas is 500,000, with 70 percent deemed to be low income households. True demand is probably much higher, since many households see themselves as unable to afford the present low income housing units and therefore do not bother to register.

The GOZ was sensitive to the issue of housing at the time of independence, and from 1981, promoted private ownership of formerly publicly owned housing in the high density suburbs. Concerned in the early 1980's with a transformaton from capitalism to socialism, the GOZ saw their housing policy as a redistributive mechanism for redressing colonial income and wealth inequalities and to this end were concerned to improve the standard of accommodation offered to the lower income levels.

In 1983, the MPCNH issued a policy directive specifying a minimum plot size of 300 square meters and a minimum house size of approximately 55 square meters consisting of two bedrooms, a living room, a kitchen, a shower that could be converted into a bath, and a separate toilet. The cost of building this four-roomed house in 1983 was approximately Z$7,850, while the same four-roomed house in 1992 costs approximately Z$35,000. The four-roomed core was to be completed through aided self-help in 18 months from the time of allocation. The development standards and time frame proved too ambitious given the financial resources of the low income group. In many instances, they have led to inceased overcrowding where beneficiaries have taken in lodger families to meet building costs and they have created a false expectation among the population of a "right to an affordable four-roomed house."

(c) Beneficiary Participation - Even prior to Independence, there was a tradition of aided self-help housing schemes for the low income urban population. There has also been experience over the last few years of mortgages for low income groups through building societies. The proposed program builds on this experience.

The analysis found that beneficiaries are prepared to make enormous sacrifices in other aspects of household budgets in order to meet repayments on housing in home ownership schemes. The proposed program, by offering a minimum solution will provide the opportunity at less cost, thus reducing hardships. In the course of conducting the analysis, the proposal of a flexible package for low income clients designed to vary mortgage repayments over the year to cater for varying demands on a family budget, e.g., school uniforms and fees in January, was put to the building societies and they are prepared to consider it under an improved outreach program. Furthermore, to cater for low-income loans, the building societies will also consider co-operative loans provided the cooperative has title to the land.

(d) Impact - The program's most direct impact will be a substantial improvement in the living conditions of the low income population, particularly of the women and children who are the main users of the household environment. The capital input into the National Housing Fund will establish a sustainable revolving fund through which local authorities can continue to service plots. The building societies should increase their liquidity and long term prospects for funding low income mortgages as a result of the introduction of new financial instruments. Building materials should be available in increased quantities at lower costs and indigengous businesses should expand. Employment opportunities should be created. Furthermore, there will be increased participation of the low income groups in the development process through increased empowerment obtained through the provision of a flexible housing solution and increased access to private capital.

7.5. Institutional and Political Feasibility Assessment

An Institutional and Political Feasibility Assessment, Annex III-E, was conducted to identify any institutional or political obstacles to proposed program implementation and to recommend interventions to ameliorate such constraints. The principal findings were taken into account in the Implementation Risk Assessment discussed in Section 8, and in developing the implementation plan in Section 9.1.

(a) Key Players - The proposed program will involve a range of organizations and agencies, including: The Ministry of Public Construction and National Housing (MPCNH), the Ministry of Local Government, Rural and Urban Development (MLGRUD), the Ministry of Finance (MOF), the Ministry of Industry and Commerce (MIC), the Reserve Bank of Zimbabwe (RBZ), Zimbabwe's financial sector (including but not limited to the building societies), Zimbabwe's construction industry, private developers (including their associations), low income households, and other donors.

(b) Organizational Dynamics - No one organization has overall authority to control the low-cost housing sector. The program has been designed not only to accommodate this fragmentation of authority, but to use it as a precondition for program success. To increase the chances of actually doing something under conditions of fragmented authority the number of steps needed should be reduced to the minimum. The program does this. Its components of OGIL expansion, increased liquidity of the building societies, and standards rationalization will, when implemented, increase the probability that what happens early on in the housing development process, i.e., servicing of the stand and construction of a minimal superstructure, actually happens.

Moreover, even in the best of times, housing provision in Zimbabwe is necessarily a process of different people at different times and in different ways contributing to any given decision, thereby making coordination by planning or centralized control very difficult. This is precisely why having the private sector as the armature of the program strongly enhances the probability of its success. Only the price system, with freely communicating parties mutually adjusting their actions in response to others, can coordinate

such a process. No government department or interminsterial committee, stands a chance of bureaucratically administering the low-cost housing sector.

(c) Incentives - There are key incentives in place to make the program work. The proposed program interventions are not "new" to the GOZ. The program does not require building societies to innovate, the GOZ has already begun to place building materials such as cement on the OGIL, building societies have been lending in the high density areas since 1987, and the GOZ has been experimenting with different housing standards for some time. What is new about the program is its focus on pushing these processes further and institutionalizing the results.

The country's current and continuing difficulties pose a unique set of factors that work in favor of, rather than against, program success. The housing affordability crisis is worsening, the drought promises to turn that crisis into a full-scale emergency for those it leaves homeless in the cities, and the increasingly large backdrop of the election is certain to make low cost housing provision a key issue over which Zimbabwe's multiparty politics will be contested.

For the above key reasons, and others cited in the analysis, key government officials and politicians accept now more than ever before the need to make more low cost housing more affordable to more low income households. Indeed -- and this is the most important institutional factor working to make the program a success -- there is an extraordinarily wide ranging consensus, both within and outside government and across Zimbabwe's political spectrum, that the proposed program interventions are precisely what is needed to address the problem.

The analysis identified a number of specific incentives at work to increase the chances of success in each program component, including, inter alia:

- There is the growing recognition and acceptance among key government decision makers that the 300 square meters minimum plot is unaffordable to low-income households. Even those who officially have supported minimum standards, e.g., the Director of Works of Harare City Council, are reported unofficially to be seeking deregulation of standards. That the Permanent Secretary of MPCNH wants to mentor the proposed program through the GOZ indicates the new receptivity to rethinking low cost housing provision in the standards area.

- The National Development Program II commits itself to review building standards so as to "come up with building systems which produce socially acceptable housing units at a lower cost than the conventional ones. Some legal requirements will be relaxed so as to improve the output of surveyed land and houses."

- MPCNH proposals for demonstration projects, the competition for comprehensive planning and design of low cost housing, as well as the existing variety of draft layouts for local authority low cost housing schemes all indicate that the new rethinking of low cost housing provision is moving toward doing something about it on the ground.

- Notwithstanding continuing problems with inflexible and excessive standards, a great deal of defacto variance and innovation has already gone on in the standards arena. Different plot sizes, layouts, and materials have been tried over time not just by local authorities or the MPCNH/MLGRUD, but the building societies as well, e.g., Founders allows a less costly shower instead of a bath, CABS has given a mortgage for a 18 square meter house. The Ministry of Eduction is reported to have unofficially recognized 3.8 ha. for single stream schools and 4 ha. for double stream ones. The list continues.

- Lastly, there is the persistent belief across a spectrum of architects, realtors, government officials, building society managers, and others that, even if construction costs keep rising, building society liquidity keeps falling, and OGIL goes nowhere, significant costs savings can still be realized by relaxing building, site, and construction standards.

(d) Disincentives - The analysis also identified a number of disincentives to program implementation, including:

- Possible disappearance of the mentoring role by the Permanent Secretary/MPCNH, either through a Cabinet reshuffle or other contingency.

- The current slowdown in expanding OGIL.

- The lack of a transparent mechanism to ensure that what gets into the country through the OGIL actually goes to increasing the stock of low cost housing.

- An existing backlog of approved mortgage applications, and the priorities for their liquidation. It will take some time to process them once liquidity resumes.

- The lack of new ideas from the three major building societies on how to open their waiting lists and resume giving low income mortgages, even during their current battening down period.

- The historical inability of key government decision makers to bite the bullet and change standards officially, notwithstanding their unofficial recognition that the 300 square meter plot standard is not longer affordable.

- The lack of a GOZ mechanism to regularly review and revise building, construction, and site standards.

The overall conclusion is that the four key incentives working for the program -- the 1995 elections, the amplifying affordability crisis, the drought, and the extraordinary consensus over program components -- outweigh the disincentives.

(e) Feasibility Assessment

(1) Organizational Response - The analysis applied organizational behavior concepts to the program design, examining specifically the effects of Zimbabwe's increasing resource scarcity on the program's key stakeholders and how their likely responses would support or undermine the program's proposed focus on the provision of serviced plots including minimum superstructure.

Public policy research has documented that public and private stakeholders respond differently in times of resource scarcity. The pressure on the public organization is to expand its activities to meet greater public needs, but the organization's actual response will be to constrict its activities and fall back on the minimum that it takes for it to survive. For the purposes of program design this means capitalizing on factors that do not allow the ministries to constrict or otherwise delay those activities essential to the success of the program. The election, housing affordability crisis, and the drought are just such factors.

Also, it has been shown that in times of increasing resource scarcity, public organizations will fall back on what they see they do best and have had most success at technically. Such fallback behavior reinforces the pressure to constrict activities and be less responsive to future pressures from the outside to innovate. Therefore, it is not surprising that senior officials, both in MPCNH and in the Harare City Council, see the short-term answer to low cost housing to be what they have been best able to do in the past by way of construction, that is, to provide the infrastructure necessary for serviced plots.

Another organizational behavioral pattern apparent during times of crisis is that while the private sector tends to respond with innovation, public officials act under the belief that Government is needed "now more than ever." While from the perspective of program designers the affordability crisis argues for a much more central role for the private sector in low-cost housing provision; from the perspective of senior MPCNH officials, the current crisis simply reinforces the MPCNH view that it must play an even more important and leading role in low-cost housing provision.

The analysis concludes that both USAID and GOZ decisionmakers are in agreement over what needs to be done. A different program designed three years ago or even three years hence would probably not be so fortunate. The existing consensus and the political and environmental circumstances indicate that now is an ideal time for promoting a shift to a private sector focus in low-cost housing provision.

(2) Program Design Factors - The analysis examined the merits of a program focus on the serviced plot, with the following findings:

- The serviced plot is something the authorities, both central and local, have considerable experience in providing, and by and large they do that provision well. Local authorities say they want the plots, and these are what the NHF have been financing for some time. Because the plot is much cheaper than a full-fledged dwelling unit, more of them can be provided as well.

- The serviced plot offers the household the maximum opportunity to build and use the house the way it wants. (Some 90 percent of USAID surveyed households recently said they would rather own their own individual serviced plots than share a large four roomed house with another family, for example).

- Focusing on the serviced plot, instead of plot plus four-room core, improves dramatically the above-mentioned conditional probability that something will actually get done the way it was designed originally.

- The serviced plot is popular with low income households, as demonstrated in Kuwadzana.

- A program focus on servicing plots fits in well with the current GOZ policy of homeownership and aided self help.

- At present, few, if any, serviced plots are available from some local authorities, e.g., from Harare City Council. For many local authorities, the lack of services plots is the first limiting factor to low cost housing provision.

- By centering its activities around serviced plots, the program also focuses on those areas where great cost savings can be realized, e.g., roads and plot size.

- Serviced plots are something employers, and through them, building societies, are willing to help pay for in order to retain staff.

The analysis asserts that because conditions of resource scarcity are not likely to improve dramatically until well within the program period, central and local authorities can be expected to continue tightening up their activities around what they think they can do best. In practical terms, this means a program focus that is based on the serviced plot will have growing support within the GOZ

The analysis examined a "worst-case" scenario to ascertain if there were any unforeseen effects of the proposed program that would be disastrously negative. The analysis also examined the possibility that if the program were to have unintended negative effects, whether they would be reversible. In addition, the analysis examined whether the program had multiple ways of achieving its ends in case any one way failed unexpectedly. Finally, the analysis examined to what extent the implementation could be considered incremental, and therefore subject to mid-course correction.

The analysis concluded that the program components represent a healthy mix of strategies that do not stand or fall on options whose effects are likely to be irreversible, whose implementation can occur in one and only way, and whose scale is all or nothing.

Two recommendations for program design resulted from the analysis. The first related to rationalizing standards, which is viewed as the most irreversible. The analyst suggests that what is needed, in addition to new standards, is a

mechanism to periodically review what standards there are before they become dangerously counterproductive. The Mission will pursue this recommendation in policy dialogue during program implementation.

Second, the analysis showed that tax policies have a number of favorable features that would recommend more active pursuit of them. The Mission has incorported into the program's conditionality appropriate measures to modify the current law which taxes employees the increment between their building society mortgage rate under an employee-assisted housing program and the prevailing market or government rate.

The analysis concluded that program components are considered institutionally and politically feasible, and with few exceptions, the organizations, units, and positions most instrumental to program success are willing and able to undertake the program's proposed changes.

7.6. Environmental Examination

The Mission requested and the Africa Bureau Environmental Officer concurred with a negative determination for the HG funds based on Section 216.3(a)(2)(iii) of Regulation 16 since since the program will not have a significant effect on the environment. This concurrence on a negative determination was extended by the Africa Bureau Environmental Office to the cash grant and technical assistance elements of the program as well because their environmental impacts were identical to those of the HG funds being used for this activity. Annex I.D. includes the IEE and cable concurrence. With respect to program financed infrastructure, all negative environmental effects will be mitigated. USAID evaluations will monitor environmental and sanitation standards.

8. SUMMARY RISK ANALYSIS

The Macroeconomic Analysis and the Institutional and Political Feasibility Assessments included in Annex III, and summarized in Section 7, specifically addressed the implementation risk concern, particularly with regard to the drought crisis and related pressures on the achievement of planned ESAP targets.

As summarized in Section 7.2., the Macroeconomic Analysis concluded that program success is not tied to the achievement of specific time-bound benchmarks for the ESAP, but rather, to the overall direction of the ESAP. As a result, the primary risk to the success of the proposed Private Sector Housing Program would be if the inflation level did not decrease by 1995 and positive interest rates in the housing finance sector were not achievable. The Macroeconomic Analysis indicated that the program design is sufficiently flexible to withstand a range of possible adverse scenarios in ESAP implementation. Moreover, the proposed program implementation should help assist vulnerable urban groups, thereby complementing the GOZ's SDA part of ESAP. Also, the program will strongly support the overall ESAP through the positive impact it is expected to have on the supply side of the economy and, more broadly, on the ESAP objective of liberalizing and deepening the financial sector.

Another key factor which poses a risk to the implementation of the Private Sector Housing Program is the ongoing drought and its impact on the GOZ's commitment to ESAP. Both the IMF and the World Bank are strongly supporting the GOZ's efforts to secure grant and concessional long term loans for drought relief and the World Bank has recently committed a US$150 million loan for this purpose. Although the drought will most definitely have an impact on the economy and ESAP, there is consensus that the GOZ has no option but to proceed with the structural adjustment program, even at a slower pace.

As highlighted in Section 7.5, the Institutional and Political Feasibility Assessment concluded that other key incentives are in place to make the program work. In the institutional context, the proposed interventions are not "new" to the GOZ. The program builds on what each participating organization does best, and it is well timed to shift major responsibilities for low cost housing delivery to the private sector.

The analysis further found that, politically, the country's current and continuing difficulties pose a unique set of factors that work in favor of, rather than against, program success. The housing affordability crisis is worsening, the drought is driving additional people into the cities and thereby further adding to the housing shortage, and the 1995 elections are certain to make low income housing provision a key issue over which Zimbabwe's multiparty politics will be contested. Most importantly, the lack of affordable low income housing is now commonly recognized as an urgent problem for which there is a wide ranging consensus, both within and outside Government and across the political spectrum, that the proposed program interventions are the appropriate response.

The Technical Analysis summarized in Section 7.1 details the findings which ultimately resulted in the program's conditionality and its associated risks. A critical bottleneck is the lack of land surveyors and the solutions proposed include a deregulation of fees, management studies, outside personnel assistance and commodities. An important assumption and related risk is that the combination of these activities will result in additional surveying capabilities. The monitoring and evaluation plan will track this assumption to ensure that the increased output required actually occurs. Another possible risk relates to corruption, particularly in light of the allocation of low income plots. This risk is not exclusive to Zimbabwe and occurs any time a scarce resource is provided. However, the system for the allocation of plots in Zimbabwe is highly regulated and USAID found no inconsistences in the distribution of plots in the first HG program. Nonetheless, plot allocations will be closely monitored and, if necessary, confirmed by outside technical assistance.

9. IMPLEMENTATION AND MANAGEMENT

9.1. Implementation Plan

The Implementation Plan identifies specific program elements and their approximate timing, including: USAID program management, GOZ program management, the flow of funds, the conditions precedent, and the technical

Implementation Plan: Year 1

Category	Activity	Responsibility	Quarter
USAID Program Management	• Regional Housing and Urban Development Officer in place • Personal services contractor hired • Contractor for TA and training selected • Monitoring and Evaluation firm selected • Monitoring and Evaluation Plan submitted	USAID USAID USAID USAID USAID	1 1 4 1 2
GOZ Program Management	• Ministerial Committee established and meets • Working level group identified • Building Societies' funding level monitored • Account of HG eligible expenditures submitted • Provide Z$ financing	USAID/MOF USAID/MOF USAID/MOF USAID/MPCNH MOF	1 1 1 - 4 4 1 - 4
Expenditure of Funds	• First Disbursement: HG $15 million and AEPRP $10 million • Local currency equivalent of AEPRP pooled with Building Society funds borrowed on local market • US$ used through OGIL: local currency equivalent channeled through NHF for plot development	USAID/MOF MOF/BSs USAID/MIC	2 2 2 - 4
CPs: Construction	• Commodities required to assist building materials industry utilize full capacity placed on ROGIL • Spares for construction equipment placed on ROGIL • Equipment for survey industry and Building Societies placed on ROGIL	MIC MIC USAID/MIC/BSs/SG	1 1 1
CPs: Housing Finance	• Local Currency funds made available to Building Societies for low income mortgages and blended with market rate funds • Surplus funds channeled to Building Socs for additional hsing finance • Building Societies Act amended to permit Housing Negotiable CDs • Agreement on analysis of financial sector to promote competition • Ceiling for tax free shares reviewed	MOF MOF MOF MOF/RB MOF	1 1 1 1 1
CPs: Land Delivery	• Plot frontages reduced from 12 meters to 8.5 meters • Policy directive issued on reducing road standards and provision • Minimum superstructure requirement set at wet block and one room slab • School plot sizes reduced by 15%	MPCNH MPCNH/MLGRUD MPCNH MEC	1 1 1 1
TA: Construction	• Zimman II provides training through IBDC and ZBCA to small contractors	USAID/IBDC/ZBCA	1 - 4
TA: Housing Finance	• Undertake an in-depth analysis with other donors of the private financial system • Training and technical assistance to Building Societies in portfolio management	USAID/MOF/RB USAID/BS	2 - 4 2 - 4
TA: Land Delivery	• Review of management procedures in Surveyor General and Registrar of Deeds offices • Technical workshops held to identify potential cost savings • US training on land development issues provided to senior officials	USAID/SG USAID/MLGRUD USAID/MLGRUD	4 3 - 4 4

Implementation Plan: Year 2

Category	Activity	Responsibility	Quarter
USAID Program Management	• Regional Housing and Urban Development Officer in place • Personal services contractor in place • Contractor in place for TA and training • Monitoring and Evaluation firm in place • Monitoring and Evaluation Plan being used	USAID USAID USAID USAID USAID	1 - 4 1 - 4 1 - 4 1 - 4 1 - 4
GOZ Program Management	• Ministerial Committee meets • Working level group meets • Building Societies' funding level monitored • Account of eligible expenditures submitted	USAID/MOF USAID/MOF USAID/MOF USAID/MPCNH	1, 3 1 - 4 1 - 4 1 - 4
Expenditure of Funds	• Second Disbursement: HG $20 million and grant funds $5 million • Local currency equivalent of grant funds pooled with BS funds borrowed on local market • US$ used through OGIL: local currency equivalent channeled through NHF for plot development	USAID/MOF MOF/BSs USAID/MIC	2 2 1 - 4
CPs: Construction			
CPs: Housing Finance	• Local Currency funds made available to Building Societies for low income mortgages and blended with market rate funds • All parties agree to undertake study of municipal bond market • All parties agree to undertake study of secondary mortgage market • Implementation of Housing Bond	MOF USAID/MLGRUD/MOF USAID/MPCNH/MOF MOF	1 1 1 1
CPs: Land Delivery	• School site sizes reviewed • Fees for land surveyors de-regulated • Local authorities officially encouraged to use private planners	USAID/MEC/MLGRUD SG/MLARR MLGRUD	1 1 1
TA: Construction	• Information exchange and technology transfer on appropriate technology • Evaluation of small contractor training program • Contract in place for expanded small contractor training program	USAID USAID USAID	2 - 4 1 4
TA: Housing Finance	• Training and technical assistance to Building Societies in portfolio management • Desegmentation study of financial system undertaken • Short term training courses on housing finance conducted	USAID/BSs USAID/MOF/RB USAID/BSs	1 - 4 3 3
TA: Land Delivery	• Technical workshops held to identify potential cost savings • Consolidated planning and design manual prepared for use by private and public sectors • US training on land development issues offered to senior officials • Workshops on planning and design conducted • TA given to local authorities on land use planning	AID/MLGRUD/MPCNH MPCNH USAID/MLGRUD USAID/MPCNH USAID/MLGRUD	1 - 3 4 4 2 - 4 2 - 4

Implementation Plan: Year 3

Category	Activity	Responsibility	Quarter
USAID Program Management	• Contract for TA and training reviewed/renewed • Mid-term evaluation conducted • Regional Housing and Urban Development Officer in place • Personal services contractor in place • Monitoring and Evaluation firm in place	USAID USAID USAID USAID USAID	4 3 1 - 4 1 - 4 1 - 4
GOZ Program Management	• Ministerial Committee meets • Working level group meets • Building Societies' funding level monitored • Account of HG eligible expenditures submitted	USAID/MOF USAID/MOF USAID/MOF USAID/MPCNH	1, 3 1 - 4 1 - 4 1 - 4
Expenditure of Funds	• US$ used through OGIL: local currency equivalent channeled through NHF for plot development	MOF	2
CPs: Construction			
CPs: Housing Finance			
CPs: Land Delivery			
TA: Construction	• Small contractor training program expanded in geographical coverage and scope • Technical assistance and training provided to assist small scale building materials manufacturing enterprises	USAID/IBDC/ZBCA USAID/IBDC	2 - 4 1 - 4
TA: Housing Finance	• Training and technical assistance to Building Societies in portfolio management • Implementation analysis of secondary mortgage market system • Implementation analysis of municipal bond market system	USAID/BSs MOF/RB MOF/RB	1 - 4 2 - 4 2 - 4
TA: Land Delivery	• TA given to coop housing organizations • Workshops on planning and design conducted • TA given to local authorities on land use planning • Study of costs of development of multi-storey housing	USAID USAID/MLGRUD USAID/MLGRUD USAID/MPCNH	1 - 4 1 - 4 1 - 4 3

Implementation Plan: Year 4

Category	Activity	Responsibility	Quarter
USAID Program Management	• Regional Housing and Urban Development Officer in place • Personal services contractor in place • Contract in place for TA and training • Monitoring and Evaluation firm in place	USAID USAID USAID USAID	1 - 4 1 - 4 1 - 4 1 - 4
GOZ Program Management	• Ministerial Committee meets • Working level group meets • Building Societies' funding level monitored • Account of HG eligible expenditures submitted	USAID/MOF USAID/MOF USAID/MOF USAID/MPCNH	1, 3 1 - 4 1 - 4 1 - 4
Expenditure of Funds	• Third Disbursement: HG $15 million and grant of $10 million • US$ used through OGIL: local currency equivalent channeled through NHF for plot development	USAID/MOF USAID/MIC	2 2
CPs: Construction			
CPs: Housing Finance	• All parties agree to undertake analysis of construction finance system	USAID/MPCNH/MOF	1
CPs: Land Delivery	• Recovery of infrastructure costs for low cost housing treated equally for public and private sector development • Package of design standards to reduce costs of low income housing development agreed	USAID/MLGRUD USAID/MPCNH/ MLGRUD	1 1
TA: Construction	• Study of labor intensive construction methodologies conducted • Workshop on labor intensive construction methodologies conducted • Small contractor training program active throughout the country • Technical assistance to small scale building materials manufacturing enterprises continues	USAID/MPCNH USAID/Bldg. Industry USAID/IBDC/ZBCA USAID/IBDC	1 3 1 - 4 1 - 4
TA: Housing Finance			
TA: Land Delivery	• TA given to coop housing organizations • TA given to local authorities on land use planning • Design standards reviewed	USAID USAID/MLGRUD USAID/MPCNH	1 - 4 1 - 4 2

Implementation Plan: Year 5

Category	Activity	Responsibility	Quarter
USAID Program Management	• Regional Housing and Urban Development Officer in place • Personal services in place • Contract in place for TA and training • Monitoring and Evaluation firm in place • HG eligible expenditures verified • Final evaluation	USAID USAID USAID USAID USAID/MOF USAID	1 - 4 1 - 4 1 - 4 1 - 4 1 - 4 4
GOZ Program Management	• Ministerial Committee meets • Working level group meets • Building Societies' funding level monitored • Account of HG eligible expenditures submitted • All items placed on OGIL • All controls on savings, deposit and mortgage rates lifted	USAID/MOF USAID/MOF USAID/MOF USAID/MPCNH MIC MIC	1, 3 1 - 4 1 - 4 1 - 4 3 3
Expenditure of Funds	• US$ used through OGIL: local currency equivalent channeled through NHF for plot development	USAID/MIC	1 - 4
CPs: Construction			
CPs: Housing Finance			
CPs: Land Delivery			
TA: Construction	• Code of practice for use of labor intensive methodologies agreed with GOZ, construction industries and consultants • Small contractor training program continues • Technical assistance to small scale building materials manufacturing enterprises continues	USAID/MPCNH/ Building Industry USAID/IBDC/ZBCA USAID/IBDC	2 1 - 4 1 - 4
TA: Housing Finance			
TA: Land Delivery	• Revision and update of consolidated planning and design manual prepared for use by private and public sectors	USAID/MPCNH	2

assistance. The Plan is broken down by year, with Year 1 being FY93, and it includes the approximate quarter the activity is to occur. There may be slippage into the following quarter for the first quarter activities due to unexpected implementation start up delays, but the plan represents the Mission's best estimate, at this time, of the timing of events.

9.2. A.I.D. Program Management Tasks

The management of the private sector housing program will involve policy dialogue, tracking of dollars, monitoring of local currency uses and the procurement of technical assistance. The following sub-sections set forth the approaches that will be used to accomplish each of these program management tasks.

9.2.1. Policy Dialogue

The proposed Private Sector Housing Program is designed to address the sectoral constraints inhibiting the production of low cost shelter. Section 6.4., identifies the conditions, their rationale, and the means of verification of satisfaction. The conditionality has been discussed in detail with senior and mid-level officials in Government as well as with private sector representatives, and the outcome of these negotiations is reflected in the conditionality.

It should be noted that the conditionality as presented in this document represents the substantive content of agreed upon actions. The precise language for each condition may be modified to reflect USAID negotiations with the Government, within the substantive intent of these conditions precedent. Similarly, additional conditions may be provided for in the Program Agreement which are not considered essential to the authorization of this program, e.g., completion of studies.

All conditions precedent are to be met "to the satisfaction of A.I.D.", and Program Implementation Letters (PILs) will be utilized to provide the Government with guidance in that regard. Additional, routine provisions applied to management of the foreign exchange account and the local currency account will be included as required by A.I.D. guidance and regulations.

9.2.2. Dollar Uses and Tracking

U.S. dollars will be provided under the program in three forms: (a) US$50 million in housing guaranty (HG) loan funds; (b) US$25 million in DFA cash grant resources; and, (c) US$2.68 million in grant funds for technical assistance resources. All will be tracked according to existing USAID legal requirements and policies, as further discussed below.

The HG loan and cash grant resources will be disbursed in three separate tranches based on GOZ submission of evidence of satisfaction of conditions related to agreed upon policy and regulatory reforms in the low income shelter sector. Upon disbursement, the GOZ will utilize the U.S. dollar resources to generally support the OGIL, without tying the dollars to individual import transactions.

It is not the intent of the program to match the U.S. dollar resources against the expected total demand for construction plant and equipment. The GOZ will only be required to provide evidence that the U.S. dollar resources were utilized to support the OGIL system. The programmatic reasons for choice of the OGIL are more fully discussed below.

USAID examined a number of options for the use of the U.S. dollar resources. The majority of imports in Zimbabwe are still processed under the import licensing system. Individual applications are made by the importer and are allocated under a prioritization system which is matched to the availability of foreign exchange. The procedure is typically uncertain, slow, bureaucratic and lacks transparency.

Under the ESAP, it is intended that the import licensing system should be replaced progressively by the OGIL, under which prescribed items can be imported without any license specific to the importation. The ESAP also allows for an Export Retention Scheme (ERS), under which a percentage of earnings from exports can be retained by the exporter and used to import materials required for the operation of the business. Finally, the GOZ has commodity import programs (CIPs), under which donors typically set up a line of credit in foreign exchange and importers are given allocations by a Government committee representing the industry that has been targetted for assistance.

USAID carefully reviewed all the options to procure the plant and equipment required in the construction and building materials industry. It was found that the traditional import licensing system has proved inadequate and, while the ERS has merit, it is not a suitable mechanism for all industries. The ERS also creates an incentive to serve the export market, which may create domestic shortages in some economic sectors, particularly in the building materials industry.

The choice was therefore between the OGIL and the CIP methodologies. The attraction of the CIP methodology is that (a) it allows for a clear cut definition of the target group; (b) imports can be restricted effectively to that group if decision makers so desire; (c) the allocations can be made using various criteria, which may or may not reflect market forces, but could give higher priority to equity concerns or political interests in expanding participation of identified minority groups; and (d) the allocation system can be determined in advance so that all interests are fairly served.

It should be noted that the highly discretionary nature of the CIP allocation process, while helpful in allowing for positive interventions to correct inequities in the economy, could also create an incentive structure that could encourage corrupt practices in the allocation of such a scarce resource as foreign exchange. Another major drawback of the CIP system, and one particularly important for the long term development interests of the country, is that it is a non-market driven "window" which permits distortion of the true costs of the factors of production (given that foreign exchange is a necessary input) and could allow inefficient industries to survive and thrive at a cost to the broader economy. In addition, there is the need with a CIP program for the establishment of a complex bureaucratic machinery. Because of the principle of tracking the money, a fairly elaborate paper trail is required, unlike USAID guidelines for HG loans which do not require an accounting of the U.S. dollars. Finally, because many of the imports proposed under this program will include regular supplies of small units, spare parts, and consumables, the CIP system will result in numerous delays in processing.

The OGIL system for foreign exchange allocation has a number of advantages. Most importantly, the substitution of the OGIL system for the previous bureaucratic procedure for the allocation of import licenses is a key element of Zimbabwe's economic structural adjustment program, which is driven by the objective of increasing reliance on market forces. The advantages in terms of speed and simplicity of the OGIL system are recognized.

One of the major concerns with the OGIL system, however, is that once an item is included on the OGIL, the principal is that all of the foreign exchange necessary must be provided for its importation in accordance with demand. The risk is that there may not be sufficient foreign exchange available to import the commodities. In such circumstances, the system breaks down. Therefore, before placing additional commodities on the OGIL, it is important to determine the likely demand and categorize the commodities as precisely as possible. The analysis in Annex III-A.1. addresses this concern.

Another drawback of the OGIL has been a tendency in the recent past for importers to procure excessive quantities which has resulted in the rapid depletion of the foreign exchange supply. Furthermore, since items on the OGIL are classified by customs tariff, they can be imported by any industry requiring that commodity. Thus, the openness of the OGIL system makes it difficult to target to a specific industry.

In response to these problems, the GOZ uses, in addition to the normal OGIL, a "Restricted OGIL" system, under which the Minister of Trade and Industry must certify a firm or sector's eligibility to import a specific commodity under the OGIL system. This is a transitional system to control demand, and, as necessary, to target commodities to priority sectors as determined by the Government. Once a firm has been given rights to import under the restricted OGIL, the procedures are the same as for the unrestricted OGIL. It is the intent of the economic reform program to eliminate the restricted OGIL category by the end of the ESAP and have all items placed on the unrestricted OGIL.

USAID strongly supports the GOZ's efforts to move towards a transparent, market based system of foreign exchange allocation as envisioned under the ESAP and therefore, with the exception noted below, will channel all HG and non-project U.S. dollar resources through the OGIL system.

(b) Mission OYB Resources for Technical Assistance - Technical assistance and training funds will total US$2.68 million over the life of the program. The technical assistance includes a variety of components, including studies examining the construction industry, housing finance industry, and overall financial sector, as detailed in Section 6. Given the diversity in the use of the funds, it is anticipated that the bulk of resources will be used by US or Zimbabwean institutions. Every attempt will be made to utilize Gray Amendment firms, where practical, as prime or sub-contractors.

9.2.3. Local Currency Uses and Management

The Program will result in local currency derived from GOZ counter deposits to two different resources: (1) the tranched HG Loan funds; and (2) the tranched cash grant funds. The management of each resource is described below.

(1) Local Currency Related to HG Loan Funds - The GOZ will, upon disbursement of each of the three tranches of HG loan resources, make local currency counter deposits equal to the HG loan disbursements into a separate, non-commingled, interest bearing Special Local Currency Account.

From this account, the GOZ will transfer half the local currency resources to a separate, non-commingled, interest bearing account in the National Housing Fund (NHF). The other half of the local currency in the Special Local Currency Account will be transferred to separate, non-commingled, interest bearing Special Accounts in the private Building Societies.

The NHF will on-lend the local currency counter deposits along with the agreed amount of GOZ budget resources (equivalent to U$25 million over the life of the Program) to local authorities, who will develop, through private building contractors, serviced plots for sale to low income households. The plots will be sold to individuals obtaining loans from the building societies. The local authorities will use the revenues from sale of the plots to repay the NHF. It is anticipated that loans from the NHF to the local authorities will have a life of not more than two years. Funds returned to the NHF can then be "recycled" for additional plot development.

U.S. Housing Guaranty legislation requires "eligible expenditures" in local currency to be generated in the amounts equivalent to the HG U.S. dollar resources. Eligible expenditures, as will be set forth in the Housing Guaranty Implementation Agreement, will be defined for purposes of this Program to mean reasonable and actual expenditures which the Parties hereto agree were incurred for construction, commencing on or after July 1, 1991, of low cost housing and support infrastructure in Zimbabwe which are affordable to and confer substantial benefit upon households with incomes below the urban median by improving their shelter conditions. Eligible expenditures may also include such other expenditures as may be mutually agreed upon in writing by the GOZ and A.I.D. The required eligible expenditures under the Program will be accounted for by NHF reports from local authorities borrowing resources on the production of serviced plots.

As will be required in a covenant set forth in the GOZ-USAID Agreement, the GOZ will obtain from the NHF and provide to USAID, on a semi-annual basis, a list of incurred eligible expenditures to be attribued to the local currency equivalent of disbursed HG resources. The list shall document utilization of the local currency equivalent of HG resources for the production of shelter affordable to households earning below the median income. Before proceeding with the final borrowing, the GOZ will have provided USAID with the majority of above referenced eligible expanditures and will confirm, in writing, that the balance of eligible expenditures attributable to the local currency equivalent to the HG resources will be forthcoming in a timely manner.

It is estimated that the local currency equivalent of US$5 million in eligible expenditures will be generated by the end of 1993, with a similar amount in 1994. Substantial eligible expenditures will be generated in 1995 (local currency equivalent of US$15 million) and 1996 (local currency equivalent of US$20 million), with the small balance being derived in 1997.

(2) Local Currency Related to the Cash Grant Funds - The GOZ will make local currency counter deposits equal to the U.S. dollar cash grant resources into a Special Local Currency Account. From the Special Account, local currency equivalent to ten percent of the cash grant (Z$12.5 million) will be transferred to a special, interest bearing A.I.D. established and administered Trust Fund for program management.

The remainder of the local currency equivalent to the cash grant resources (Z$112.5 million) will be transferred (along with half the local currency counter deposits of the U.S. dollar HG loan resources) to separate, interest bearing, Special Accounts in each of the private Building Societies for the exclusive purpose of low income mortgage financing.

The resources will be provided to the Building Societies on a grant basis and contingent upon the Building Societies having secured an appropriate amount of "matching" resources borrowed from the private financial market to also be used exclusively for low income mortgages. The actual amount of "matching" funds borrowed commercially will vary, depending upon the market rates and changes in the prevailing low income mortgage rate. However, the overall objective is to secure sufficient financing for the Building Societies, such that when blended with the GOZ local currency contributions generated from both the HG funds and the cash grant, will allow the building societies to on-lend at the prevailing low income mortgage rate and still cover administrative costs (estimated at 3-4 percent).

The capacity to administer and monitor the use of the local currency resources will rest with Government, and, to a much greater extent, with the Building Societies. The GOZ will confirm to USAID, in writing, that the counter deposits were made, identifying the numbers of the separate, non-commingled Special Local Currency Accounts. The Building Societies will maintain these funds, and the "matching funds" obtained from private commercial borrowing, in separate, non-commingled, interest bearing Special Accounts accounts and provide USAID with quarterly reports indicating the status of the Special Accounts and the quarterly and cummulative number and value of mortgages provided to below the median income households using these funds.

9.2.4. Technical Assistance and Training Procurement

It is anticipated that the technical assistance and training assistance required to implement the proposed Private Sector Housing Program will be obtained through a cooperative agreement or a direct contract. The required services will be advertised and competed on a world-wide basis. USAID is currently working with the Regional Legal Advisor and REDSO/Contracts to determine the most appropriate procurement method. Given the variety of expertise required, and the high level of expertise available in Zimbabwe, it is envisioned that the group providing the assistance will be composed of a consortium of US and Zimbabwean based institutions. Program management and support will be contracted under personal service contracts. USAID/Zimbabwe will prepare the necessary PIO/T's to initiate the contracting actions. The procurement of institutional technical assistance and/or training will be carried out by REDSO/ESA Regional Contracting Office. The lead time for the institutional technical assistance procurement is at least six months from the

Table 2. Illustrative Budget for Technical Assistance and Training

A.	Construction Sector Assistance	
	Appropriate Technology Technical Assistance	US$ 40,000
	Appropriate Technology Workshops	40,000
	Indigenous Contractor Training Program	400,000
	Labor Intensive Construction Techniques	50,000
	Subtotal	$530,000
B.	Housing Finance Assistance	
	Financial Overview	US$150,000
	Desegmentation Analysis	100,000
	Portfolio Management Training	80,000
	Municipal Bond Analysis	130,000
	Secondary Mortgage Market Analysis	130,000
	Construction Finance Analysis	80,000
	US Based Housing Finance Training	120,000
	Subtotal	US$790,000
C.	Land Delivery Assistance	
	Planning Assistance	US$ 40,000
	US Based Training	100,000
	Management Study of the Surveyor General	20,000
	Short Term Surveyors	100,000
	Workshops for Engineers	55,000
	Analysis of High-Rise Developments	40,000
	Cooperative Housing Assistance	50,000
	Subtotal	US$405,000
D.	Personnel and Support	
	Long Term PSC, and related operational support	US$800,000
	Secretary	50,000
	Vehicle	20,000
	Baseline Study and Monitoring Contract	25,000
	Audits/Evaluations	60,000
	Subtotal	US$955,000
TOTAL TECHNICAL ASSISTANCE PACKAGE		US$2,680,000

receipt of an operable PIO/T from the Mission. The procurement of goods or commodities under the program is expected to be limited. Thus, in most instances the responsibility for their purchase will rest with the contractor or recipient. Procurement of the program vehicle will be done by USAID through a PIO/C.

There will not be a set aside for Gray Amendment firms because USAID has not been able to identify one such firm that could provide all of the required services. However, USAID will encourage the inclusion of Gray Amendment firms in the consortium, or as sub-contractors or sub-grantees, to the maximum extent practical and will adhere to the existing Gray Amendment regulations requiring 10 percent set aside in the case of a contract.

9.3. Methods of Financing and Implementation

The program will be implemented using the standard operating procedures which have been established between the Government of Zimbabwe (GOZ) and USAID for bi-lateral agreements. Specifically, the program will be obligated with three agreements signed by the GOZ and USAID: a Housing Guaranty Implementation Agreement, a Program Grant Agreement, and a Project Grant Agreement. The agreements will be signed with the Ministry of Finance (MOF) and will include a detailed description of the use of funds, the program's conditionality, and the details of the implementation responsibilities. Program/Project Implementation Letters will be utilized to specify detailed implementation matters.

Table 3.
Planned Methods of Financing and Implementation

Element	Methods of Implementation	Methods of Financing	Amount
TA	A.I.D. Cooperative Agreement or Direct Contract	Direct Payment	US$780,000
Program Support	A.I.D. Direct Contracts	Direct Payment	US$850,000
Training	A.I.D. Cooperative Agreement or Direct Contract	Direct Payment	US$945,000
Commodities	A.I.D. PIO/C for Vehicle, Cooperative Agreement or Direct Contract for Miscellaneous	Direct Payment Direct Payment	US$20,000 US$25,000
Audit	A.I.D. IQC	Direct Payment	US$20,000
Evaluation	A.I.D. IQC	Direct Payment	US$40,000

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Program oversight will be provided by an inter-ministerial committee comprised of the Permanent Secretaries in the MOF, MPCNH, MLGRUD, and MIC. The Reserve Bank will also be represented at a similar level. Written support and documentation of each item under the conditionality will be provided by the appropriate ministry throught the MOF.

Most technical assistance and training resources will be channelled through a cooperative agreement or direct contract as set forth in Section 9.2.5. USAID/Zimbabwe and REDSO/Contracts/Nairobi will be responsible for securing the technical assistance and training contract after consultation with the GOZ. Limited procurement of commodities is anticipated and, in most cases, will be undertaken by the cooperative agreement agency or the contractor. The only anticipated direct commodity procurement by USAID will be for the program vehicle. The project officer will prepare the PIO/C in conjunction with the Regional Commodity Managment Officer to ensure that all specifications are in compliance with A.I.D. regulations. USAID will be responsible for identifying suitable U.S. or third country training activities for short-term courses with the implementation to be administered by the cooperative agreement institution or the contractor. All payments will be made using A.I.D. approved methods of financing.

Non-Federal audits (NFAs) will be provided under the regional indefininte quantity contracts managed by RIG/Nairobi or under a direct contract awarded by REDSO/ESA. Evaluations will be done under a direct contract or indefinite quantity contract work order arranged by USAID/Zimbabwe at the midpoint and end of the program.

9.4. Implementation and Management Responsibilities

9.4.1 A.I.D. Program Management

The program will be managed by a newly created unit within USAID/Harare. This unit will be comprised of a RHUDO direct hire, funded by PRE/H, and a technical adviser and a secretary, the latter two positions being funded through the program. The contractor is expected to have relevant professional experience in urban development, and familiarity with A.I.D. implementation procedures will be given high consideration. The individual should have the breath of background experience to credibly engage the GOZ in an on-going policy dialogue concerning land delivery system policy and regulations. The estimated cost of this service, including all operational support costs (office furniture and equipment, travel, participation in program related professional conferences and workshops, etc.) is US$160,000 per annum with an additional US$10,000 per annum for the secretary. The costs are realistic planning estimates, taking into account the possibility that the skills and experience needed may only be available on the international rather than the local market. If the skills are found on the local market, the cost will be reduced. Project will also finance one vehicle for the housing program management staff at an estimated cost of US$20,000.

With regard to their responsibilities, the RHUDO officer will be responsible for managing the program and monitoring the implementation progress against output targets. The personal services contractor will assist the RHUDO officer in this carrying out these tasks. Specifically, the A.I.D. program management team will: (a) resolve implementation problems and prepare periodic implementation reports and other project documents; (b) review and provide administrative approval of vouchers and financial reports; (c) manage and coordinate formal project evaluations and audits; and, (d) prepare and process PIOs and other related contracting documentation for the procurement of project-funded technical assistance and limited commodities.

It is envisioned that the personal services contractor will have a engineering or urban planning background and manage a variety of technical aspects related to the construction industry, land surveying, and the land delivery process. The contractor will also coordinate the relevant technical assistance components related to these fields as well as other program administration/implementation tasks as directed by the RHUDO officer.

Assisting the program maanagement team will be various specialists from REDSO/ESA. The Regional Legal Advisor, USAID/RLA will provide legal assistance throughout the duration of project implementation. He/she will confirm the satisfaction by the Government of Zimbabwe of Conditions Precedent to disbursement and review and approve contracting procedures and grant documents. As appropriate, the RLA will review and clear project implementation documentation and advise Mission management if and when legal issues arise.

The Regional Contracting Officer, REDSO/ESA will be responsible as an advisor or procurement agent for all contracts or grants utilized under the program. He or she will advise the Mission on a variety of issues including the hiring of a personal services contractor, the selection of organizations to provide technical assistance, and any procurement of commodities.

The Controller, USAID/Zimbabwe, will have responsibility for project accounting and financial accountability, except for the HG which will use a Paying and Transfer Agent. Payments to grantees, contractors, or consultants under this program will be made by direct payment or reimbursement as discussed in Section 9.3 Methods of Financing and Implementation.

9.4.2. Government of Zimbabwe Program Management

The Ministry which will be responsible for submitting evidence to USAID of satisfaction of Conditions Precedent under the Program will be the Ministry of Finance (MOF). The Ministries primarily responsible for implementing the policy changes are: the Ministry of Public Construction and National Housing (MPCNH); the Ministry of Lands, Agriculture and Water Development; the Ministry of Education; the Ministry of Local Government, Rural and Urban Development (MLGRUD); and the Ministry of Inductry and Commerce (MIC).

Conditionality related to the construction sector will be the primary responsibility of the MIC which will place the agreed items on the OGIL. Consultations have already occurred with MPCNH and a complete list of items to be placed on the OGIL is with MIC. The conditionality concerning the financial sector will be the responsibility of MOF and the Reserve Bank. On issues related to housing finance, MPCNH will also have a role. Financial questions related to infrastructure development, and particularly off-site infrastructure, will require consultation with MLGRUD. Finally, the reforms related to the conditionality in the land delivery sector will be jointly implemented by MPCNH and MLGRUD.

To manage the implementation of the proposed reforms, an Interministerial Committee will be established to monitor Program performance. Members will include the Permanent Secretaries in MOF, MPCNH, MLGRUD, as well as representatives from the Reserve Bank and USAID. The Interministerial Committee will meet before each disbursment of funds to examine the rate at which the proposed reforms are being implemented and identify any delays and possible solutions. Additional meetings will be called as and when required.

A working level group will also be established and this will be more informal in nature. The Permanent Secretaries in each involved Ministry and USAID will assign to key staff specific responsibility for the Ministry's input in implementing the reforms. USAID staff will work directly with these individuals on a day to day basis to implement the Program. Where appropriate, meetings may be held with the working level staff to implement reforms which fall into the jurisdiction of more than one Ministry.

The actual construction of low cost housing units will utilize the existing construction system in Zimbabwe. Applications for the financing for low cost shelter will be completed by the local authorities. Actual construction will be the responsibility of private contractors with management oversight provided by private consulting engineers. Short term construction financing will be channelled through the National Housing Fund and long term finance will be provided by the private building societies. Private land surveyors will assist in the titling process with final approval coming from the Surveyor Generals Office.

9.5. Monitoring and Evaluation Plan

The Private Sector Housing Program will be implemented in a dynamic environment with many stakeholders. As problems evolve over the course of the program, its monitoring and evaluation will have to shift and adapt. Indeed, the temptation will be to monitor more and more different factors.

Nonetheless, the program aims are quite specific. Consequently, the monitoring and evaluation of program inputs, outputs and impacts will need to be flexible enough to handle emerging problems, yet always sufficiently focused so as never to lose sight of the handful of indicators essential to measuring program performance. The more indicators the program monitors and uses for monitoring and evaluation, the greater the chances of finding things going awry with factors neither necessary or sufficient for program success.

The responsibility for balancing the specific and focused indicators against the competing demands for flexibility and adaptation should rest with the Interministerial Committee, to be chaired by the Permanent Secretary of the Ministry of Finance and consisting of key stakeholders in the Program, including USAID. Its core monitoring task should be to gauge reactions of the Committee members to program outputs and impacts, and feed their reactions back into improving performance. Since local authorities, building societies and the Ministries appear able to collect the required information for monitoring program performance, at the on-set of the program, a local contractor will be hired with program funds to obtain the data plus other key indicators of performance and collate it on a periodic basis for Committee staff.

9.5.1. Relevant Indicators

As the basic measures of program performance must always be kept in view, the conventional order of indicators is reversed in the following discussion. We start with impact indicators, then identify those for outputs, turning last to input indicators. Indicators and data sources for an evolving program monitoring and evaluation process are also examined.

Impact Indicators:

-- Number of serviced plots produced with minimum superstructure or more on areas of 300 square meters or less. This will be obtained from the National Housing Fund on a bi-annual basis and used in the mid-term and final evaluations;

-- Average cost of minimum serviced plot and support structure. This will be obtained from the National Housing Fund on a bi-annual basis and used in the mid-term and final evaluations;

-- Financial resources available within the Building Societies for low income mortgage lending. This will be monitored monthly and reported upon by the building societies on a bi-annual basis and used in the mid-term and final evaluations.

-- Number of low income mortgage loans financed by the building societies under an amount established at the outset of the program and revised as incomes increase. This information will be provided by the building societies on a quarterly basis;

-- Number of serviced plots allocated to below-median income families. The information will be collected on a quarterly basis by the National Housing Fund.

-- Costs of low cost housing construction. This will be obtained from a representative sample of small scale builders in periodic surveys on a quarterly basis and will be used in evaluations.

-- Volume of Building Materials and Construction Industry activity. This will be measured by monitoring a sample of firms.

— Number of jobs created. This will be created by monitoring a selected group of building material manufacturers producing the majority of materials for the low cost housing sector and construction firms (small, medium, and/or large) serving the low income household sector.

Output Indicators:

The outputs to be monitored are detailed in Section 6.2. In addition to increases in construction firm and building materials production activity, the program will monitor each of the program's Conditions Precedent for implementation.

Input Indicators:

Project disbursement reports, vouchers, receipts, etc., will be used to track the U.S. dollars and local currencies as discussed in Section 9.2.2 and 9.2.3.

9.5.2. Evolving Data Sources

USAID will initially identify a variety of indicators to measure an extremely wide range of factors (including those for Zimbabwe's housing finance and building standards areas) and will serve as a baseline measure at the outset of the program. The appropriateness of the Program indicators selected from this initial survey must be thoroughly considered prior to their selection to ensure they do not conflict or otherwise compete with the program's basic indicators of input, output, and impact identified above.

9.5.3. Schedule for Data Collection and Review

Upon approval of the program, USAID will identify suitable local contractors to provide the monitoring and evaluation input. The contractor will assist USAID in identifying the specific indicators which will evolve from the program-funded Indicators Survey. Data collection will commence three months after the Program begins and data will be collected, collated and analyzed from the ministries, local authorities and building societies.

In general, input and output indicators will be reviewed on a quarterly basis and impact indicators on a semi-annual basis. Baseline indicators selected from the initial survey will by and large be reviewed annually, where needed. The Program's mid-term and final evaluations will also rely on this data, and will, as noted earlier, collect specific additional information on superstructure, plot size and infrastructural changes sought during the Program.

9.5.4. Schedule of Mid-Term and Final Evaluation

There will be two external evaluations: (a) a mid-term evaluation to be completed near the 24th month of implementation; and, (b) a final evaluation to be completed at the conclusion of the program. Scheduling of the mid-term evaluation will, however, be flexible in order to accommodate any unexpected delays in meeting the program's conditions precedent.

The framework for the evaluations will be worked out in consultation with the GOZ and the building societies. The final evaluation will be completed no later than two months after the Project Assistance Completion Date (PACD).

ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM

ANNEX I

LEGAL EXHIBITS

1/6 UNCLASSIFIED STATE 016424/01

ACTION: AID-2 INFO: AMB DCM ECON//5

RJ^]^ 8, MB%VZCZCSB0153
RR RUEHSB
DE RUEHC #6424/01 0171328
ZNR UUUUU ZZH
R 171320Z JAN 92
FM SECSTATE WASHDC
TO RUEHSB/AMEMBASSY HARARE 9007
RUEHNR/AMEMBASSY NAIROBI 3545
RUEHSA/AMEMBASSY PRETORIA 2554
BT
UNCLAS SECTION 01 OF 06 STATE 016424

LOC: 020
17 JAN 92
ON: 03323
CHRG: AID
DIST: AID

CHRON

AIDAC, NAIROBI FOR REUDO, PRETORIA FOR RLA

E.O. 12356: N/A
TAGS:
SUBJECT: ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM (613-0235) AND (613-HG-003)

1. AN ECPR FOR THE SUBJECT PROGRAM WAS HELD ON FRIDAY, DECEMBER 6, 1991. THE MEETING WAS CHAIRED BY AFR/SA AND WAS ATTENDED BY PRE/H, AFR/DP, GC/AFR, FA/B, AFR/ARTS, AF/S AND AF/EPS. THE MISSION WAS REPRESENTED BY USAID/ZIMBABWE'S S/PDO, A PSC ECONOMIST, AND REUDO/ESA. THE MISSION AND REUDO ARE COMMENDED FOR A CLEAR AND WELL PRESENTED PID.

2. PRIOR TO DISCUSSION OF THE ISSUES AT THE ECPR, THE MISSION DESCRIBED THE BROADER ECONOMIC CONTEXT WITHIN WHICH THE HIG IS BEING PRESENTED, THAT IS, ZIMBABWE'S ECONOMIC REFORM PROGRAM. THE MISSION THEN PRESENTED A CASE FOR EXPANDING THIS PROGRAM FROM A DOLS 50 MILLION HIG, TO A COMBINED DOLS 75 MILLION PROGRAM WHICH WOULD CONSIST OF THE HIG LOAN AND DOLS 25 MILLION OF DFA GRANT NON-PROJECT ASSISTANCE. SINCE THIS PROPOSAL ASSUMES THE USE OF AEPRP FUNDS AND SINCE THE DOCUMENTATION DID NOT ADDRESS DFA REQUIREMENTS OR NPA REQUIREMENTS, THE ECPR RECOMMENDED THAT THE COMBINED PAAD/PP BE RETURNED FOR AID/W AUTHORIZATION. THE PARAGRAPHS BELOW DESCRIBE THE

ISSUES THAT WERE DISCUSSED AND PROVIDE GUIDANCE TO THE FIELD.

3. ISSUE 1: ZIMBABWE BILATERAL PROGRAM FOCUS

DISCUSSION: USAID/ZIMBABWE PROPOSED COMBINING THE DOLS 50 MILLION HIG LOAN WITH A DOLS 25 MILLION AEPRP GRANT FOR A MAJOR REFORM PROGRAM IN THE HOUSING SECTOR IN ZIMBABWE. THIS PROPOSAL IS CONSISTENT WITH: (1) ZIMBABWE'S STATUS AS A LOWER MIDDLE INCOME COUNTRY; (2) THEIR SUCCESSFUL MOVEMENT OVER THE LAST YEAR FROM A SELF-DEFINED ECONOMIC REFORM PROGRAM TO A WORLD BANK AND IMF APPROVED STRUCTURAL ADJUSTMENT PROGRAM; (3) THE CHANGE IN THEIR CREDIT RATING FROM 'D' TO 'C-'(OMB PASSBACK); (4) THE SUCCESS OF PREVIOUS HIG PROJECTS IN ZIMBABWE; AND (5) THE FOCUS OF THE PROGRAM'S CONDITIONALITY ON THE PRIVATE SECTOR

:SION MAY BE ASKED TO FURTHER REDUCE ITS NUMBER OF
:ATEGIC OBJECTIVES.

E ECPR ALSO NOTED THAT THE DESIGN, NEGOTIATION,
PLEMENTATION AND MONITORING OF THE PROGRAM WILL REQUIRE
E ATTENTION OF MANY MISSION STAFF. DECISIONS REGARDING
E TRANSFER OF REUDO FTE LOCATIONS WITHIN AFRICA HAVE NOT
T BEEN MADE, BUT IF A REUDO FTE IS NOT TRANSFERRED TO
RARE, THE MISSION IS EXPECTED TO CONTRACT FOR A PROJECT
NAGER FRO THEIR EXISTING OYB. IN ADDITION, THE PP/FAAD
OULD INDICATE THE LEVEL OF INVOLVEMENT OF OTHER USDH
AFF IN MANAGEMENT OF THIS PROGRAM.

. ISSUE 2: USE OF AEPRP FOR THE HOUSING SECTOR

SCUSSION: THE DFA STATUTE REQUIRES THAT DFA ASSISTANCE
USED PRIMARILY FOR ONE OF FIVE CRITICAL SECTORAL
IORITIES (AGRICULTURAL PRODUCTION AND NATURAL RESOURCES,
ALTH, VOLUNTARY FAMILY PLANNING, EDUCATION AND INCOME
NERATING OPPORTUNITIES), ALTHOUGH IT PERMITS SOME DFA
SISTANCE FOR OTHER PURPOSES WITHIN THE SCOPE OF SECTIONS
3-106. WHILE THE PROPOSED PROGRAM DOES NOT FIT WITHIN
E FIVE CRITICAL SECTORAL PRIORITIES, IT WILL FIT WITHIN
CTIONS 103-106, SINCE IT APPEARS TO PRIMARILY BENEFIT
E POOR THROUGH AN INCREASE IN SHELTER FOR LOW-INCOME
OPLE, AND SECONDARILY THROUGH THE AVAILABILITY OF JOBS
THE CONSTRUCTION SECTOR.

L EAC REPORT FOR THE UNENACTED FY 1992 APPROPRIATIONS
T REFLECTS THE COMMITTEE'S CONCERN THAT NPA BE DESIGNED
) HELP THE POOR MAJORITY. THE EAC STATES THAT IT QUOTE,
ULD LIKE TO SEE A.I.D. BECOME THE RECOGNIZED WORLD
ADER IN DESIGNING AND IMPLEMENTING NON-PROJECT
SISTANCE IN A LIMITED NUMBER OF SECTORS, PARTICULARLY

E SOCIAL SECTORS UNQUOTE. IN THIS REGARD, THE REPORT
ES ON TO STATE THAT QUOTE, TO HELP BETTER FOCUS NON-
OJECT DFA ASSISTANCE, THE COMMITTEE EXPECTS SUCH
SSISTANCE TO BE LIMITED IN FY 1992 TO THE SOCIAL SECTORS
ASIC EDUCATION, FAMILY PLANNING, AND HEALTH), THE
VIRONMENT, AGRICULTURE (TO THE EXTENT THAT NON-PROJECT
SSISTANCE CAN BE SHOWN TO HAVE DIRECT AND IMMEDIATE
NEFITS FOR SMALL FARMERS AND THE RURAL POOR), AND JOB
EATION MEASURES UNQUOTE. SINCE THE PROPOSED AEPRP FOR
E HOUSING SECTOR DOES NOT MEET THESE CRITERIA,
SAID/ZIMBABWE WILL NEED TO MAKE A STRONG CASE IN THE
CONTEXT OF THE COUNTRY PROGRAM AND ITS IMPACT ON HELPING
HE POOR MAJORITY TO PARTICIPATE IN A PROCESS OF LONG-TERM
EVELOPMENT THAT IS EQUITABLE, PARTICIPATORY,
NVIRONMENTALLY SUSTAINABLE AND SELF-RELIANT.

UIDANCE: THE ECPR RECOMMENDED THAT THE BUREAU CONCUR IN
HE USE OF AEPRP FUNDS FOR THE HOUSING SECTOR. THE ECPR
LSO RECOMMENDED AN EARLY SUBMISSION OF A CONGRESSIONAL
OTIFICATION THAT HIGHLIGHTS THE IMPACT THAT THIS PROGRAM
ILL HAVE UPON THE POOR. THE CN WILL PROVIDE AN
PPORTUNITY FOR ANY CONGRESSIONAL OBJECTION. ABSENT A
UFFICIENTLY STRONG JUSTIFICATION WITH RESPECT TO BENEFITS

DOLS 18 MILLION TO COVER THE SUBSIDY COSTS FOR OUR PROGRAMS AND DOLS 7 MILLION TO COVER THE ADMINISTRATIVE COSTS.

A TREASURY WARRANT HAS BEEN RECEIVED FOR THIS YEAR'S HG OPERATIONS BASED ON A PROPOSED "RACK UP" OF HIG PROGRAMS, WHICH DID NOT INCLUDE ZIMBABWE. ZIMBABWE'S INTERAGENCY CREDIT RATING IS UNDER REVIEW, AND AT THIS POINT, OMB HAS CHANGED ITS RATING FOR FY 1992 FROM 'D' TO 'C-' WHICH WILL DECREASE ZIMBABWE'S SUBSIDY COST FROM 20 PERCENT TO 15 PERCENT. AT THIS RATE, THE PROPOSED FIRST-YEAR GUARANTEE AUTHORIZATION WILL PROBABLY REQUIRE ABOUT DOLS 3.0 MILLION OF THE AGENCY'S FY 1992 SUBSIDY CEILING.

0321 GUIDANCE: PRE/H HAS EARMARKED UP TO DOLS 20 MILLION IN FY 1992 HOUSING GUARANTY AUTHORITY AND ASSOCIATED APPROPRIATED FUNDS (SUBSIDY) FOR ZIMBABWE. SIMILARLY, FOR THE FY 1993 BUDGET PROCESS, PRE/H HAS INCLUDED DOL 15 MILLION IN HG AUTHORITY AND THE REQUIRED SUBSIDY AMOUNT FOR THE SECOND TRANCHE OF THE ZIMBABWE PROGRAM. SUBJECT TO PROGRAM IMPLEMENTATION DISBURSEMENT SCHEDULE, PRE/H WILL MAKE AVAILABLE THE BALANCE OF DOLS 15 MILLION HG AUTHORITY AS REQUIRED IN THE OUTYEARS.

0000 THE MISSION SHOULD ASSURE THAT THE DESIGN OF THE HOUSING SECTOR REFORM PROGRAM EFFECTIVELY TIES THE ACCOMPLISHMENT OF POLICY REFORMS WITH THE PHASING OF DISBURSEMENTS, AND THAT THE OBLIGATION SCHEDULE SATISFIES THE AGENCY'S FIVE-YEAR HIG DISBURSEMENT GUIDELINES.

7. ISSUE 5: REAL INTEREST RATES

DISCUSSION: IN THE PAST, INTEREST RATES WERE STATIC AND FLUCTUATED BETWEEN BEING POSITIVE AND NEGATIVE IN REAL TERMS; THUS, AT TIMES, THEY WERE A DISINCENTIVE TO LENDING IN THE HOUSING SECTOR. A.I.D. POLICY IN THIS REGARD STATES THAT (SHELTER POLICY PAPER, 1985, PG.5) QUOTE, CEILINGS IMPOSED BY THE GOVERNMENT ON INTEREST AT OR BELOW THE REASONABLY EXPECTED RATE OF INFLATION (SO AS TO MAKE THEM NEGATIVE IN REAL TERMS), DISCOURAGE THE FLOW OF
0000 INVESTMENT FUNDS INTO HOME FINANCE INSTITUTIONS AND OFTEN LEAD TO THEIR ULTIMATE DECAPITALIZATION UNQUOTE.

A SPECIFIC A.I.D. SHELTER SECTOR POLICY OBJECTIVE IS TO QUOTE, FACILITATE MOBILIZATION OF ADDITIONAL LOCAL RESOURCES FOR FINANCING SHELTER: TO ADOPT INTEREST RATE POLICIES WHICH REFLECT THE REAL COST OF CAPITAL, TO DEVELOP VIABLE INSTITUTIONAL SYSTEMS FOR FINANCING SHELTER AND URBAN DEVELOPMENT, AND TO MINIMIZE THE NEED FOR PUBLIC SUBSIDIES UNQUOTE. THE ECPR DISCUSSED WHETHER THE PROPOSED PROGRAM WAS CONSISTENT WITH THIS OBJECTIVE (IN PARTICULAR, THE TRANSFER OF NHF ASSETS TO THE BUILDING SOCIETIES).

IN ZIMBABWE, TWO OF THE THREE BUILDING SOCIETIES ARE ABLE
0000 TO MAKE LOANS AT A 2-3 PERCENTAGE POINT SPREAD (PID, PP. 12) AND, THUS, ARE ABLE TO AVOID FINANCIAL DECAPITALIZATION AND BANKRUPTCY (ASSUMING OPERATING COSTS

ARE WITHIN THOSE PARAMETERS). THE MISSION INDICATED THAT THE PROGRAM WILL AVOID ECONOMIC DECAPITALIZATION BECAUSE LENDING RATES ARE NOW SLIGHTLY POSITIVE, I.E., THE NOMINAL INTEREST RATE EXCEEDS THE RATE OF INFLATION. IN ANY CASE, UNDER THE STRUCTURAL ADJUSTMENT PROGRAM ALL INTEREST RATES WILL BE DEREGULATED BY THE END OF 1993.

ALSO DISCUSSED WAS THE DESIRABILITY OF REFORMING GOZ POLICIES TO ALLOW THE BUILDING SOCIETIES TO HAVE MARKET-DETERMINED INTEREST RATES FOR BOTH SAVINGS AND LENDING OPERATIONS, ALLOWING ALL FINANCIAL INSTITUTIONS TO COMPETE FOR RESOURCES ON AN EQUAL BASIS (THROUGH SUCH STEPS AS (A) ALLOWING BUILDING SOCIETIES TO OFFER NEGOTIABLE CDS AND PARTICIPATE IN A SECONDARY MORTGAGE MARKET AND (B) ELIMINATING THE TAX-FREE STATUS OF BUILDING SOCIETY SHARES) AND SUPPORTING OTHER IMPROVEMENTS IN THE FINANCIAL SECTOR (SUCH AS DESEGMENTATION--I.E., ALLOWING AN INCREASED BREADTH OF PRODUCT LINES OFFERED BY DIFFERENT FINANCIAL INSTITUTIONS). THESE MEASURES WERE SEEN AS KEY ELEMENTS IN THE PROCESS OF BOLSTERING THE LONG-TERM AVAILABILITY OF FUNDS FOR LOW-INCOME SHELTER WHILE EXPANDING FINANCIAL SECTOR COMPETITION, IN ADDITION TO THOSE DISCUSSED IN THE PID.

THE REVIEW ALSO DISCUSSED THE DESIRABILITY OF HAVING THE BUILDING SOCIETIES BUY THE EXISTING PORTFOLIO OF THE NATIONAL HOUSING FUND. IT WAS POINTED OUT THAT, WHILE THIS WOULD ALLOW THE NHF TO REPAY ITS LOANS FROM THE RESERVE BANK AND DECREASE GOVERNMENT DEBT AND LEAVE ONE LESS REASON FOR HAVING A NHF, IT WOULD NOT INCREASE THE AVAILABILITY OF FUNDS FOR LOW-INCOME HOUSING (SINCE IT WOULD COMPETE WITH NEW MORTGAGES AS AN INVESTMENT VEHICLE FOR BUILDING SOCIETIES). MISSION REPRESENTATIVES

HOUSE APPROPRIATIONS COMMITTEE BASED ON THE LANGUAGE IN PARA 4.

GUIDANCE: THE ECPR RECOMMENDED THAT AUTHORITY FOR APPROVAL OF THE COMBINED ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM PAAD/PP BE RETAINED IN WASHINGTON. THE PAAD/PP SHOULD BE SCHEDULED FOR ARRIVAL IN AFR/SA IN MAY 1992. PLEASE ASSURE THAT THE ANALYSIS AND DOCUMENTATION OF THIS PROGRAM COMPLIES WITH THAT REQUIRED FOR A DFA-FUNDED NPA PROGRAM. IF A MAY SUBMISSION DOES NOT PROVIDE SUFFICIENT TIME FOR NPA ANALYSIS AND DOCUMENTATION, PLEASE CONFIRM BY CABLE ASAP THE MISSION'S PLANNED SUBMISSION DATE.

9. ADDITIONAL PP/PAAD PREPARATION GUIDANCE

A. THE PROGRAM PURPOSE AND LOGFRAME SHOULD BE REARTICULATED TO MAKE THE OBJECTIVES OF THE PROGRAM CONSISTENT WITH DFA GUIDELINES FOCUSSING ON LOW-INCOME BENEFICIARIES AND PEOPLE-LEVEL IMPACT. PLEASE BE SURE TO DIFFERENTIATE BETWEEN LOW-COST HOUSING AND LOW-INCOME BENEFICIARIES. DUPLICATION OF LOGFRAME ELEMENTS AT DIFFERENT LEVELS SHOULD BE ELIMINATED. THE MISSION SHOULD CONSIDER INCORPORATING PROJECTED LOWER CONSTRUCTION COSTS RESULTING FROM THE PROGRAM IF THIS IS IMPORTANT TO THE JUSTIFICATION.

B. ECONOMIC ANALYSIS - WHILE BROADLY ON TRACK, THE ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM IN ZIMBABWE HAS INCURRED SOME SLIPPAGE IN ITS FIRST YEAR. WHILE THE MISSION WAS CONFIDENT THAT THIS SLIPPAGE HAS BEEN RECTIFIED AND THAT THE STRUCTURAL ADJUSTMENT PROGRAM IS ON-TRACK, IT MUST REMAIN ON-TRACK IN ORDER FOR THIS HOUSING SECTOR PROGRAM TO BE EFFECTIVE. THEREFORE, THE

ECONOMIC ANALYSIS SHOULD INCLUDE DISCUSSION OF THE FOLLOWING CONCERNS:

-- THE ANALYSIS SHOULD PROVIDE A COMPLETE PICTURE OF THE MACROECONOMIC CONDITIONS IN ZIMBABWE AND A COMPREHENSIVE DISCUSSION OF ESAP PLANNED TARGETS AGAINST ACCOMPLISHMENTS.

-- THE ANALYSIS SHOULD DETERMINE WHAT LEVEL OF MACROECONOMIC PERFORMANCE IS REQUIRED TO ASSURE ACHIEVEMENT OF THE BIG OBJECTIVES.

,- THE ISSUE OF REAL INTEREST RATES SHOULD BE FULLY EXPLORED AND ANALYZED. THIS SHOULD INCLUDE ANALYSIS OF THE EXISTING INTEREST RATE STRUCTURE, GOZ INTEREST RATE POLICY, THE IMPLICATIONS AND IMPACT OF THE ESAP AND THE ABILITY OF THE BUILDING SOCIETIES TO MOBILIZE SAVINGS AND EXTEND LOANS. PARA 7 GUIDANCE ALSO APPLIES HERE.

,- THE PID STATES THAT THE BUILDING SOCIETIES ARE NOT DECAPITALIZING SINCE THE BULK OF THEIR DEPOSITS ARE TAX FREE. THE ANALYSIS SHOULD EXAMINE THE IMPACT OF THE EXISTING TAX STRUCTURE ON GOVERNMENT REVENUES AND EXPENDITURES (I.E., BUDGETARY IMPLICATIONS), AND HOW THIS RELATES TO THE OBJECTIVES AND CONDITIONS OF THE ESAP, AS DISCUSSED IN PARA 7.

,- TO THE EXTENT THAT THE SUCCESS OF THE PROPOSED HOUSING PROGRAM IS DEPENDENT ON SUCCESSFUL IMPLEMENTATION OF THE ESAP THE ANALYSIS SHOULD DESCRIBE/ANALYZE THE RISKS ASSOCIATED WITH PROGRAM IMPLEMENTATION IF THE GOZ FAILS TO MEET THE CONDITIONS OF THE ESAP, OR IF ITS IMPLEMENTATION IS DELAYED. THIS SHOULD INCLUDE A CLEAR AND WORKABLE CONTINGENCY PLAN FOR SPECIFIC ACTIONS BY USAID/ZIMBABWE AT VARIOUS IMPLEMENTATION POINTS. MISSION SHOULD CONSIDER USE OF COVENANTS TO HELP ASSURE ADHERENCE TO ELEMENTS OF ESAP CRITICAL TO SUCCESS OF THIS PROPOSAL.

-- THE ANALYSIS SHOULD EXAMINE THE LIKELIHOOD THAT THE PROPOSED FINANCIAL INSTRUMENT OR PARTICIPATION IN SECONDARY MORTGAGE MARKET WOULD NOT SUCCEED IN PROVIDING THE NECESSARY LIQUIDITY TO THE PRIVATE SECTOR TO ALLOW FOR SUSTAINABLE PRIVATE SECTOR FINANCING OF LOW-INCOME HOUSING IN LIGHT OF THE EXISTING TAX AND INTEREST RATE STRUCTURES, AND POTENTIAL CHANGES IN THE POLITICAL ENVIRONMENT.

-- THE ANALYSIS SHOULD DESCRIBE ZIMBABWE'S FINANCIAL MARKETS AND THE IMPACT OF THE REFORMS ON THE COMPETITIVENESS AND VIABILITY OF THE FINANCIAL SECTOR.

C. SECTORAL ANALYSIS - THE HOUSING SECTOR ANALYSIS SHOULD INCLUDE A COMPREHENSIVE DESCRIPTION OF THE EXISTING HOUSING DELIVERY SYSTEM, INCLUDING THE ROLE OF THE VARIOUS PARTICIPATING ENTITIES. THE ANALYSIS SHOULD INCLUDE THE IMPLICATIONS OF THE PROPOSED POLICY REFORMS ON THE FUNCTIONS/SERVICES NOW PROVIDED BY THE NATIONAL HOUSING FUND (NHF) AND THE GENERAL LOAN FUND (GLF). PARA 7 ALSO

APPLIES HERE.

D. TECHNICAL ANALYSIS THE TECHNICAL ANALYSIS SHOULD DISCUSS ALL CONSTRAINTS IN THE SECTOR, WITH A RANK ORDERING OF THEIR IMPORTANCE AND THE RELATIVE IMPACT OF THE CONSTRAINTS ON LOW-INCOME HOUSING IN PARTICULAR. THE PAAD SHOULD ALSO DESCRIBE WHAT OTHER DONORS ARE DOING IN THE SECTOR.

E. FINANCIAL ANALYSIS - THE PROJECT PAPER/PAAD SHOULD INCLUDE A TABLE SHOWING DISBURSEMENT AND INTEREST PAYMENT FOR THE LIFE OF THE U.S. DOLLAR LOAN. THIS WOULD FACILITATE THE ECONOMIC ANALYSIS RELATIVE TO ZIMBABWE'S
0011 PUBLIC EXTERNAL DEBT AND DEBT SERVICE RATIO.

F. HOST COUNTRY CONTRIBUTION - THE PROGRAM NEEDS TO INCLUDE A 25 PERCENT HOST COUNTRY CONTRIBUTION FOR THE DFA COMPONENT AND IT MUST BE SUPPORTIVE OF THE PROGRAM'S OBJECTIVE.

G. SOCIAL/CULTURAL ANALYSIS - THE SOCIAL/CULTURAL ANALYSIS SHOULD PROVIDE A PROFILE OF THE POTENTIAL BORROWERS, INCLUDING AFFORDABILITY TO LOW-INCOME PEOPLE OF THE HOUSING STRUCTURES EXPECTED TO BE PRODUCED IF THE PROGRAM ACHIEVES ITS OBJECTIVES AND IT SHOULD IDENTIFY ANY
0000 POTENTIAL NEGATIVE IMPACT OF THE PROGRAM ON "VULNERABLE GROUPS". IN PARTICULAR, THE ANALYSIS SHOULD EXAMINE THE POSSIBLE NEGATIVE CONSEQUENCES OF THE WORLD BANK'S PLANNED EXPORT-ORIENTED CONSTRUCTION INDUSTRY PROGRAM ON POTENTIAL PROGRAM BENEFICIARIES.

H. FOREIGN EXCHANGE AND LOCAL CURRENCY USES - THE PROJECT PAPER/PAAD SHOULD SET FORTH THE PROCEDURES FOR MONITORING

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U.S. DOLLARS (FOR DFA DOLLARS, ASSUMING DISBURSEMENT AS CASH) AND QUALIFYING LOCAL CURRENCY EXPENDITURES. THE POTENTIAL FOR MAXIMIZING U.S. SOURCE/ORIGIN PROCUREMENT FOR DFA DOLLARS SEOULD BE ADDRESSED AND REFLECTED ACCORDINGLY IN PROCEDURES FOR DISBURSEMENT AND MONITORING AGREED UPON WITH THE GOZ.

I. TRACKING IMPACT - THE PAAD NEEDS TO LAY OUT WHAT THE SECTOR WILL LOOK LIKE AT THE END OF THE PROGRAM, AND THE PROGRAM'S QUANTIFIABLE IMPACT ON THE POOR. IT ALSO NEEDS TO FULLY EXPLAIN HOW THE PROPOSED CONDITIONALITY WILL ACHIEVE THIS IMPACT. THE PROJECT PAPER/PAAD SHOULD EXPLAIN THE MONITORING AND EVALUATION (M AND E) SYSTEM THAT WILL BE PUT INTO PLACE UNDER THIS PROGRAM TO MEASURE THE IMPACT OF REFORMS ON THE VARIOUS PROGRAM

BENEFICIARIES. THE COSTS OF THE M AND E SYSTEM MUST BE BORNE BY THE PROGRAM.

J. PROGRAM CONDITIONALITY - CONDITIONALITY PRESENTED IN THE PID IS HEAVILY LADEN WITH LEGISLATIVE CHANGES AND FEASIBILITY STUDIES. IF LEGISLATIVE CHANGES ARE REQUIRED FOR PROGRAM SUCCESS TO MEET SECTION 611(A)(2) REQUIREMENTS, THE PAAD MUST DESCRIBE, WITH SUPPORTING FACTS, THE BASIS FOR THE MISSION'S BELIEF THAT THE CHANGES WILL BE ACCOMPLISHED ON A TIMELY BASIS.

TO MEET ADEQUATE PLANNING REQUIREMENTS, THE PAAD MUST LAY OUT HOW ACHIEVING THE PROGRAM'S ENDPOINT IS FEASIBLE, AND NOT LEAVE FEASIBILITY ANALYSES TO PROGRAM IMPLEMENTATION, AS CURRENTLY PROPOSED IN THE PID CONDITIONALITY. ONCE AGAIN, THE MISSION MUST HAVE A STRONG ANALYTIC BASIS AND RATIONALE FOR LINKING THE PROPOSED REFORMS AND THE DISBURSEMENT SCHEDULE.

K. ENVIRONMENTAL ANALYSIS - COMMENTS ON THE IEE ARE THE SUBJECT OF SEPTEL.

10. THE AA/AFR HEREBY WAIVES THE REQUIREMENT FOR A PAIP FOR THE DFA COMPONENT BASED ON THE SECTOR DESCRIPTION AND CONCERNS OUTLINED IN THE HIG PID.

ONCE AGAIN THE BUREAU CONGRATULATES THE MISSION ON AN EXCELLENT PROGRAM PRESENTATION AND WE LOOK FORWARD TO SUBMISSION OF THE PAAD/PP. EAGLEBURGER
BT
#6424

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ACTION: AID-1
INFO: CON-1 DCM-1 AMB-1

DISTRIBUTION: AID
CHARGE: AID

VZCZCSBO324
PP RUEHSB
DE RUEHC #6149/01 1900115
ZNR UUUUU ZZH
P 080114Z JUL 92
FM SECSTATE WASHDC
TO RUEHSB/AMEMBASSY HARARE PRIORITY 1043
INFO RUEHNR/AMEMBASSY NAIROBI PRIORITY 9752
BT
UNCLAS SECTION 01 OF 02 STATE 216149

AIDAC, NAIROBI FOR JKOLKER, RHDO

OFFICIAL FILE

E.O. 12356: N/A
TAGS:
SUBJECT: ZIMBABWE - PRIVATE SECTOR HOUSING PROGRAM (PSHP) (613-0235) AND (613-0236), INCLUDING HOUSING GUARANTY LOAN (613-HG-003) - ECFR REPORTING CABLE

1. THE EXECUTIVE COMMITTEE FOR PROJECT REVIEW (ECPR) MET ON JUNE 24, 1992 TO REVIEW THE ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM. THE ECPR WAS CHAIRED BY THE ACTING AA/AFR, AND WAS ATTENDED BY REPRESENTATIVES OF THE ZIMBABWE MISSION, RHUDO/NAIROBI, AFR/SA, AFR/ARTS, AFR/DP, GC/AFR, POL, PRE/H, GC/PRE, AND AF/S. THE ZIMBABWE MISSION, IN CONCERT WITH RHUDO ASSISTANCE FROM NAIROBI, WAS COMPLIMENTED ON ITS SUBMISSION OF AN EXCEPTIONAL CONCEPT AND MODEL MIX OF HG LOAN/TA/NPA. THE APPROACH DIRECTLY ADDRESSES CRUCIAL HOUSING AND DEVELOPMENTAL REQUIREMENTS WITHIN ZIMBABWE. THE PROPOSED POLICY CHANGES TO RESULT WITHIN THE PROGRAM ARE EXCELLENT. THE PROPOSED PROGRAMMATIC APPROACH COULD ALSO SERVE AS THE APPROPRIATE MODALITY FOR HG LOANS/TA AND NPA NEEDS IN OTHER AFRICAN NATIONS. IN SUMMARY, THE ECPR CONCURRED WITH THE FROGRAM ENTITY IN SUBSTANCE AND FORM AS SUBMITTED, BUT POSTPONED FINAL APPROVAL PENDING CLARIFICATION, POSSIBLE AMENDMENT, AND MODIFICATION, AS DISCUSSED BELOW.

2. THE ECPR REVIEWED THE TWO MISSION COMPONENTS (TA AND NPA) BASED ON CONCURRENCE OF THE OFFICE OF HOUSING AND URBAN PROGRAMS (PRE/H) THAT THE PROPOSED HG LOAN 003 FOR ZIMBABWE (US DOLS 15 MILLION IN FY 1992, USDOLS 20 MILLION IN FY 1993, AND USDOLS 15 MILLION IN FY 1995) WAS AVAILABLE AND RESERVED FOR ZIMBABWE. PRE/H CONFIRMED THAT THIS HG LOAN AUTHORITY WILL BE MADE AVAILABLE FOR THE ZIMBABWE PROGRAM, AND IT WILL BE INCLUDED IN THE PRE/H ABS. MOST OF THE ISSUES RAISED WERE PROMPTLY AND

POSITIVELY ADDRESSED DURING THE ECPR, INCLUDING:

A. MISSION STRATEGY AND FOCUS: WAS HOUSING DETERMINED BY THE MISSION TO BE ONE OF ITS TWO OR THREE (2 OR 3) SECTORS OF FOCUS AND CONCENTRATION AS REQUIRED BY THE AFRICA BUREAU? IT WAS DECIDED THAT IT WAS AND, THUS, WOULD BE SO REFLECTED BY THE MISSION IN THE FY 1993 SUBMISSION OF A NEW CPSP.

B. NPA FUND SOURCES: THE NPA TRANCHING AND HG LOAN DISBURSEMENTS ARE TO BE IN TANDEM, BASED ON THE SAME CONDITIONALITY. BEYOND THE FY 1992 NPA TRANCHE OF DOLLARS 10 MILLION PROVIDED FROM THE BUREAU'S AEPRP RESOURCES, WILL THE MISSION FUND OUT YEAR NFA COSTS (USDOLS 5 MILLION IN FY 1993 AND USDOLS 10 MILLION IN FY 1995) FROM DFA RESOURCES WITHIN THE MISSION'S OYB? THE ECPR WAS ASSURED BY MISSION REPRESENTATIVES THAT SUCH FUNDING WOULD BE CARRIED WITHIN THE OYB, AND WOULD BE SO REFLECTED WITHIN THE PLANNED TARGET FIGURES OF THE INCOMING ABS. THE ECPR CONTINUED ITS REVIEW ON THAT BASIS.

C. DROUGHT-RELATED IMPACT: ZIMBABWE, AS MOST OF EASTERN AND SOUTHERN AFRICA, IS IN THE MIDST OF THE WORST DROUGHT IN NEARLY A CENTURY. WHAT WILL BE THE LIKELY EFFECT OF THIS DROUGHT ON PLANNING, RESOURCE ALLOCATION, AND PRIORITIES OF HOUSING BY THE GOVERNMENT OF ZIMBABWE? THE EFFECTIVE DEMAND FOR HOUSING IN ZIMBABWE WAS DETERMINED TO BE EXTRAORDINARILY HIGH, AND IT IS CONTINUING TO GROW. THE DEMAND, AND MOMENTUM BEHIND IT, IS SUCH THAT HOUSING WILL REMAIN A KEY COMPONENT OF NATIONAL POLICY. IN FACT, THE DROUGHT ENHANCES THE REQUIREMENT FOR ADDITIONAL HOUSING, AS MORE ZIMBABWEANS ARE LIKELY TO ABANDON RURAL AREAS, SEARCHING FOR WORK AND SHELTER IN THE URBAN AREAS.

D. WINDFALL PROFITS: CONCERN WAS EXPRESSED THAT WITH THE EXPECTATION OF CHANGING INTEREST RATES AND UNCERTAINTIES AS TO INFLATION TOGETHER WITH THE POSSIBILITY OF A GROWING SPREAD BETWEEN A.I.D. LENDING AND I.F.I. ON-LENDING RATES, IT IS CONCEIVABLE THAT INAPPROPRIATE WINDFALL PROFITS COULD ACCRUE WITHIN THE SECTOR. IN ORDER MINIMIZE ANY SUCH WINDFALL, THE MISSION IS REQUESTED TO NEGOTIATE WITH THE GOVERNMENT OF ZIMBABWE (GOZ) AND INCLUDE WITHIN THE HG AND NPA AGREEMENTS SPECIFIC LANGUAGE WHICH REQUIRES THAT I.F.I. BORROWING AND ON-LENDING RATES BE STRUCTURED SO THAT THEY PERMIT A SPREAD TO COVER ADMINISTRATIVE COSTS (APPROXIMATELY 2.5 PERCENT ACCORDING TO THE PAAD). INTEREST EARNINGS AND BENEFITS ABOVE THOSE COSTS SHOULD BE RECYCLED INTO MORTGAGE LENDING FOR THE LOWEST INCOME BORROWERS. THE MISSION IS REQUESTED TO AMEND THE PROGRAM DOCUMENTATION TO REFLECT THIS SUGGESTION.

E. BLOCKED FUNDS: THE MOST DIFFICULT ISSUE DEALT WITH THE MISSION'S PROPOSAL TO USE NFA RESOURCES IN THE

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PURCHASE/PROGRAMMING OF BLOCKED LOCAL CURRENCY. THE ECPR DETERMINED THAT, DESPITE THE INNOVATION, IT WAS BOTH ECONOMICALLY AND POLITICALLY UNWISE FOR A.I.D. RESOURCES TO BE SO USED AT THIS TIME. OF SPECIAL CONCERN WAS THE ESTABLISHMENT OF A SPECIFIC A.I.D. PRECEDENCE OF
UNCLAS SECTION 02 OF 02 STATE 216149

AIDAC, NAIROBI FOR JKOLKER, RHDO

PURCHASING BLOCKED LOCAL CURRENCY OF U.S. AND THIRD COUNTRY ENTERPRISES WHICH COULD THEN BE HELD TO APPLY TO MANY OTHER COUNTRIES AND PROGRAMS. IN ADDITION, ALTHOUGH THE PURCHASE OF BLOCKED LOCAL CURRENCY AT DEEP DISCOUNTS COULD RESULT IN MORE RESOURCES FOR THE HOUSING SECTOR, IT WAS POINTED OUT THAT THESE RESOURCES WERE NOT "FREE." THEIR USE COULD HAVE NEGATIVE EFFECTS ELSEWHERE IN THE ECONOMY. EITHER THE GOZ WOULD HAVE TO INCREASE THE MONEY SUPPLY, WHICH WOULD BE INFLATIONARY, OR BUDGET CUTS WOULD HAVE TO MADE ELSEWHERE. HENCE, THE ECPR DECIDED THAT NO REPEAT NO BLOCKED FUNDS COULD BE PURCHASED WITH THESE FUNDS. ALL NPA RESOURCES ARE TO GENERATE LOCAL CURRENCY THROUGH THE GOZ'S OPEN GENERAL IMPORT LICENSE (OGIL) PROGRAM. THE PROPOSAL TO EXPAND RESOURCES FOR THE HOUSING SECTOR (BOTH PUBLIC AND PRIVATE COMPONENTS) BY A TOTAL OF ZIMDOLS 500 MILLION WAS WHOLEHEARTEDLY ENDORSED. OVER THE FIVE YEARS, A.I.D. WILL CONTRIBUTE USDOLS 75 MILLION (EQUIVALENT TO ZIMDOLS 375 MILLION). IF THE GOZ FOLLOWS THROUGH WITH ITS PLEDGED SHELTER SECTOR BUDGETARY ALLOCATIONS OF ZIMDOLS 125 MILLION, THE TOTAL RESOURCES

AVAILABLE TO THE SECTOR WOULD BE ON TARGET AT ZIMDOLS 500 MILLION. THAT CONCURRENT PLEDGE FROM THE GOZ SHOULD KEEP ALL OF THE TARGETS, SPECIFIC OBJECTIVES, COST/BENEFITS, AND FLOW OF FOREIGN EXCHANGE WITHIN THE PROGRAM AS PRESENTED IN THE PAAD. LITTLE OR NO REVISION TO THE PAAD DOCUMENT WOULD THEN BE REQUIRED. HOWEVER, IF THE GOZ IS UNWILLING/UNABLE TO ENSURE THAT ITS PLANNED BUDGET TO HOUSING IS ACHIEVABLE, TOTAL RESOURCES AVAILABLE TO THE SECTOR OBVIOUSLY WILL BE LESS, AND ALL IMPACTS AND OBJECTIVE LEVELS WILL BE AFFECTED. THE MISSION IS THEN REQUESTED TO RE-ASSESS, RE-ANALYZE, RE-CALCULATE, AND RE-SUBMIT ONLY THOSE SECTIONS OF THE PAAD AFFECTED BY THE TOTAL AVAILABILITY OF PLANNED FUNDING FROM ALL SOURCES.

2. REAL POSITIVE INTEREST RATES. CONCERN WAS EXPRESSED THAT PROJECT DISBURSEMENTS OR PROJECT LENDING COULD BE COMPLETED BEFORE THE MOVE TO POSITIVE REAL INTEREST RATES FOR LENDING TO ULTIMATE BENEFICIARIES WAS ACHIEVED. IT WAS AGREED THAT THE MISSION WOULD CONDITION RELEASE OF THE THIRD TRANCHES OF HG AND DFA FUNDING ON PRIOR ACHIEVEMENT OF POSITIVE REAL INTEREST TO BORROWERS IN THE LOW INCOME HOUSING SUBSECTOR. A COVENANT ON THE USE OF PRE-THIRD TRANCHE RESOURCES WAS ALSO AGREED.

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3. THE LAST THREE KEY ISSUES (2D, E, AND F ABOVE) WERE THE ONLY ISSUES ADDRESSED BY THE ECPR WHICH HAVE NOT BEEN RESOLVED. THE ECPR REQUESTS THAT THE MISSION NEGOTIATE THESE ISSUES WITH THE GOZ. UPON SUCCESSFUL CONCLUSION, THE MISSION IS REQUESTED TO NOTIFY AID/W BY CABLE, PLUS PROVIDE ANY PAAD CHANGES FOR AID/W CLEARANCE. IF APPROVAL IS FORTHCOMING, AID/W WILL NOTIFY MISSION AND PROVIDE DELEGATION OF AUTHORITY TO APPROVE/AUTHORIZE ENTIRE PROGRAM IN THE FIELD. (WE HOPE AND ASSUME THAT THIS WILL BE THE SCENARIO.) CONVERSELY, IF FULL RESOLUTION BETWEEN THE MISSION AND THE GOZ, AS RECOMMENDED BY THE ECPR AND AS STATED HERE IS NOT POSSIBLE, THEN REVISED APPROACHES, TARGETS, OBJECTIVES, AND ANALYSES WITHIN THE PAAD WOULD THEN NEED TO BE RESUBMITTED FOR ANOTHER ECPR FOR REVIEW IN AID/W.

4. THE ECPR REITERATES ITS ENDORSEMENT OF THE HOUSING PROGRAM (MINUS THE BLOCKED FUNDS CONCEPT) AND ITS SUPPORT OF THE MISSION'S TARGET/FOCUS. AID/W UNDERSTANDS THAT THE GOVERNMENT OF ZIMBABWE'S COMMITMENT TO HOUSING IS EQUALLY STRONG, AND THAT THE PLEDGED GOZ RESOURCES TO THAT SECTOR WILL BE MADE. IF SO, CHANGES TO THE PAAD AND CONCEPT WILL BE MINOR. PRE/H AND RHUDO HAVE INDICATED FULL SUPPORT OF YOUR EFFORTS AND WILL CONTINUE TO PROVIDE RESOURCES AND ASSISTANCE AS NECESSARY TO COMPLETE THIS EFFORT.

5. PLEASE ADVISE THE BUREAU OF PLANNED TIMETABLE FOR NEXT STEPS. EAGLEBURGER
BT
#6149

NNN

ORIGIN: AID-1
INFO: ECON-1 DCM-1 AMB-1

DISTRIBUTION: AID
CHARGE: AID
APPROVED: DIR:TDMORSE
DRAFTED: CPDIS:PKBUCKLES
CLEARED: DD:SJSPIELMAN

VZCZCSBI406
PP RUEHC RUEHNR
DE RUEHSB #8510/01 2171417
ZNR UUUUU ZZH
P 041417Z AUG 92
FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC PRIORITY 5089
INFO RUEHNR/AMEMBASSY NAIROBI 0966
BT
UNCLAS SECTION 01 OF 10 HARARE 008510

AIDAC

AID/W FOR AFR/SA AND NAIROBI FOR J. KOLKER, RHUDO

E.O. 12356: N/A
SUBJECT: ZIMBABWE - PRIVATE SECTOR HOUSING PROGRAM (PSHP) (613-0235) AND (613-0236), AND HOUSING GUARANTY LOAN (613-HG-003)

REF: STATE 216149

1. REFTEL REPORTED THAT THE EXECUTIVE COMMITTEE FOR PROJECT REVIEW (ECPR) CONCURRED WITH THE SUBJECT PROGRAM IN SUBSTANCE AND AND FORM AS SUBMITTED, BUT POSTPONED FINAL APPROVAL PENDING CLARIFICATION, POSSIBLE AMENDMENT, AND MODIFICATION, AS DISCUSSED IN REFTEL, PARAS 2D,E,F. MISSION HAS MET WITH THE GOVERNMENT OF ZIMBABWE (GOZ) TO DISCUSS ALL UNRESOLVED CONCERNS RAISED IN REFTEL AND REPORTS THAT THE GOZ IS IN AGREEMENT WITH ECPR PROPOSED RESOLUTIONS.

2. MISSION HAS MODIFIED THE PROGRAM DESIGN SUCH THAT PROGRAM GRANT RESOURCES WILL NOT BE USED TO LEVERAGE ADDITIONAL RESOURCES THROUGH THE PURCHASE OF Blocked FUNDS. THE PROGRAM GRANT RESOURCES WILL BE CHANNELED THROUGH THE OPEN GENERAL IMPORT LICENSE (OGIL) SYSTEM, THUS PROVIDING CRITICAL BALANCE OF PAYMENTS SUPPORT THAT WILL FREE UP GOZ RESOURCES FOR URGENT DROUGHT RELIEF NEEDS. THE GOZ HAS AGREED TO PROVIDE THE DIFFERENCE IN RESOURCES WHICH WOULD HAVE BEEN LEVERAGED THROUGH THE PURCHASE OF BLOCKED FUNDS FROM ITS OWN BUDGETED RESOURCES, THEREBY ENSURING THAT THE

EXPECTED PROGRAM IMPACT REMAINS THE SAME AS IN THE ORIGINAL PROGRAM DESIGN.

3. MISSION ANALYSIS CONFIRMS THAT THE AGREED UPON RESOLUTIONS WILL NOT RESULT IN ANY SIGNIFICANT CHANGE IN PROGRAM IMPACT ANALYSES AS PRESENTED IN THE PROGRAM DOCUMENT SUBMITTED BY USAID FOR ECPR REVIEW ON JUNE 24, 1992. THEREFORE, IN ACCORDANCE WITH GUIDANCE INCLUDED IN REFTEL, PARA. 3, MISSION HEREBY TRANSMITS FOR A.I.D./W CLEARANCE THE ONLY PAAD CHANGES, ALL OF WHICH HAVE BEEN DISCUSSED AND AGREED UPON WITH THE GOZ. MISSION HEREBY REQUESTS APPROVAL AND DELEGATION OF AUTHORITY TO APPROVE/AUTHORIZE THE ENTIRE PROGRAM IN THE FIELD.

4. THE THREE ISSUES REFERENCED ABOVE WHICH REMAINED UNRESOLVED AT THE ECPR INCLUDED: (A) WINDFALL PROFITS; (B) BLOCKED FUNDS; AND (C) REAL POSITIVE INTEREST RATES. ALL THREE CONCERNS HAVE BEEN ADDRESSED IN THE AGREED UPON PROGRAM CONDITIONALITY AND IN THE AGREED UPON AMPLIFIED PROGRAM DESCRIPTION DESCRIBING THE FLOW OF FUNDS. THE SPECIFIC PROGRAM CONDITIONALITY AND RELEVANT PORTIONS OF THE AMPLIFIED PROGRAM DESCRIPTION TO BE INCLUDED IN THE NEGOTIATED PROGRAM AGREEMENTS ARE SET FORTH BELOW. THESE HAVE ALL BEEN DEVELOPED AND CLEARED WITH THE REGIONAL LEGAL ADVISOR.

3. AGREEMENTS, CONDITIONALITY AND COVENANTS

A. AGREEMENTS (THESE ARE TERMS OF THE PROGRAM AGREEMENT)

(1) NOTWITHSTANDING ANY OTHER PROVISION OF THE AGREEMENT, THE GOZ AGREES THAT, OVER THE LIFE OF THE PROGRAM, COUNTER DEPOSITS EQUAL TO THE LOCAL CURRENCY EQUIVALENT OF HALF THE HG LOAN RESOURCES DISBURSED WILL BE MADE AVAILABLE TO THE NATIONAL HOUSING FUND, ALONG WITH AN AGREED AMOUNT OF BUDGETTED GOZ RESOURCES TO BE USED FOR THE EXCLUSIVE PURPOSE OF LOW INCOME PLOT DEVELOPMENT.

(2) NOTWITHSTANDING ANY OTHER PROVISION OF THE AGREEMENT, THE GOZ AGREES THAT, OVER THE LIFE OF THE PROGRAM, COUNTER DEPOSITS EQUAL TO THE LOCAL CURRENCY EQUIVALENT OF HALF THE HG LOAN RESOURCES DISBURSED WILL BE MADE AVAILABLE, ALONG WITH COUNTER DEPOSITS EQUAL TO THE LOCAL

CURRENCY EQUIVALENT OF THE TRANCHED U.S. DOLLAR GRANT FUNDS (LESS TEN (10) PERCENT FOR THE TRUST FUND PROVIDED FOR IN SECTION 4.2.4., BELOW), ON A GRANT BASIS TO BUILDING SOCIETIES TO BE BLENDED WITH "MATCHING", COMMERCIALLY BORROWED

RESOURCES TO BE USED FOR THE EXCLUSIVE PURPOSE OF LOW INCOME MORTGAGE FINANCING.

(3) THE PARTIES AGREE THAT TEN (10) PERCENT OF THE COUNTER DEPOSITS EQUAL TO THE LOCAL CURRENCY EQUIVALENT OF THE TRANCHED U.S. DOLLAR GRANT

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FUNDS SHALL BE IMMEDIATELY TRANSFERRED INTO A TRUST FUND ACCOUNT DESIGNATED, ESTABLISHED AND ADMINISTERED BY A.I.D. TO COVER ADMINISTRATIVE AND OPERATIONAL REQUIREMENTS OF THE A.I.D. PROGRAM IN IN ZIMBABWE, PURSUANT TO TRUST AGREEMENTS AND AMENDMENTS THERETO BETWEEN THE PARTIES.

B. CONDITIONALITY

THE CONDITIONALITY PRESENTED BELOW REPRESENTS THE SUBSTANTIVE CONTENT OF AGREED UPON ACTIONS. THE PRECISE LANGUAGE FOR EACH CONDITION MAY BE MODIFIED TO REFLECT USAID NEGOTIATIONS WITH THE GOVERNMENT, WITHIN THE SUBSTANTIVE INTENT OF THESE CONDITIONS PRECEDENT. AS A RESULT OF NEGOTIATIONS TO DATE, ONLY MINOR EDITORIAL CHANGES ARE EXPECTED.

CONDITIONS PRECEDENT TO DISBURSEMENT OF FIRST TRANCHE OF U.S. DOLLAR GRANT RESOURCES

PRIOR TO THE DISBURSEMENT OF THE FIRST TRANCHE OF U.S. DOLLAR GRANT RESOURCES OR THE ISSUANCE BY A.I.D. OR DOCUMENTATION PURSUANT TO WHICH DISBURSEMENT WILL BE MADE, THE GRANTEE WILL, EXCEPT AS THE PARTIES MAY OTHERWISE AGREE IN WRITING, FURNISH TO A.I.D., IN FORM AND SUBSTANCE SATSIFACTOR TO A.I.D., EVIDENCE

THAT IT HAS COMPLETED THE REQUIRED ACTIONS BELOW.

(1) PLACED ON THE RESTRICTED OGIL ALL ITEMS (PRIMARILY SPARE PARTS) AS MUTUALLY AGREED UPON BY THE GOZ AND A.I.D., TO ASSIST THE BUILDING MATERIALS INDUSTRY TO (I) PRODUCE AT FULL EXISTING CAPACITY; AND (II) EXPAND PRODUCTION CAPACITY (RESTRICTED TO BUILDING MATERIALS INDUSTRY) .

(2) PLACED ON THE RESTRICTED OGIL:

(A) SPARE PARTS, AS MUTUALLY AGREED UPON BY THE GOZ AND A.I.D., FOR WORK ON HOUSING PROJECTS REQUIRING EARTHMOVING, ROAD BUILDING, AND THE LAYING OF WATER AND SEWAGE PIPES (RESTRICTED TO BUILDING AND CIVIL ENGINEERING CONTRACTORS).

(B) MECHANICAL COMPONENTS, AS MUTUALLY AGREED UPON BY THE GOZ AND A.I.D., REQUIRED FOR THE MANUFACTURE OF CONCRETE MIXERS AND DUMPERS, WHICH ARE MADE IN ZIMBABWE BUT REQUIRE IMPORTED ENGINES AND OTHER MECHANICAL PARTS (LATTER RESTRICTED TO MANUFACTURERS OF SUCH EQUIPMENT).

(C) EQUIPMENT AS MUTUALLY AGREED UPON BY THE GOZ AND A.I.D. FOR THE SURVEY INDUSTRY AND COMPUTER EQUIPMENT (RESTRICTED TO BUILDING SOCIETIES).

(3) BUDGETTED RESOURCES TOTALLING NO LESS THAN THE LOCAL CURRENCY EQUIVALENT OF US$5 Million FOR THE 1993/94 ZIMBABWE FISCAL YEAR FOR THE NATIONAL HOUSING FUND (NHF) EXCLUSIVELY FOR THE PURPOSE OF LOW INCOME PLOT DEVELOPMENT. THESE BUDGETTED RESOURCES ARE TO BE SEPARATE AND DISTINCT FROM THE REQUIRED COUNTER DEPOSITS TO THE DISBURSEMENTS OF THE TRANCHED A.I.D. HG AND PROGRAM GRANT RESOURCES UNDER THE PROGRAM.

(4) CONFIRMED IN WRITING THAT THE BORROWING AND LENDING RATES FOR THE COUNTER DEPOSITS OF LOCAL CURRENCIES MADE AVAILABLE TO THE BUILDING SOCIETIES FOR LOW INCOME MORTGAGE FINANCING WILL BE STRUCTURED TO: (A) PERMIT A SPREAD TO COVER ADMINISTRATIVE COSTS (APPROXIMATELY 2.5 PERCENT); AND (B) REQUIRE THAT INTEREST EARNINGS AND BENEFITS ABOVE ADMINISTRATIVE COSTS ARE RECYCLED INTO MORTGAGE LENDING FOR BELOW THE MEDIAN INCOME BORROWERS.

(5) PROVIDED WRITTEN APPROVAL, AS AUTHORIZED UNDER

THE BUILDING SOCIETIES ACT, TO PERMIT THE BUILDING SOCIETIES TO ISSUE HOUSING NEGOTIABLE CERTIFICATES FOR DEPOSIT.

(6) AUTHORIZED IN WRITING THE BUILDING SOCIETIES TO OFFER COMPETITIVE RETURNS ON INVE

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STMENT TO THE DEPOSITORS OF SURPLUS FUNDS.

(7) AGREED IN WRITING, AND IN ACCORDANCE WITH ITS PLAN TO DEREGULATE THE FINANCIAL MARKET BY 1995, TO A SCOPE OF WORK AND TIME FRAME FOR A PROGRAM FINANCED ANALYSIS OF THE FINANCIAL SECTOR WITH THE OBJECTIVE OF PROMOTING INCREASED COMPETITION WITHIN THE SECTOR.

(8) APPROVED AND ANNOUNCED THE REDUCTION OF THE MINIMUM PLOT FRONTAGE FOR DETACHED HOUSES FROM 12 METERS TO 8.5 METERS AND THE REDUCTION OF THE MINIMUM STAND SIZES FOR DETACHED HOUSES FROM 300 TO 150 SQUARE METERS.

(9) APPROVED AND ANNOUNCED THE REDUCTION OF THE MINIMUM SUPERSTRUCTURE REQUIREMENTS TO A WET BLOCK, COMPRISED OF A TOILET AND SHOWER, AND A ONE ROOM SLAB (3 M X 3 M). IF ALTERNATIVE MINIMUM STANDARDS ARE DEEMED ACCEPTABLE BY THE GOZ AS A RESULT OF UTILIZING APPROPRIATE TECHNOLOGY, THE GOZ MAY SUBSTITUTE SUCH MINIMUM STANDARDS FOR THE SATISFACTION OF THIS CONDITION, UPON PRIOR WRITTEN AGREEMENT WITH A.I.D.

(10) ISSUED A WRITTEN POLICY DIRECTIVE TO URBAN LOCAL AUTHORITIES STATING THAT WHEREVER POSSIBLE: (A) THE SEALING OF ROADS WILL BE LIMITED TO THE BUS

ROUTES AND MAJOR CONNECTOR ROADS; AND (B) INSITU GRANITIC MATERIALS WILL BE USED FOR WEARING COURSE ON LOW VOLUME PLOT ACCESS ROADS. THIS WILL BE DOCUMENTED BY A MPCNH/MLGRUD CIRCULAR

UPDATING MPCNH'S 1981 TECHNICAL MANUAL ON "DESIGN APPROACH TO ROADS AND STORM WATER PROBLEMS RELATIVE TO HIGH DENSITY HOUSING DEVELOPMENT IN ZIMBABWE."

(11) PREPARED A REQUEST FOR DISBURSEMENT AND CERTIFICATION IN THE FORM SET FORTH IN ANNEX B, DULY COMPLETED AND SIGNED.

(12) ESTABLISHED A SEPARATE, NON-COMMINGLED, SPECIAL DOLLAR ACCOUNT IN THE RESERVE BANK OF ZIMBABWE OR SOME OTHER GRANTEE-DESIGNATED, A.I.D. APPROVED BANK IN ZIMBABWE INTO WHICH All U.S. DOLLAR GRANT FUNDS UNDER THIS AGREEMENT ARE TO BE DISBURSED BY A.I.D.

(13) ESTABLISHED A SEPARATE, NON-COMMINGLED, INTEREST-BEARING, LOCAL CURRENCY SPECIAL ACCOUNT, INTO WHICH.THE LOCAL CURRENCY EQUIVALENT OF THE U.S. DOLLAR DISBURSEMENTS UNDER THIS AGREEMENT WILL BE DEPOSITED.

(14) PROVIDED TO A.I.D. A WRITTEN OPINION OF LEGAL COUNSEL ACCEPTABLE TO A.I.D. THAT THE AGREEMENT HAS BEEN DULY AUTHORIZED BY, AND EXECUTED ON BEHALF OF, THE GRANTEE AND THAT IT CONSTITUTES A VALID AND LEGALLY BINDING OBLIGATION OF THE GRANTEE IN ACCORDANCE WITH ALL OF ITS TERMS.

(15) PROVIDED TO A.I.D. A STATEMENT OF NAME OF THE PERSON(S) HOLDING OR ACTING IN THE OFFICE OF THE GRANTEE SPECIFIED IN SECTION 7.7 AND OF ANY ADDITIONAL REPRESENTATIVES, TOGETHER WITH A SPECIMEN SIGNATURE OF EACH PERSON SPECIFIED IN SUCH STATEMENT.

CONDITIONS PRECEDENT TO DISBURSEMENT OF SECOND TRANCHE OF U.S. DOLLAR GRANT RESOURCES

PRIOR TO THE DISBURSEMENT OF THE SECOND TRANCHE OF U.S. DOLLAR GRANT RESOURCES OR THE ISSUANCE BY A.I.D. OF DOCUMENTATION PURSUANT TO WHICH SUCH DISBURSEMENT WILL BE MADE, THE GRANTER WILL, EXCEPT AS THE PARTIES MAY OTHERWISE AGREE IN WRITING, FURNISH TO A.I.D., IN FORM AND SUBSTANCE SATISFACTORY TO A.I.D., EVIDENCE THAT IT HAS COMPLETED THE ACTIONS BELOW. THIS SECOND TRANCHE OF GRANT RESOURCES IS SUBJECT TO THE AVAILABILITY OF FUNDS AND THE MUTUAL AGREEMENT OF THE PARTIES HERETO TO PROCEED WITH THE PROGRAM.

(1) AGREED IN WRITING TO A SCOPE OF WORK AND TIME

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E.O. 12356: N/A
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FRAME FOR A PROGRAM FINANCED ANALYSIS WHICH WILL EXAMINE THE FEASIBILITY OF ESTABLISHING A SECONDARY MORTGAGE MARKET BY EXAMINING THE FINANCIAL IMPLICATIONS FOR ALL PARTIES AND SPECIFICALLY RECOMMENDING CHANGES THAT WILL ENABLE THE PACKAGING AND TRADING OF MORTGAGE
S ON
THE SECONDARY MARKET.

(2) AGREED IN WRITING TO A SCOPE OF WORK AND TIME FRAME FOR A PROGRAM FINANCED ANALYSIS WHICH WILL DETERMINE HOW THE MUNICIPAL BOND MARKET CAN BE SUPPORTED TO PROVIDE ADDITIONAL RESOURCES TO LOCAL AUTHORITIES, BY DETERMINING THE NEEDS OF POTENTIAL GOVERNMENT SAVINGS, AND THE CAPABILITY OF LOCAL AUTHORITIES TO MANAGE THIS NEW FORM OF DEBT.

(3) APPROVED, AS DOCUMENTED IN AN UPDATE OF THE MINISTRY OF EDUCATION AND CULTURE CIRCULAR ON SCHOOL SIZES, A REDUCTION IN THE MINIMUM SIZE OF SCHOOL SITES BY 15-40 PERCENT.

(4) REAFFIRM IN A CIRCULAR TO ALL LOCAL AUTHORITIES THAT LOCAL AUTHORITIES MAY USE PRIVATE TOWN PLANNERS TO PREPARE LAYOUT AND LOCAL DEVELOPMENT PLANS FOR MORE TIMELY HOUSING LAND DELIVERY.

(5) DEREGULATED PRESCRIBED FEES FOR LAND SURVEYORS, AS DOCUMENTED IN AN AMENDMENT TO STATUTORY INSTRUMENT NO. 200/90.

(6) PREPARED A REQUEST FOR DISBURSEMENT AND CERTIFICATION IN THE FORM SPECIFIED IN ANNEX B, DULY COMPLETED AND SIGNED.

(7) PROVIDED USAID WITH ELIGIBLE EXPENDITURE FOR AT LEAST 50 PERCENT OF THE FIRST TRANCHE OF HG RESOURCES AND A DETAILED PLAN FOR THE LIQUIDATION OF THE REMAINING HG RESOURCES.

(8) BUDGETTED RESOURCES TOTALLING NO LESS THAN THE

LOCAL CURRENCY EQUIVALENT OF US$5 MILLION FOR THE NHF EXCLUSIVELY FOR THE PURPOSE OF LOW INCOME PLOT DEVELOPMENT FOR EACH ZIMBABWEAN FISCAL YEAR FROM PROGRAM INCEPTION TO THE DATE OF DISBURSEMENT OF THE SECOND TRANCHE OF U.S. DOLLAR GRANT RESOURCES. THESE BUDGETTED RESOURCES ARE TO BE SEPARATE AND DISTINCT FROM THE REQUIRED COUNTER DEPOSITS TO THE DISBURSEMENTS OF THE A.I.D. HG AND GRANT RESOURCES UNDER THE PROGRAM.

CONDITIONS PRECEDENT TO DISBURSEMENT OF THIRD TRANCHE OF U.S. DOLLAR GRANT RESOURCES

PRIOR TO THE DISBURSEMENT OF THE THIRD TRANCHE OF U.S. Dollar GRANT RESOURCES OR THE ISSUANCE BY A.I.D. OF DOCUMENTATION PURSUANT TO WHICH SUCH DISBURSEMENT WILL BE MADE, THE GRANTEE WILL, EXCEPT AS THE PARTIES MAY OTHERWISE AGREE IN WRITING, FURNISH TO A.I.D., IN FORM AND SUBSTANCE SATISFACTORY TO A.I.D., EVIDENCE THAT IT HAS COMPLETED THE ACTIONS BELOW. THIS THIRD TRANCHE OF GRANT RESOURCES IS SUBJECT TO AVAILABILITY OF FUNDS AND THE MUTUAL AGREEMENT OF THE PARTIES HERETO TO PROCEED WITH THE PROGRAM.

(1) SUCCESSFULLY, AND IN CONFORMANCE WITH THE GOZ FRAMEWORK FOR ECONOMIC REFORM PROGRAM, MOVED LOW INCOME MORTGAGE LENDING TO REAL, POSITIVE INTEREST RATES.

(2) AGREED IN WRITING TO THE SCOPE OF WORK AND TIME FRAME FOR A PROGRAM FINANCED ANALYSIS OF THE CONSTRUCTION FINANCE SYSTEM TO DETERMINE HOW IT COULD BE UTILIZED TO SUPPLEMENT THE NEEDS OF THE NATIONAL HOUSING FUND, RECOMMENDING ADDITIONAL OR ALTERNATIVE SOURCES OF CONSTRUCTION FINANCING, AS APPROPRIATE.

(3) ISSUED A REVISED EDITION OF THE 1982 TECHNICAL MANUAL "INFRASTRUCTURE DESIGN STANDARDS IN ZIMBABWE" WHICH PROPOSED REDUCTIONS IN SEWERAGE AND WATER DESIGN GUIDELINES THAT WILL PERMIT INCREASED ECONOMIES IN THE COST OF STAND SERVICING.

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E.O. 12356: N/A
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(4) ADOPTED A POLICY, AS DOCUMENTED IN A CONFERENCE RESOLUTION OF THE URBAN COUNCIL ASSOCIATION, THAT OFF-SITE INFRASTRUCTURE COSTS FOR LOW INCOME HOUSING PROJECTS ARE FINANCED IN A SIMILAR MANNER FOR BOTH PUBLICLY AND PRIVATELY DEVELOPED PROJECTS.

(5) PROVIDED A.I.D. WITH A WRITTEN LIST OF ELIGIBLE EXPENDITURES FOR ALL HG RESOURCES PREVIOUSLY BORROWED IN THE FIRST TWO TRANCHES.

(6) PREPARED A REQUEST FOR DISBURSEMENT AND CERTIFICATION IN THE FORM SPECIFIED IN ANNEX B, DULY COMPLETED AND SIGNED.

(7) BUDGETTED RESOURCES TOTALLING NO LESS THAN THE LOCAL CURRENCY EQUIVAL
ENT OF US$5 MILLION FOR
THE NHF EXCLUSIVELY FOR THE PURPOSE OF LOW INCOME PLOT DEVELOPMENT FOR EACH ZIMBABWEAN FISCAL YEAR FROM PROGRAM INCEPTION TO THE DATE OF DISBURSEMENT OF THE THIRD TRANCHE OF U.S.DOLLAR GRANT RESOURCES. THESE BUDGETTED RESOURCES ARE TO BE SEPARATE AND DISTINCT FROM THE REQUIRED COUNTER DEPOSITS TO THE DISBURSEMENTS OF THE A.I.D. HG AND GRANT RESOURCES UNDER THE PROGRAM.

C. COVENANTS

THE GOZ COVENANTS AND AGREES AS FOLLOWS:

(1) TO LIFT EXISTING CEILINGS FOR INTEREST RATES ON SAVINGS AND DEPOSITS CURRENTLY HELD BY BUILDING SOCIETIES IN THE TIME FRAME PROPOSED AND AGREED UPON IN ITS ESAP PLAN, CONSISTENT WITH TARGETS IN EFFECT AT THE TIME OF THE PLANNED DISBURSEMENT.

(2) TO, OVER THE LIFE OF THE ESAP, ON A SEMI-ANNUAL BASIS, REVIEW AND ADVISE A.I.D. OF THE CEILING FOR TAX FREE SHARES IN LIGHT OF GOZ FISCAL TARGETS AND REAL EFFECTIVE DEMAND FOR LOW INCOME HOUSING WITH THE OBJECTIVE OF MODIFYING THESE CEILINGS, AS ECONOMIC CONDITIONS PERMIT, TO SUPPORT STRUCTURAL ADJUSTMENT.

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(3) TO, OVER THE LIFE OF THE PROGRAM, PROVIDE GOZ BUDGETTED RESOURCES TOTALING NOT LESS THAN THE LOCAL CURRENCY EQUIVALENT OF US$25 MILLION FOR THE NATIONAL HOUSING FUND. THESE BUDGETTED RESOURCES ARE TO BE SEPARATE AND DISTINCT FROM THE COUNTER DEPOSITS TO A.I.D. HG AND GRANT RESOURCE DISBURSEMENTS REQUIRED UNDER THIS AGREEMENT AND THE PROGRAM.

(4) TO PROVIDE A.I.D., ON A SEMI-ANNUAL BASIS A WRITTEN LIST OF INCURRED ELIGIBLE EXPENDITURES TO BE ATTRIBUTED TO THE LOCAL CURRENCY EQUIVALENT OF DISBURSED HG RESOURCES.

(5) TO PLACE THE PROCEEDS OF THE HG LOAN IN A SPECIAL ACCOUNT AT THE RESERVE BANK, OR SUCH OTHER BANK AS MAY BE AGREED TO IN WRITING BY THE PARTIES HERETO. DISBURSEMENTS FROM THE ACCOUNT SHALL ONLY BE MADE WITH THE CONCURRENCE OF A.I.D., WHICH SHALL BE GIVEN ON THE BASIS OF: (A) EVIDENCE OF ELIGIBLE EXPENDITURES; AND/OR (B) CONTRACTS OR SUCH OTHER DOCUMENTATION WHICH SHALL BE AGREED UPON BETWEEN A.I.D. AND THE GOZ EVIDENCING PROGRESS ON THE DEVELOPMENT OF ELIGIBLE EXPENDITURES.

4. AMPLIFIED PROGRAM DESCRIPTION

RELEVANT PORTIONS OF THE AMPLIFIED PROGRAM DESCRIPTION WHICH WILL FORM PART OF THE PROGRAM AGREEMENTS ARE PRESENTED BELOW.

A. CONSTRAINTS ADDRESSED

THE ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM IS A MULTI-YEAR ASSISTANCE PROGRAM DESIGNED TO ALLEVIATE

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THE MAJOR POLICY CONSTRAINTS INHIBITING THE

PRODUCTION AND DELIVERY OF LOW COST SHELTER IN URBAN AREAS WITHIN ZIMBABWE, SPECIFICALLY:

-- A SHORTAGE OF FOREIGN EXCHANGE FOR PLANT AND EQUIPMENT IN THE BUILDING MATERIALS INDUSTRY WHICH HAS RESULTED IN LIMITED QUANTITIES OF HIGH PRICED MATERIALS AVAILABLE ONLY AFTER LONG DELAYS, THEREBY INCREASING THE COST OF HOUSING CONSTRUCTION;

-- A LACK OF PRIVATE SECTOR HOUSING FINANCE DUE TO INADEQUATE INCENTIVES FOR ATTRACTING FINANCIAL RESOURCES INTO LOW INCOME MORTGAGE LENDING; AND

-- A NUMBER OF BINDING REGULATIONS IN THE LAND DELIVERY SYSTEM, PARTICULARLY INFRASTRUCTURE AND BUILDING STANDARDS, WHICH MAKE SHELTER UNAFFORDABLE TO THE MAJORITY OF LOW INCOME WAGE EARNERS AND DISCOURAGE PRIVATE SECTOR PARTICIPATION IN HOUSING PRODUCTION.

IT IS IMPERATIVE THAT MEASURES BE TAKEN TO ADDRESS THE ABOVE CITED CONSTRAINTS IN ALL THREE SUB-SECTORS SIMULTANEOUSLY, AS RESOLUTION IN ONLY ONE OR TWO OF THE AREAS, WHILE NECESSARY, WILL NOT BE SUFFICIENT TO ACHIEVE PROGRAM OBJECTIVES.

B. OBJECTIVES

THE PROGRAM CONSISTS OF THREE TYPES OF A.I.D. FINANCIAL RESOURCES: US$50 MILLION IN HOUSIN
G
GUARANTY (HG) LOANS, US$25 MILLION IN TRANCHED CASH GRANT RESOURCES, AND US,2.68 MILLION IN GRANT RESOURCES FOR TECHNICAL ASSISTANCE. THE RESOURCES WILL BE USED TO SUPPORT HOUSING SECTOR POLICY REFORM INITIATIVES REQUIRED TO CREATE A MORE SUPPORTIVE ECONOMIC POLICY ENVIRONMENT FOR SUSTAINABLE LOW INCOME SHELTER DELIVERY.

THE GOAL OF THE ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM IS TO INCREASE THE LEVEL OF HOME OWNERSHIP FOR LOW INCOME HOUSEHOLDS IN ZIMBABWE'S URBAN CENTERS. THE PROGRAM PURPOSE IS TO INCREASE LOW INCOME HOUSEHOLD ACCESS TO AFFORDABLE SHELTER IN URBAN AREAS. THE OBJECTIVES ARE SUPPORTIVE OF ZIMBABWE'S ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM (ESAP) GOAL OF RATIONALIZING THE ROLE OF GOVERNMENT AND INCREASING RELIANCE ON MARKET FORCES, WHILE STIMULATING EMPLOYMENT.

C. DESIGN STRATEGY

THERE ARE THREE ASPECTS TO THE PROPOSED PROGRAM'S PLANNED FINANCIAL SECTOR ASSISTANCE STRATEGY. THE FIRST ASPECT RELATES TO THE "TRANSITIONAL" NEED FOR IMMEDIATE RESOURCE REQUIREMENTS IN THE SECTOR. THE U.S. DOLLARS DISBURSED TO SUPPORT IMPLEMENTATION OF POLICY REFORMS NOT ONLY PROVIDE IMMEDIATE SUPPORT FOR IMPORTS, BUT ALSO TRIGGER THE AVAILABILITY OF LOCAL CURRENCY COUNTER DEPOSIT RESOURCES. THE LOCAL CURRENCY COUNTER DEPOSITS WILL PROVIDE: (1) IMMEDIATE RESOURCES FOR THE NATIONAL HOUSING FUND TO PRODUCE LOWER COST, AFFORDABLE PRIMARY STRUCTURES; AND (2) IMMEDIATE LIQUIDITY TO THE PRIVATE BUILDING SOCIETIES TO ENABLE THEM TO MAINTAIN LOW INCOME MORTGAGE LENDING DURING THE HIGH INFLATION PERIOD ACCOMPANYING ECONOMIC STRUCTURAL ADJUSTMENT, WHILE THE POLICY. CHANGES HELP THE FINANCIAL SYSTEM DEVELOP MECHANISMS TO ATTRACT NEW CAPITAL, THEREBY ENSURING LOW INCOME MORTGAGE LENDING ON A SUSTAINABLE BASIS.

THE LOCAL CURRENCY SUPPORT FOR THE BUILDING SOCIETIES IS REFERRED TO AS A "TRANSITIONAL" MEASURE BECAUSE IT IS EXPECTED THAT ONCE ECONOMIC STRUCTURAL ADJUSTMENT MEASURES BRING INFLATION UNDER CONTROL, LOW INCOME MORTGAGE RATES CAN BE DEREGULATED, AND BUILDING SOCIETIES WILL BE ABLE TO RAISE THEIR OWN PRIVATE FINANCE AT RATES THAT ALLOW FOR AFORDABLE LOW INCOME MORTGAGE LENDING.

THE SECOND ASPECT OF THE PROGRAM ASSISTANCE STRATEGY RELATES TO THE POLICY ENVIRONMENT, RATHER THAN THE USES OF THE PROGRAM RESOURCES. IT REQUIRES THE PROVISION OF TECHNICAL ASSISTANCE IN CONCERT WITH THE POLICY CHANGES AND WILL RESULT IN THE INTRODUCTION OF

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NEW FINANCIAL INSTRUMENTS AND SYSTEMATIC FINANCIAL SECTOR CHANGES IN THE MEDIUM TERM THAT WILL OPTIMIZE THE INVESTMENT OF PRIVATE SECTOR SAVINGS AND INVESTMENT INTO LOW INCOME HOUSING.

THE THIRD ASPECT OF THE STRATEGY RELATES TO LONGER TERM OBJECTIVES AND USES THE HOUSING FINANCIAL SECTOR

AS THE ENTRY POINT TO ENGAGE IN A DIALOGUE ON THE POLICY CONSTRAINTS HINDERING THE DEEPENING OF AND PROMOTION OF MORE COMPETITION IN THE FINANCIAL SECTOR IN GENERAL.

D. EXPECTED OUTPUTS AND END OF PROGRAM STATUS

IMPLEMENTATION OF THE PLANNED POLICY REFORMS INCLUDED AS PART OF THE CONDITIONALITY FOR DISBURSEMENT OF PROGRAM RESOURCES IS EXPECTED TO RESULT IN:

(1) INCREASED PRODUCTION OF MORE AFFORDABLE HOUSING FOR LOW INCOME HOUSEHOLDS, AS A RESULT OF REDUCING BUILDING AND SITE DEVELOPMENT STANDARDS;

(2) INCREASED LEVELS OF PRIVATE FINANCING FOR LOW INCOME MORTGAGES, AS A RESULT OF THE INTRODUCTION OF NEW FINANCIAL INSTRUMENTS AND A MODIFIED FINANCING INCENTIVE STRUCTURE;

(3) AN INCREASED ROLE FOR THE PRIVATE SECTOR IN HOUSING CONSTRUCTION FINANCE, AS A RESULT OF GREATER RELIANCE ON PRIVATE DEVELOPERS, PLANNERS, AND BUILDERS;

(4) EXPANDED PRODUCTION OF LOWER COST BUILDING MATERIALS AND MORE EMPLOYMENT OPPORTUNITIES, AS A RESULT OF INCREASED EFFICIENCY AND CAPACITY IN THE PRIVATE CONSTRUCTI
ON AND BUILDING MATERIALS
INDUSTRIES.

(5) A BROADENING AND DEEPENING OF THE FINANCIAL SECTOR THROUGH THE CREATION OF NEW FINANCIAL INSTRUMENTS AND COMPETITION THAT WILL FACILITATE EXPANDED INVESTMENT AND GROWTH.

PRIMARY BENEFICIARIES INCLUDE LOW INCOME HOUSEHOLDS WHO WILL HAVE INCREASED ACCESS TO MORTGAGE FINANCING FOR PURCHASING HOUSING, AND WHO WILL FIND MORE AFFORDABLE UNITS THROUGH AN EXPECTED 40 PERCENT REDUCTION IN CONSTRUCTION COSTS. SEMI-SKILLED AND UN-SKILLED WORKERS WILL BENEFIT FROM THE CREATION OF AT LEAST 8,000 NEW JOBS. INDIGENOUS BUSINESSMEN WILL HAVE GREATER OPPORTUNITY FOR PARTICIPATING IN CONSTRUCTION ACTIVITY.

E. ILLUSTRATIVE FINANCIAL PLAN

AS SHOWN BELOW, IT IS PLANNED THAT, SUBJECT TO THE

AVAILABILITY OF FUNDS AND MUTUAL AGREEMENT OF THE PARTIES TO PROCEED WITH THE PROGRAM, A.I.D. PROGRAM RESOURCES TOTALLING US$75 MILLION WILL BE RELEASED IN THREE TRANCHES OVER THE FIVE YEAR LIFE OF THE PROGRAM, BASED UPON GOVERNMENT OF ZIMBABWE (GOZ) IMPLEMENTATION OF PROPOSED POLICY CHANGES AFFECTING THE LOW INCOME SHELTER SECTOR.

PLANNED OBLIGATIONS

TRANCHE 1: (A) US$15 M. HG LOAN RESOURCES,
1992 (B) US$10 M. NPA GRANT RESOURCES,

TRANCHE 2: (A) US$20 M. HG LOAN RESOURCES,
1993 (B) US$ 5 M. NPA GRANT RESOURCES

TRANCHE 3: (A) US$15 M. HG LOAN RESOURCES,
1995 (B) US$10 M. NPA GRANT RESOURCES.

THE TABLE BELOW SHOWS THE US$ RESOURCE COMMITMENT PLAN AND THE LOCAL CURRENCY COUNTER DEPOSIT COMMITMENT PLAN, BASED ON AN ILLUSTRATIVE CURRENCY EXCHANGE RATE OF US$1.00 = Z$5.00. THROUGHOUT THE LIFE OF THE PROGRAM, THE LOCAL CURRENCY REQUIREMENTS WILL BE CALCULATED USING THE HIGHEST RATE OF EXCHANGE WHICH, AS OF THE DATE OF THE U.S. DOLLAR DISBURSEMENT, IS NOT UNLAWFUL IN ZIMBABWE, UNLESS A.I.D. OTHERWISE AGREES IN WRITING.
UNCLAS SECTION 03 OF 10 HARARE 008510

AIDAC

AID/W FOR AFR/SA AND NAIROBI FOR J. KOLKER, RHUDO

E.O. 12356: N/A
SUBJECT: ZIMBABWE - PRIVATE SECTOR HOUSING PROGRAM (PSHP) (613-0235) AND (613-0236), AND HOUSING GUARANTY LOAN (613-HG-003)

YEAR	1 1992	2 1993	3 1994	4 1995	5 1996	TOTAL
US$ (M) THRU OGIL:						
AID HG LOAN	15.0	20.0		15.0		50.0
AID NPA GRANT	10.0	5.0		10.0		25.0
Z$ (M) THRU NATIONAL HOUSING FUND (NHF)						
GOZ HG C.D.	35.0	50.0		40.0		125.0
GOZ BUDGET	25.0	25.0	25.0	25.0	25.0	125.0

SUB-TOT	60.0	75.0	25.0	65.0	25.0	250.0
Z$ (M) THRU BUILDING SOCIETIES						
GOZ HG C.D.	40.0	50.0		35.0		125.0
GOZ NPA C.D.	45.0	22.5		45.0		112.5
BS	85.0	72.5		80.0		237.5
SUB-TOT	170.0	145.0		160.0		475.0
Z, (M) TO A.I.D. MANAGEMENT TRUST FUND						
GOZ NPA C.D.	5.0	2.5		5.0		12.5
SUB-TOT	5.0	2.5		5.0		12.5
TOTAL Z$	235.0	222.5	25.0	230.0	25.0	737.5

AS SHOWN, PROGRAM LOAN RESOURCES FROM A US$50 MILLION HG WILL BE RELEASED IN THREE TRANCHES (US$15 MILLION IN YEAR 1, US$20 MILLION IN YEAR 2, AND US,15 MILLION IN YEAR 4) OVER THE FIVE YEAR LIFE OF THE PROGRAM.

THE PROGRAM ALSO PLANS TO PROVIDE US$25 MILLION IN NON-PROJECT ASSISTANCE (NPA) GRANT FUNDS TO BE DISBURSED SIMULTANEOUSLY WITH THE LOAN FUNDS IN THREE TRANCHES (US$10 MILLION IN YEAR 1, US$5 MILLION IN YEAR 2, AND US$10 MILLION IN YEAR 4) OVER THE FIVE YEAR LIFE OF THE PROGRAM.
THE PROGRAM GRANT FUNDS WILL BE MATCHED WITH A COUNTER DEPOSIT OF LOCAL CURRENCY TO BE USED -- ALONG WITH GOZ
COUNTER DEPOSITS FROM THE HG LOAN AN IN COMBINATION WITH MATCHING BUILDING SOCIETY RESOURCES -- TO FUND LOW INCOME MORTGAGES, AND TO FUND A USAID MANAGEMENT TRUST FUND.

ALSO, US$2.68 MILLION IN GRANT RESOURCES WILL BE PROVIDED UNDER A SEPARATE PROJECT GRANT AGREEMENT FOR TECHNICAL ASSISTANCE AND TRAINING.

E. USES AND FLOW OF FUNDS

THE U.S. DOLLAR PROGRAM RESOURCES WILL BE MADE GENERALLY AVAILABLE TO FINANCE IMPORTS ON THE OPEN GENERAL IMPORT LICENSE (OGIL). THE GOZ WILL PROVIDE AN EQUIVALENT AMOUNT IN LOCAL CURRENCY FOR LOW INCOME PLOT DEVELOPMENT AND FOR MORTGAGE FINANCING THROUGH

THE BUILDING SOCIETIES. THE PRIVATE Building SOCIETIES' RESOURCES WILL MATCH THE GOZ LOCAL CURRENCY ALLOCATED FOR LOW INCOME MORTGAGE FINANCING.

THE FLOW OF FUNDS IS DIAGRAMMED IN THE CHART ON THE FOLLOWING PAGE. (THE CHART WILL BE FAKED FOR INSERTION). THE LOCAL CURRENCY AMOUNTS SHOWN ARE ILLUSTRATIVE AND ARE BASED ON AN OFFICIAL CURRENCY EXCHANGE RATE OF US,1.00 = Z,5.00. AS NOTED ABOVE, THROUGHOUT THE LIFE OF THE PROGRAM, THE LOCAL CURRENCY REQUIREMENTS WILL BE CALCULATED USING THE HIGHEST RATE OF EXCHANGE WHICH, AS OF THE DATE OF THE U.S. DOLLAR DISBURSEMENT, IS NOT UNLAWFUL IN ZIMBABWE, UNLESS A.I.D. OTHERWISE AGREES IN WRITING.

AS SHOWN IN BOX 2A, ONCE DISBURSED, THE U.S. DOLLAR LOAN AND GRANT FUNDS WILL BE PLACED IN SPECIAL, NON-COMMINGLED ACCOUNTS TO GENERALLY SUPPORT IMPORTS ON THE OPEN GENERAL IMPORT LICENSE (OGIL).

AS SHOWN IN BOX 3, SIMULTANEOUSLY WITH EACH OF THE U.S. DOLLAR DISBURSEMENTS, THE.GOZ WILL MAKE COUNTER DEPOSITS OF THE LOCAL CURRENCY EQUIVALENT INTO

AIDAC

AID/W FOR AFR/SA AND NAIROBI FOR J. KOLKER, RHUDO

E.O. 12356: N/A
SUBJECT: ZIMBABWE - PRIVATE SECTOR HOUSING PROGRAM (PSHP) (613-0235) AND (613-0236), AND HOUSING GUARANTY LOAN (613-HG-003)

SPECIAL, NON-COMMINGLED ACCOUNTS.

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(1) GOZ COUNTER DEPOSIT TO THE HG LOAN FUNDS

AS SHOWN IN BOX 4A, HALF THE LOCAL CURRENCY EQUIVALENT OF THE HG LOAN FUNDS (Z$35 M. IN YEAR 1; Z$50 MILLION IN YEAR 2, AND Z$40 M. IN YEAR 4, FOR A TOTAL OF Z$125 MILLION OVER THE FIVE YEAR LIFE OF THE PROGRAM) Will BE CHANNELED FROM THE SPECIAL ACCOUNT TO ANOTHER SPECIAL ACCOUNT IN THE NATIONAL HOUSING FUND TO BE USED EXCLUSIVELY FOR FINANCING THE SERVICING OF PLOTS AND CONSTRUCTION OF A MINIMUM SUPPORT STRUCTURE.

AS SHOWN IN BOX 4B, THE LOCAL CURRENCY COUNTER DEPOSIT RESOURCES WILL BE COMPLEMENTED WITH THE GOZ'S NORMAL BUDGETARY SUPPORT (AT LEAST Z$125 MILLION OVER THE LIFE OF THE PROGRAM CHANNELED TO THE NHF EXCLUSIVELY FOR LOW INCOME HOUSING CONSTRUCTION

FINANCE).

SINCE THE NHF RESOURCES WILL BE RECYCLED EVERY 24 MONTHS (BOX 6), THE PROGRAM IMPACT WITH RESPECT TO DEVELOPMENT OF SERVICED PLOTS WILL EXTEND FAR BEYOND THE FIVE YEAR SCOPE OF THE PROGRAM; ULTIMATELY, THOUSANDS OF PLOTS WILL BE DEVELOPED FROM THE INITIAL INFUSION AND RECYCLING OF PROGRAM RELATED RESOURCES.

AS SHOWN IN BOX 4C, THE GOZ WILL TRANSFER FROM THE COUNTER DEPOSIT SPECIAL ACCOUNT THE OTHER HALF OF THE LOCAL CURRENCY EQUIVALENT OF THE U.S. DOLLAR HG FUNDS (Z$40 M. IN YEAR 1; Z$50 IN YEAR 2, AND Z,40 IN YEAR 4, FOR A TOTAL OF Z,125 MILLION OVER THE FIVE YEAR LIFE OF THE PROGRAM) TO SEPARATE SPECIAL ACCOUNTS IN THE PRIVATE BUILDING SOCIETIES.

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(2) GOZ COUNTER DEPOSIT TO THE NPA GRANT FUNDS

AS REFERENCED ABOVE AND SHOWN IN BOX 3, SIMULTANEOUSLY WITH EACH NPA U.S. DOLLAR CASH GRANT DISBURSEMENT, THE GOZ WILL MAKE A COUNTER DEPOSIT OF THE EQUIVALENT AMOUNT OF LOCAL CURRENCY (Z$50 M. IN YEAR 1, Z,25 M. IN YEAR 2, AND Z$50 M. IN YEAR 3, FOR A TOTAL OF Z$125 M. OVER THE LIFE OF THE PROGRAM) INTO A SPECIAL NON-COMMINGLED ACCOUNT. FROM THIS ACCOUNT, Z$112.5 MILLION WILL BE TRANSFERRED, AS SHOWN IN BOX 4D, TO THE SEPARATE SPECIAL ACCOUNTS IN THE PRIVATE BUILDING SOCIETIES AFTER THE BUILDING SOCIETIES HAVE OBTAINED "MATCHING" AMOUNTS FROM COMMERCIAL FINANCIAL MARKETS (BORROWED AT MARKET RA
TES), AS DESCRIBED BELOW (BOX 3A), AND Z$12.5 MILLION WILL BE TRANSFERRED TO A SEPARATE SPECIAL A.I.D. MANAGEMENT TRUST FUND ACCOUNT.

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(3) BUILDING SOCIETIES' RESOURCES

THE GOZ LOCAL CURRENCY COUNTER DEPOSIT RESOURCES MADE AVAILABLE TO THE BUILDING SOCIETIES AS A RESULT OF DISBURSEMENT OF THE HG AND NPA RESOURCES COMBINED (Z$85 M. IN YEAR 1, Z,72.5 M. IN YEAR 2, AND Z,80 M. IN YEAR 4) ARE TO BE BLENDED WITH THE BUILDING SOCIETIES' "MATCHING" RESOURCES (Z$237.5 Million) BORROWED AT MARKET RATES (PRESENTLY 25 PERCENT) TO BRING THE AVERAGE COST OF FUNDS TO THE SOCIETIES TO HALF THE MARKET RATE (CURRENtly 12.5 PERCENT).

AS SHOWN IN BOX 5, THE "BLENDING" PROCEDURE WILL ALLOW THE TOTAL AMOUNT OF PROGRAM RELATED AND COMMERCIALLY BORROWED RESOURCES (AS MUCH AS Z$475

MILLION USING THE ILLUSTRATIVE INTEREST RATE STRUCTURE) TO BE ON-LENT TO APPROXIMATELY 43,200 LOW INCOME HOUSEHOLDS AT THE PREVAILING LOW INCOME MORTGAGE RATE (PRESENTLY 15 PERCENT), WITH THE BUILDING SOCIETIES RECEIVING ONLY THEIR NORMAL 2.5 PERCENT SPREAD TO COVER ADMINISTRATIVE COSTS.

SHOULD THE LOW INCOME MORTGAGE RATE RISE OR SHOULD THE INTEREST ON MARKET RATE RESOURCES INCREASE, THE AMOUNT OF "MATCHING" FUNDS THE BUILDING SOCIETIES WOULD BE REQUIRED TO BORROW AT COMMERCIAL RATES WOULD HAVE TO BE ADJUSTED. HOWEVER, THE OPERATIONAL PRINCIPAL WOULD CONTINUE TO BE TO ON-LEND THE RESOURCES AT THE LOW INCOME MORTGAGE RATE PREVAILING AT THE TIME OF THE LOAN.

UNCLAS SECTION 10 OF 10 HARARE 008510

AIDAC

AID/W FOR AFR/SA AND NAIROBI FOR J. KOLKER, RHUDO

E.O. 12356: N/A
SUBJECT: ZIMBABWE - PRIVATE SECTOR HOUSING PROGRAM (PSHP) (613-0235) AND (613-0236), AND HOUSING GUARANTY LOAN (613-HG-003)

F. MONITORING AND EVALUATION - ILLUSTRATIVE

UPON PROGRAM APPROVAL AND COMMITMENT OF FUNDS, USAID WILL COMPETITIVELY AWARD A LOCAL CONTRACT TO PROVIDE MONITORING AND EVALUATION SERVICES. THE CONTRACTOR WILL ASSIST USAID IN IDENTIFYING THE MOST SUITABLE INDICATORS, AND DATA COLLECTION WILL COMMENCE THREE MONTHS AFTER THE PROGRAM BEGINS. IN GENERAL, INPUT AND OUTPUT INDICATORS WILL BE REVIEWED ON A QUARTERLY BASIS AND IMPACT INDICATORS ON A SEMI-ANNUal BASIS. BASELINE INDICATORS SELECTED FROM THE INITIAL SURVEY WILL BE REVIEWED ANNUALLY, WHERE NEEDED.

THERE WILL BE TWO EXTERNAL EVALUATIONS: (A) A MID-TERM EVALUATION TO BE COMPLETED NEAR THE 24TH MONTH OF IMPLEMENTATION; AND (B) A FINAL EVALUATION TO BE COMPLETED AT THE CONCLUSION OF THE PROGRAM. THE FRAMEWORK FOR THE EVALUATIONS WILL BE DEVELOPED IN CONSULTATION WITH THE GOZ AND THE BUILDING SOCIETIES. THE FINAL EVALUATION WILL BE COMPLETED NO LATER THAN TWO MONTHS AFTER THE PROGRAM COMPLETION DATE.

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5. ACTION REQUESTED:

THE MISSION HAS NEGOTIATED ALL CONDITIONALITY AND COVENANTS, ALONG WITH THE REQUIRED TRACKING OF A.I.D. RESOURCES WITH THE INVOLVED MINISTRIES, E.G., THE MINISTRY OF FINANCE; THE MINISTRY OF LANDS, AGRICULTURE, AND WATER DEVELOPMENT; THE MINISTRY OF EDUCATION AND CULTURE; THE MINISTRY OF LOCAL GOVERNMENT, RURAL AND URBAN DEVELOPMENT; THE MINISTRY OF INDUSTRY AND COMMERCE; AND THE RESERVE BANK. A FORMAL REQUEST FOR ASSISTANCE HAS BEEN RECEIVED (COPY FAXED) FROM THE GOZ.

THE MISSION WOULD LIKE TO OBLIGATE THE FUNDS BEFORE THE END OF THE THIRD WEEK IN AUGUST 1992. PLEASE ADVISE SOONEST RESULTS OF A.I.D./WASHINGTON REVIEW OF THE MATERIAL SUBMITTED HEREIN AND APPROVAL TO PROCEED WITH PROGRAM AUTHORIZATION AND OBLIGATION IN THE FIELD. LANPHER
BT
#3510

NNNN(((((((((((

Pattli:

ACTION: AID-1
INFO: ECON-1 AMB-0 DCM-1

DISTRIBUTION: AID
CHARGE: AID

VZCZCSB0672
PP RUEHSB
DE RUEHC #9565 2410535
ZNR UUUUU ZZH
P 280535Z AUG 92
FM SECSTATE WASHDC
TO RUEHSB/AMEMBASSY HARARE PRIORITY 1584
INFO RUEHNR/AMEMBASSY NAIROBI PRIORITY 1737
BT
UNCLAS STATE 279565

AIDAC, NAIROBI FOR RHUDO

E.O. 12356: N/A
TAGS:
SUBJECT: ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM (PSHP) (613-0235 AND 0236), LINKED TO HG LOAN (613-HG-003)

REF: (A) HARARE 006510 (B) STATE 216149 (C) STATE 268643 (D) STATE 271395

1. THIS CABLE IS FOLLOW UP TO AID/W CONCURRENCE IN PRINCIPLE WITH THE ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM (PSHP) AS PROVIDED BY REFTEL B. WITH THE SUBMISSION OF CLARIFICATIONS AND MODIFICATIONS AS SUBMITTED BY MISSION IN REFTEL A, THE LANGUAGE AND REVISONS SUBMITTED BY THE MISSION ARE SPLENDID. PLEASE REVERSE WORD ORDER ON FIRST CONDITION FOR THIRD TRANCHE DISBURSEMENT FROM "REAL, POSITIVE INTEREST RATES" TO "POSITIVE REAL INTEREST RATES."

2. IN RESPONSE TO THE MISSION'S REQUEST FOR AFFROVAL AND DELEGATION OF AUTHORITY FOR APPROVAL/AUTHORIZATION OF THE ENTIRE PROGRAM, THE USAID/ZIMBABWE MISSION DIRECTOR MAY APPROVE/AUTHORIZE THE PROPOSED DFA PROGRAM (NPA AND TECH.ASSISTANCE COMPONENTS) AS SUBMITTED PURSUAN TO HIS AUTHORITIES UNDER AND IN ACCORDANCE WITH ALL THE TERMS AND CONDITIONS OF DOA 551.

3. AID/W IS PROCESSING BUDGET ALLOWANCES FOR FIRST TRANCHE, FY 1992 OBLIGATION.... USDOLS 10.0 MILLION NPA GRANT. THE CN WAITING PERIOD HAS EXPIRED. MISSION IS AUTHORIZED TO PROCEED WITH NEGOTIATION AND OBLIGATION OF FUNDS WHEN ALLOWANCE IS RECEIVED. PLEASE ENSURE THAT COPIES OF THE REVISED PROJECT DOCUMENTS AND OBLIGATION DOCUMENTS ARE TRANSMITTED TO AID/W.

4. DUE TO THE RECENTLY ENACTED CREDIT REFORM REGUATIONS, MULTI-YEAR HG AUTHORIZATIONS ARE NO LONGER FERMITTED, WITH ANNUAL AUTHORIZATIONS LIMITED TO AN AMOUNT OF DOLLARS 25 MILLION. FURTHERMORE, THE CREDIT REFORM REGULATIONS REQUIRE THAT THE 'SUBSIDY COST' OF THE GUARANTY AS CALCULATED BY AID/FA/B MUST BE EXPRESSLY STATED IN EACH ANNUAL AUTHORIZATION. THEREFORE, THE AUTHORIZATION LANGUAGE FOR EACH ANNUAL HG AUTHORIZATION MUST BE CEARED BY AID/FA/FM/IM FRIOR TO THE MISSION AUTHORIZING EACH ANNUAL AUTHORIZATION GUARANTY. IN ORDER TO FACILITATE THE FIRST YEAR'S AUTHORIZATION, THE APFROVED AUTHORIZATION LANGUAGE WITH FA/FM/LM CLEARANCE FOR THE FRST USDO S 15 MILLION AUTHORIZATION WAS CABLED IN REF. C.

5. AID/W APPRECIATES MISSION TELEFAX OF 27 AUGUST WHICH PROVIDED INFORMATION AND CLARIFICATION REGARDING GOZ'S PROFOSED OPEN GENERAL IMPORT LICENSE (OGIL) LISTS AND THE CONFIRMATION THAT NO PROGRAM FUNDS WILL BE USED IN THE PROCUREMENT OF NON-U.S. VEHICLES. WE ALSO UNDERSTAND FROM TELEFAX THAT ZIMBABWE IS WITNESSING A SIGNIFICANT INCREASE IN U.S. IMFORTS. FLEASE ACTIVELY MONITOR THIS TREND AND PERIODICALLY REPORT THIS INFORMATION TO AID/W.

6. OPS DIRECTORATE HAS ALSO CLEARED THE CASH TRANSFER MEMO. MISSION MAY NOW OBLIGATE.

7. AID/W CONGRATULATES USAID/ZIMBABWE ON AN EXCELLENT SUBMISSION AND INNOVATIVE, CREATIVE DESIGN. THE PROGRAM PROVIDES FOR AN EFFECTIVE MELDING OF A VARIETY OF RESOURCES AND IS POIGNANTLY DIRECTED TO FROVIDE SIGNIFICANT IMFACT IN ACHIEVING THE STATED GOALS AND OBJECTIVES. OBVIOUSLY, FRIVATE SECTOR HOUSING IS DESTINED TO PLAY A KEY AND MAJOR FOCUS ROLE IN ZIMBABWE'S UPCOMING STRATEGY DEVELOFMENT AND IN THE MISSION'S SUBMISSION OF A NEW C.P.S.P. WE LOOK FORWARD TO NOTIFICATION OF OBLIGATIONS AND TO PROGRAM IMPLEMENTATION START-UP.
KANTER
BT
#9565

NNNN

Reference:

Telegrams: "MINFIN", Harare
Telex: 2141
Telephone: 722101/794571

Private Bag 7705, Causeway
Zimbabwe

ZIMBABWE

MINISTRY OF FINANCE, ECONOMIC PLANNING AND DEVELOPMENT
Munhumutapa Building
Samora Machel Avenue
Harare

RECEIVED
JUL 30 1992
USAID/HARARE

DATE	ACTION	INFO
DIR		✓
DD		
EXO		
CONT		
ARM		
POHE	✓	
NO		
LIO		
CHRON		✓
RF		✓
DUE DATE	8-6-92	
ACTION TAKEN		
INITIALS DATE		

28th July, 1992

Mr. Ted D. Morse
The Director
USAID
P.O. Box 6988
HARARE

OFFICIAL FILE

Dear Mr. Morse,

RE : PRIVATE SECTOR HOUSING PROGRAMME

I am writing to request USAID's support for a private sector housing programme which would assist in developing the enabling environment for sustainable delivery of low income housing in Zimbabwe. In view of your Government's decision that channelling resources through the OGIL would be more appropriate than using them to leverage additional resources through the purchase of blocked funds, this letter supercedes my previous request dated 12 June, 1992.

Specifically, we request that U.S. grant funds of US$25 million be provided over the five year life of the programme. This will boost building society financing for low cost shelter. We realise that this is a transitional measure moving toward a sustainable private sector driven system for the provision of low cost housing finance. Further, we request for additional grant resources of up to US$3,5 million for technical assistance and training facilities.

Government also requests that a U.S. Housing Guarantee loan of US$50 million over five years be provided to support the programme. Government will use the U.S. dollar resources to support the OGIL. The equivalent amount of local currency generated would be used to support stand development through the National Housing Fund.

Finally, Government believes that the reforms which are to be undertaken in the land delivery support our objectives of rationalising standards and increasing the availability of affordable housing for low income households.

As a final step in our programme development consultations and collaborations, the Government of Zimbabwe hereby requests USAID financial assistance to support Government's implementation of planned changes described in the Private Sector Housing Programme document.

2/.....

I would appreciate it if USAID could give favourable consideration to this request.

Yours sincerely,

E.N. Mushayakarara
SENIOR SECRETARY FOR FINANCE

Since the FY1992 Statutory Checklist was not available at the time this document was prepared, the FY1991 Statutory Checklist has been utilized with FY1992 legislative changes added as appropriate and to the extent possible.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? — No

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct — N/A

source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? N/A

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance? N/A

c. Government Policy (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress N/A

listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? N/A

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? No

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned them without taking steps to discharge its obligations toward such citizens or entities? No

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by No

N/A

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

N/A

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Zimbabwe's UN obligations are fully paid.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620[illegible]): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

(a) No

(b) No

the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States?	N/A
Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria?	No
Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?	No
5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?	No
6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?	No. Zimbabwe has entered into an investment guaranty agreement with OPIC
7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters?	No
(b) If so, has any deduction required by the Fishermen's Protective Act been made?	
8. **Loan Default** (FAA Sec. 620(q); FY 1990 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA?	(a) No
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?	(b) No

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? — No

13. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — No

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) — N/A. While repor to have failed to disassociate itse from the communiq this was taken in consideration by the Administrator at the time of approval of the Agency OYB.

16. **Military Coup** (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? — No

17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? — Yes

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services? — No

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — No

2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary — No

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sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A

Since the FY1992 Statutory Checklist was not available at the time this document was prepared, the FY1991 Statutory Checklist has been utilized with the FY1992 legislative changes added as appropriate and to the extent possible.

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? — Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

a)No, the program does not affect trade.
b-e) Yes, the program is targetted to assist the private sector, coop grou and to new ventures in th building materials indust
f)N/A

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The program is not targetted assist U.S.private trade and investment.

3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

The Congress will have be appropriately notified prior to obligation of fu for this program.

b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?

This CN requirement will b met prior to obligation of funds.

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

a) Yes
b) Yes

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action

The basis for such reason- able expectation is detailc in Annex I-F to the PP/PAAD

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

This is not a capital assistance project although there is a construction component.

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Refer to the answer provided under Question

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Refer to the answer provided under Questio

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Description in Section 8.2.2 and 8.3.3. in the PP/PAAD.

b. **U.S. Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

a) Yes
b) Yes
c) Yes

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? — Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? — Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? — N/A

12. Trade Restrictions

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? — N/A No

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of — No

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? — No

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? — N/A

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? — N/A

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). — This requirement wil be satisfied after execution of the program grant agreem

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? Yes

17. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased? Yes

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs. No

19. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? — No

b. Will any funds be used to lobby for abortion? — No

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? — Yes

21. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. — N/A

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? — No

22. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — U.S. small business will be encouraged to participate to the maximum extent possible

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? — Yes

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — Yes

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) — Yes

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? — No

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the — Yes N/A

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest — Yes

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — No

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — Yes

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — Yes

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

31. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

32. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes

33. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

34. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes

35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes

36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No

37. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

No agriculture assistance will be provided under the program.

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?	No
3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes
4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The program used focus groups to determine the beneficiaries needs and includes a training component to assist loc architects, engineers a urban planners to desig shelter which is afford able to the urban poor.
5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries	a)The program is design to assist the urban poo with U.S. based technic assistance. b)The program will strengthen the ability c local authorities to und take plot development. c)Self-help shelter will be encouraged. d)Women are guaranteed access to houses and housing finance in Zimbabwe. e)N/A

and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — Yes

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — Yes

9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? — No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? — No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? — No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?	No
e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	No
f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No
g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?	No
10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	A set-aside for Gray Amendment firms is not contemplated because USAID has not been able to identify one such firm which could provide all of the required services. However, USAID will encourage inclusion of Gray Amendment firms in the planned consortium, to the maximum extent practicable.

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

a) No
b) No
c) No
d) No

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions

N/A

which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

1)No
2)No
3)No
4)No
5)No
6)No

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forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment? N/A

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

The program does not relate to energy.

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage

a) The program is providing assistance to support pol reform which will make the delivery system equitable and sustainable.
b) Yes, the private sector is the primary beneficiary of the program.
c) Yes
d) Yes, PVO's have been consulted.
e) Yes, the program is policy based to support a structu adjustment program.
f) Yes, the program is suppor

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private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

f) Yes, the monitoring and evaluation program will ensure that vulnerable groups are protected.

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

No debt for nature exchange is being proposed.

17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

No deob/reob funds are being utilized.

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

Yes, a thorough economic review including a debt service review undertaken in the design of the program. The ability to pay is demonstrated in the OMB Passback rating of C-.

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

Yes

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

Yes

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from

cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

1)Poor urban households will g access to private housing fina
2)Housing coops will be suppor through technical assistance.
3)Self-help hosuing constructi will be supported.
4)Women-headed households will provided access to units and housing finance.
5)N/A

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

No agricultural assistance is being provided.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

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c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

21. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

The training compouent wil support more affordable shelter designs, local authorities ability to ser their constituents, housir finance institutions abil to serve the poor, and small scale buildng contractors.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;	N/A
b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	N/A
c. research into, and evaluation of, economic development processes and techniques;	N/A
d. reconstruction after natural or manmade disaster and programs of disaster preparedness;	N/A
e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;	N/A
f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.	The program will suppo management training fo indigenous building co

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? No

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A

5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer: N/A

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? N/A

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? N/A

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance? N/A

DRAFTER:GC/LP:EHonnold:5/17/91:2169J

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INITIAL ENVIRONMENTAL EXAMINATION

PROJECT TITLE: ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM
613-HG-003 and 613-0235

PROGRAM FUNDING: $50 MILLION HOUSING GUARANTY LOAN
$505,000 GRANT FUNDS

LIFE OF PROGRAM: FIVE YEARS

RECOMMENDATION:

HG FUNDS: NEGATIVE ENVIRONMENTAL DETERMINATION
GRANT FUNDS: CATEGORICAL EXCLUSION

Mission Clearance: Approved _____ Date _____

Disapproved _____ Date _____
Ted D. Morse
Director
USAID/Zimbabwe

Concurrence: _____ Date _____
Environmental Officer
Africa Bureau

Clearance: _____ Date _____
General Counsel
Africa Bureau

Clearances:

PHUDO:JKolker _____
REDSO/ENGR:ADeGeorges (draft)
REO:ERojas _____
PROG:MBEllis _____
PROJ:PBuckles _____
RLA:TRiedler (draft)

A. DESCRIPTION OF THE PROGRAM:

The proposed program will provide a Housing Guaranty (HG) to the Government of Zimbabwe for the purpose of stimulating policy reforms. These reforms will be targeted to strengthening the private construction and building materials sector. Furthermore, the program will expand the role of the private housing finance institutions in the provision of low cost shelter. The final objective will be to expand the role of private developers and rationalize the urban land delivery system.

B. MITIGATION OF ENVIRONMENTAL IMPACTS:

Under the Housing Guaranty Program, the U.S. Dollars are untied and USAID will have no knowledge of or control over how these funds are to be used. Consequently, no significant harm to the environment is foreseeable from the use of the U.S. dollars.

The policy reforms being introduced under the Private Sector Housing Program will also not have any direct negative effect on the environment. Assistance to the construction and building materials sector will make the industry more efficient in terms of new plant and equipment. The reforms to the housing finance sector will not have any impact on the environment as they are designed to increase private investment in the building societies. Finally, the proposed changes to the land delivery process will again improve efficiency and increase the private production of shelter. Existing land use and building practices, which create urban sprawl, will be rationalized to make the production of shelter more affordable to low cost households. Nonetheless, the existing health and environmental standards will not be reduced.

The local currency equivalent of the HG funds will be programmed by the Government for their comprehensive infrastructure program. Because the objective of the program is policy based, USAID will not approve individual low cost housing developments and will have neither knowledge nor control of these specific activities. Existing Government regulations concerning building and land use standards will, however, be enforced through the building permit process. Although Regulation 16 does not apply to the use of the local currency generated, no significant harm to the environment is anticipated as a result of the use of local currency for infrastructure activities due to the Government's excellent land use and infrastructure standards.

Considering the above program approach, USAID believes that the existing environmental controls in Zimbabwe are sufficient to maintain appropriate environmental standards. USAID had previously developed over 22,000 low-cost units with environmental and health standards assured by the GOZ's building codes.

These codes ensure minimum standards for plot sizes, sanitation and water systems, and health factors including access and fire standards. As a result of the previous HG program, USAID is confident that these standards are rigorously enforced by the local authorities with input from the Ministry of Public Construction and National Housing. In addition, each shelter project has consulting civil engineers who ensure that the projects are designed to meet these environmental and health standards.

Periodic reviews and program evaluations will be conducted as part of the program's implementation and particularly examine the impact of the proposed policy reforms and the use of local currency. USAID will include a component in the reviews and evaluations which will examine and confirm that basic health and environmental codes are being met.

Finally, USAID grant funds will be utilized for technical assistance, training, and evaluations. Thus, the use of grant funds will have no impact on the environment.

C. RECOMMENDED ENVIRONMENTAL ACTION:

USAID requests that a negative determination be made for the HG funds based on Section 216.3(a)(2)(iii) of Regulation 16 since the program will not have a significant effect on the environment. With respect to local currency financed infrastructure, all environmental effects will be mitigated. USAID evaluations will monitor environmental and sanitation standards to ensure that building codes are being met.

USAID also requests a categorical exclusion for the use of Grant funds based on Section 216.2(c)(2)(i) since the use will be limited to technical assistance, training, evaluations, and salaries, with no direct effect on the environment.

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E.O. 12356: N/A
TAGS:
SUBJECT: ZIMBABWE PRIVATE SECTOR HOUSING LOAN PID (613-0225) INITIAL ENVIRONMENTAL EXAMINATION

REF: (A) HARARE 00780 (B) STATE 07954

1. BUREAU ENVIRONMENTAL OFFICER AND GC/AFR HAVE REVIEWED REFA AND BELIEVE THAT THIS INFORMATION SATISFIES ORIGINAL QUESTION POSED IN REF B. ASSUMING TECHNICAL INPUT GOES FORWARD INTO THE DESIGN OF PROGRAM, IEE IS APPROVED.

2. GC/AFR HAS CLEARED THIS CABLE. BAKER
ET
#4325

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GRAY AMENDMENT CERTIFICATION

1. Legislative Requirement

The Gray Amendment (Section 579 of P.L. 101-167, the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1990) requires A.I.D. to ensure participation in A.I.D. projects by business concerns which are owned and controlled by socially and economically disadvantaged individuals, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic American, and private voluntary organizations which are controlled by individuals who are socially and economically disadvantaged, including women, (referred to herein as Gray Amendment entities).

AIDAR Notice 90-2, implementing Section 579 of the Foreign Assistance Appropriations Act, requires that for any contract in excess of $500,000 (except for a contract with a disadvantaged enterprise) not less than 10 percent of the dollar value of the contract must be subcontracted to Gray Amendment entities, unless the contracting officer certifies that there is not a realistic expectation of U.S. subcontracting opportunities or unless the Administrator approves an exception.

2. Discussion

Technical assistance and training funds for the Private Sector Housing Program will total US$2.68 million over the life of the program. It is estimated that US$1.8 million of these funds will be placed in a Cooperative Agreement with the balance financing a personal services contractor. Components of the Cooperative Agreement will include resources for both domestic and international training and technical assistance in the form of specific analyses. Since the Program encompasses a wide variety of subject areas, including construction activities, housing finance matters, and issues related to the land delivery system, USAID believes that no single organization can provide all the skills required. Instead, it is anticipated that the Cooperative Agreement will include a consortium of institutions, both US and Zimbabwe based, to provide the necessary resources.

3. Certification

Because of the wide scope of skills required, there will be no set aside for Gray Amendment firms. However, Gray Amendment firms will be strongly encouraged to participate as full members of the cooperative consortium or as sub-grantees or sub-contractors. USAID will seek proposals from as many organizations and institutions as possible.

In the case of any contract in excess of $500,000 to which the Gray Amendment is applicable, the Mission will include a provision requiring that no less than 10 percent of the value of the contract be subcontracted to Gray Amendment entities unless the contracting officer certifies that there is no realistic expectation of U.S. subcontracting opportunities, or unless the prime contractor is a Gray Amendment entity.

Ted D. Morse, Director (A)
Stephen S Spielman
5 12
Date

Clearance:
RLA:DKeene GK

FAA Section 611(a)(2) - Legislative Action Requirements

Section 611(a)(2) of the Foreign Assistance Act of 1961, as amended, states that "no agreement or grant which constitutes an obligation of the United States Government in excess of $500,000 shall be made...if such agreement or grant requires legislative action, unless such legislative action may reasonably be anticipated to be completed in time to permit the orderly accomplishment of the purposes of such agreement or grant."

The legislative changes discussed below are required to remove the existing impediments which affect the production of shelter for low income urban households. The existing Housing Benefit Tax acts as a disincentive for employers to invest in shelter while the prescribed fees for land surveyors has resulted in a shortage of surveyors and costly delays. The existing legislation dictating external wall thickness is costly and inappropriate.

The Private Sector Housing Program includes some conditionality which will require legislative action to remove the impediments discussed above:

1. The reduction of the Housing Benefit Tax will require MFEPD to amend Section 8 of the Income Tax Act. Discussions with the MFEPD and the building societies confirm that the Ministry is prepared to implement this change although the scope of the reduction is still under discussion. The Registrar of Building Societies has informed USAID that it will take approximately four months to formalize the amendments. This is more than adequate time since the implementation plan programs the change to be finalized by the end of the first quarter of FY94.

2. The deregulation of prescribed fees for land surveyors will require an amendment to Statutory Instrument No. 200/90. The actual amendment is gazetted by the Minister of Land, Agriculture, and Rural Resettlement based on the recommendation of the Surveyor General. This process has already begun and, according to the Surveyor General, the new regulation will be in place within the next two to three months.

3. The final legislative requirement involves the reduction in the acceptable thickness of external walls to 115 mm. This will require the Minister of Local Government to gazette a change to the Urban Councils Act, Chapter 5, Section 6(1). Based on detailed discussions with the Ministry, USAID strongly believes that the Ministry will enact the appropriate change within three to five months, which is more than adequate time to satisfy project requirements.

Based on the above, I hereby certify that there is a reasonable expecta that required legislative action in Zimbabwe will be completed in time permit the orderly accomplishment of the purpose of the proposed grant assistance.

In addition to the above required changes, other legislative alteration be required when the results of the construction finance, secondary mor market, municipal bond, and overall financial review studies are comple It is expected that these studies will be completed by FY 1996. Each analyses will identify specific reforms which may include legislative reforms. If necessary, an evaluation of the likelihood of any such "required" legislative changes being made in a timely manner will be undertaken as part of the implementation program.

~~Ted D. Morse~~, Director (A)
Stephen J. Spielman

5 92
Date

Clearance:
RLA:DKeene DK

ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM

ANNEX II

TECHNICAL EXHIBITS

LOGICAL FRAMEWORK

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
Goal: To increase the level of homeownership for low income households in Zimbabwe's urban centers.	The annual production of low income plots and the provision of low income mortgages will increase at a a level exceeding the urban growth rate.	a. Monitor documentation from the building societies. b. Monitor documentation from the National Housing	a. ESAP continues even at a slower pace b. Inflation level decreases by end of Program c. Real wages rise by end of Program d. Baseline for low income plots is 12,000 pa. e. Baseline for low income mortgages is 5,500 pa. f. Urban growth rate is presently 6 percent pa.
Purpose:	**End of Project Status:**		**Assumptions for Achieving Purpose:**
To increase low income household access to affordable shelter in urban areas, on a sustainable basis.	a. More housing available at affordable prices to low income households. b. Increased levels of private sector housing finance for low income mortgages. c. Building materials industry producing more goods at lower costs . d. Construction industry building more houses. e. Analytical basis established for promoting expansion of housing as a result of deregulation and increased competition in the financial sector.	a-1 An additional 45,500 serviced plots available for low income households. a-2 Average cost of a minimum unit reduced by 47 percent in 1992 Z$'s to Z$9,600 or less. b. A minimum of Z$200 million made available for low income mortgage finance. c-1 Construction costs decrease by up to 10 percent in 1992 prices. c-2 An additional 8,000 construction jobs created over the life of the program. d. Number of house units construction increased by 10%.	a. Building societies have technical capacity and desire to finance and manage low income mortgages. b. Pension funds and insurance companies believe investment with the societies are secure. c. Local building material industry has the capacity to manage an increased output. d. Foreign exchange used by the building materials industry to expand production.
Outputs:	**Magnitude of Outputs:**		**Assumptions for Achieving Outputs:**
a. Local Government has a limited role to finance plot servicing and minimum construction. b. Building Societies have access to financial resources for low income household mortgages. c. Financial sector deepened to improve capacity to respond competitively in attracting funds and lending for investment. d. Local building materials industry has increased access to foreign exchange to purchase equipment for plant expansion and to meet local demand. e. Construction industry strengthened to meet local demand. f. Land delivery policies are modified to increase affordability.	a-1 Z$250 million used to finance plot development through NHF with the funds recycled every 24 months. a-2 Off-site infrastructre costs are treated equally for public and private housing developments. b-1 New financial instruments are in place and operating. b-2 Regulations governing building society deposit, interest, and surplus fund rates are lifted. c. Technical analyses completed and, where appropriate, the findings are implemented. d. OGIL listing expanded to accomodate the needs of the construction/building material industry. e. Private construction activity increased by 10 percent per annum. f. Plot sizes, school sites, and infrastructure and building standards rationalized.	a. Minutes from the Interministerial Committee b. NHF Quarterly Reports c. Building Society Quarterly Reports d. Documentation from Conditionality	a. GOZ recognition that shelter is unaffordable to low income households. b. Domestic demand for construction materials is not being satisfied due to lack of foreign exchange. c. Housing finance demand not being met with existing instruments. d. Existing development standards are not affordable to low income households. e. Private sector has the capacity to be a larger provider of low cost shelter. f. Shelter is accepted as a source for blocked funds for investment purposes.
Inputs:	**Implementation Target:**		**Assumption for Providing Inputs:**
a. HG Loan b. AEPRP Funds for NPA c. DFA Funds for Technical Assistance d. USAID Personnel e. GOZ contribution f. Building Societies Contribution g. GOZ Personnel	a. US$50 million in HG loans b. US$25 million in AEPRP/NPA funds (Grant) c. US$2.68 million for DFA Grant Funds d. US Direct Hire and PSC Personnel e. GOZ local currency generations of Z$250 million for plot development	a. Disbursement and escrow account records b. Program Implementation Reports c. USAID Evaluations d. USAID Monitoring and Evaluation Program	AID/W approves the Private Sector Housing Program

Illustrative Scope of Work for Technical Assistance

A. Objective

The objective for the technical assistance and training component of the Private Sector Housing Program is to address and complement the reforms proposed in three distinct subsectors: (a) construction and building materials; (b) housing finance; and, (c) the land delivery system. As a result, the technical assistance and training component of the Program will contain a variety of specific activities over a broad scope. The technical assistance includes short term studies and analyses to assist in the implementation of the proposed reforms while the training component is designed to assist with the implementation of those reforms.

B. Overview of the Contractor and Role

The period of the contract will be 24 months with an extension of up to five years. Competition for the contract will be open to all institutions demonstrating appropriate skills. Given the variety of skills required, consortiums will be encouraged to prepare proposals. Experience in construction techniques, housing finance, and development skills are essential and related experience in Sub-Sahara Africa is strongly preferred. The use of local Zimbabwean consultants will also be encouraged, and the contractor will arrange close coordination with sub-contractors. The contractor should also demonstrate the ability to assess and evaluate whether local or overseas institutions are better able to provide the required assistance. No long term personnel in Zimbabwe are required under the contract. Services will be provided under a direct USAID contract with a firm selected through full and open competition.

C. Scope of Work

1. Construction Sector

While the largest programatic impact in the construction sector will be made by inclusion of items on the OGIL list, some important outputs will be achieved by the technical assistance and training component. The objective of this assistance is to create alternative technologies and increase the number of operations producing building materials.

a. Appropriate Technology Technical Assistance and Workshops

Summary: Assistance will be provided by facilitating the introduction of small scale building manufacturing enterprises. This will involve increasing Zimbabwe's exposure to appropriate technology for the manufacture of building materials by small scale enterprises and facilitating

information exchange and technology transfer. The assistance will lead to an increase in the production of building materials used to produce low cost shelter.

Provider: Regional/U.S. Appropriate Technology PVOs

Timing: Short Term Technical Assistance/Training - Years 2 through 5

b. Labor Intensive Construction Techniques

Summary: Assistance will also be given to the GOZ and others in the construction industry to appreciate the advantages of more labor intensive methods and establish frameworks within which they can be successfully implemented. Adoption of these techniques would expand semi-skilled and unskilled employment opportunities in the construction industry. This effort will include comprehensive studies of practices in Zimbabwe and comparable economies. They would be shared with the GOZ, architectural and engineering consultants and building and civil engineering contractors in written form and by holding workshops and seminars, leading to the adoption of a code of practice by the GOZ, private consultants and building and civil engineering contractors.

Provider: U.S. Based and Regional Appropriate Technology Groups

Timing: Year 4/Quarter 1

2. Finance

The most critical technical assistance and training component of the Private Sector Housing Program relates to the financial sector. Without these reforms, the long term objective of a sustainable housing finance sector will not be achieved.

a. Financial Overview

Summary: A critical objective of the Private Sector Housing Program is to support ESAP and particularly the broadening and deepening of the financial market. As a result, an essential component of the technical assistance is to analyize the overall financial market and determine how the housing finance sector interacts with that market. USAID hopes to work with other donors to complete an indepth analysis of the private financial system. This will examine the roles of the various institutions as well as the

regulatory environment. Specific constraints and opportunities will also be analyzed. If appropriate, a follow-on desegmentation study will examine how the existing finance system could be liberalized to increase competition and efficiency.

Provider: Zimbabwean and U.S. Based Macroeconomists and Financial Experts

Timing: Year 1/Quarters 2-4

b. Portfolio Management

Summary: As the housing finance sector is deregulated and competition between the housing finance institutions increases, an immediate concern will be the portfolio management of the building societies. Sound financical management is essential for the successful implementation of the Program. Throughout the UDI and post independence period, the housing finance industry in Zimbabwe has been relatively controlled in terms of the instruments available to raise and lend funds. During the structural adjustment period this situation will drastically change. Competition between the societies, in terms of service, rates, and financing instruments will increase. As a result, training and technical assistance in regard to portfolio management will be critical.

Provider: U.S. Based Mortgage Portfolio Expert

Timing: Short Courses - Second Half of Year 1 and Years 2 and 3

c. Secondary Mortgage Market Study

Summary: The Private Sector Housing Program also requires a number of studies which will assist in the development of new financing mechanisms. This assistance is critical to achieving the objective of diversifying and deepening the private housing finance sector and, more generally, the overall economy. One aspect is the establishment of a secondary mortgage market which will enable the societies to sell their assets rather than incur additional liabilities. A variety of details will need to be explored exclusing who are the potential purchasers of packaged mortgages, how will they be sold, what legislative changes need to be made, etc. Possible exposure tours of the U.Ss may also be appropriate.

Provider: U.S./Zimbabwean Team of Housing Finance Experts

Timing: Year 3/Quarters 2-4

d. Municipal Bond Study

Summary: Another important opportunity to broaden and deepen the private financial market involves the development and management of local authorities. To supplement Government's investment in municipal infrastructure, the Program proposes to examine the use of municipal bonds. While municipal bonds presently exist in Zimbabwe, their scope is limited to Harare and Bulawayo. Fundamental changes will also occur to the attractiveness of municipal bonds under ESAP. The consultants will need to examine the existing municipal bond system, how it will change under ESAP, whether the GOZ would accept tax free municipal bonds, how the municipal finance system works, what type of rating system exists and who are the potential investors. An exposure visit to the U.S. may also be appropriate.

Provider: U.S Municipal Bond Expert. Zimbabwean Finance Expert

Timing: Year 3/Quarters 2-4

e. Construction Finance Study

Summary: A key objective of the Program is to increase the private sector's role in the provision of low income shelter while systematically decreasing the role of Government. Government's only remaining role in the production of low cost shelter is the production of plots. However, the Private Sector Program hopes to supplement those efforts with increased participation from the private sector. A critical element to this effort is the undertaking of a construction finance study secifically related to high density plots. An alternative to examine would look at privatizing the National Housing Fund. A number of details will need to be explored including the demand for low income housing construction finance, possible alternative sources, affordability criteria, and mechanisms to channel the resources to construction finance.

Provider: U.S. Based Construction Finance Expert

Timing: Year 4/Quarter 1

f. Housing Finance Training

Summary: To complement these technical assistance efforts, specific training events will be designed to assist middle level management in the private building societies and GOZ officials who oversee and regulate the housing finance industry. A series of short courses in Zimbabwe will expedite this

process. For example, an excellent course on housing finance is offered by the University of Pennsylvania and this might be conducted in Zimbabwe. Other examples might be technical assistance and training to the building societies to enable them to better understand the needs and services required by low income residents, especially women.

Provider: U.S./Zimbabwean Universities or Training Facilities

Timing: Year 2/Quarter 3

3 Land Delivery

There are several components of technical assistance and training related the land development system which are important to the implementation of the Private Sector Housing Program. While less critical than the technical assistance related to the finance sector, they will assist in reducing the cost of housing for the urban poor and assist the private sector in becoming the primary provider of low income shelter.

a. Land Use Plans

Summary: In many developing countries these plans are bureaucratic exercises which are rarely utilized. However, the planning process in Zimbabwe is quite stringent and followed by the local authorities and private developers. The Private Sector Program provides resources to rationalize the planning process. It is not the intent to review and update each plan, but rather to assist local and private planners to achieve this goal. This would primarily take the form of "in-service training" and would complement the establishment of "Integrated Urban Infrastructure Development Plans" proposed by the World Bank under the Second Urban Development Project. Coordination would be routed through the Department of Physical Planning, MLGRUD, but would be most effectively located at the local authority level. Locally run workshops on planning layout and design would be organized through the Zimbabwe Institute of Regional and Urban Planners.

Provider: U.S./Zimbabwean Urban Planners

Timing: Year 2/Quarters 3 and 4 and Year 3

b. Land Use Training

Summary: In some instances, U.S. based land use training might be appropriate for senior officials. Two excellent courses are offered by the University of California at Berkeley and the Lincoln Institute of Land Policy in Massachusetts.

Provider: U.S. Universities

Timing: Year 1 and 2/Quarter 4

c. Land Surveying

Summary: The constraints related to land surveying is one of the biggest bottle-necks in the land delivery system. As part of the technical assistance package, USAID, in conjunction with the Surveyor General and the Registrar of Deeds, will finance a review of the management and procedures of the land survey process. This analysis will identify specific problems and possible resolutions. The objective of the review will be to reduce the amount of time required to secure a land title.

Provider: Zimbabwean Management Consultant

Timing: Year 1/Quarter 4

d. Survey Assistance

Summary: One possible recommendation of the management review might be to identify short-term assistance from qualified surveyors to eliminate the existing backlog. The Suveyor General estimates that there is a 10 month backlog waiting for surveying and titling. Without title, plots cannot be sold and this adds a substantial cost to the development of serviced plots.

Provider: Regional Surveyors

Timing: Year 2

e. Infrastructure Costs

Summary: The cost of shelter in Zimbabwe is unnecessarily high due to excessive infrastructure and development standards. The conditionality of the Private Sector Housing Program will reduce these minimum standards but there needs to be a complementary effort by private engineers, quantity surveyors, and architects to design appropriate standards. As part of this effort, the Program proposes to run a series of technical workshops with the professional societies. The aim will be to identify potential cost savings which will make shelter more affordable without reducing health and environmental standards.

Provider: Zimbabwean Architects, Engineers, and Quantity Surveyors

Timing: Year 1 and 2/Quarter 3 and 4

f. High Rise Developments

Summary: The Government has also requested that USAID examine the feasibility of increasing density levels for low cost shelter, particularly through the development of affordable apartments. A.I.D. will examine the feasiblity of decreasing the development costs associated with high-rise developments with particular attention paid to engineering and infrastructure standards.

Provider: Local Architectural and Engineering Firm

Timing: Year 3/Quarter 3

g. Housing Cooperatives

Summary: The housing cooperative movement in Zimbabwe has been relatively weak, but could form an important housing delivery mechanism. Technical assistance will be given though the cooperative organisations to assist in the development of a workable methodology for housing development.

Provider: U.S. or Regional Housing Cooperative Experts

Timing: Year 3 and 4

Table 1. Summary of Technical Assistance and Training Contract

A. Construction Sector Assistance

Appropriate Technology Technical Assistance	US$ 40,000
Appropriate Technology Workshops	40,000
Labor Intensive Construction Techniques	50,000
Subtotal	$130,000

B. Housing Finance Assistance

Financial Overview	US$150,000
Desegmentation Analysis	100,000
Portfolio Management Training	80,000
Municipal Bond Analysis	130,000
Secondary Mortgage Market Analysis	130,000
Construction Finance Analysis	80,000
US Based Housing Finance Training	120,000
Subtotal	US$790,000

C. Land Delivery Assistance

Planning Assistance	US$ 40,000
US Based Training	125,000
Management Study of the Surveyor General	20,000
Short Term Surveyors	100,000
Workshops for Engineers	55,000
Analysis of High-Rise Developments	40,000
Cooperative Housing Assistance	50,000
Subtotal	US$430,000

TOTAL TECHNICAL ASSISTANCE PACKAGE	US$1,350,000

Illustrative OGIL List

Part 1: Building Materials Industry

1.1. Sector: Bricks

Tariff Class.	Product	Annual Cost (US$ '000)
4010 1000	V belts	
4010 9100	Belts exceeding 20cm	
4016 9300	Gaskets Washers and other seals	
7315 1100	Roller Chain	
7315 1210	Transmission chain	
7315 1910	Parts for chains	
7318 1520	Mild steel bolts	
7318 1590	High tensile bolts etc	
7318 2400	Cotter and split pins	
7326 9020	Fasteners for trans/con belt	
8414 1000	Vacuum pumps	
8414 3090	Compressor, other	
8414 9090	Parts for vac. pumps & comprssrs	
8431 3900	Winch parts	
8459 6900	Turning tool for roller milling parts	
8474 1000	Sorting, screening, etc machines	
8474 2000	Crushing or grinding machines	
8474 3900	Brickmaking machinery spares	
8474 8000	ditto	
8474 9000	ditto	
8474 9010	Brick machinery sps (casting)	
8474 9090	ditto (rolling)	
8482 1000	Bearings	
8482 2000	Taper roller bearings	
8482 3000	Spherical roller bearings	
8482 4000	Needle roller bearings	
8482 5000	Other cylindrical bearings	
8482 8000	Other, inc. comb ball/roller pts	
8482 9100	Ball needles rollers and parts	
8482 9900	Bearings, parts other	
8483 4090	Gears, non engine	
8538 9000	Brick m/c switchgear parts	

Total Annual Requirement for Brickmaking US$ 400,000

1.2. Sector: Cement

Tariff Class.	Product	Annual Cost (US$ '000)
4016 1000	-	
4016 9900	Airslide canvas	
7208 4200	Boiler plate	
7219 2100	Stainless Steel plate	
7326 1100	Grinding media	
8311 1010	Specialist welding electrodes	
	Electro-static spares	
8413 9100	F K Pump spares	
8414 9090	Compressor spares	
8421 3990	Air filters poly 153	
8431 3900	Earth moving spares	
8482 2000	Taper roller bearings	
8482 3000	Spherical roller bearings	
8482 4000	Needle roller bearings	
8482 5000	Other cylindrical bearings	
8482 8000	Other, inc. comb ball/roller pts	
8482 9900	Bearings, parts other	
8483 1090	Gear box spares	
8536 4900	Electrical spares	
8607 9100	Locomotive spares	
9026 8000	Process control spares	
9306 1000	Industrial bullets	

Total Annual Requirement for Cement US$ 2,259,000

1.3. Sector: Fiber Cement

Tariff Class.	Product	Annual Cost (US$ '000)
4010 9900	Conveyor belts	
4016 9900	Rubber moulds	
5911 9090	Machine Felts	
7314 1100	Wire Covers	
7326 9090	Stainless Steel Wire	
	Steel templates	
8202 3200	Diamond tipped saw blades	
8208 9000	Circular cutting knives	

8209 0000	Tool tips
8414 1000	Vacuum pumps
8421 1900	Centrifuges: other
8439 9900	Rectangular lists
8441 9000	Suction Box covers
8441 9090	Rectangular lists
8456 9000	Vacuum box tops
8482 1000	Bearings
8482 8000	Other, inc. comb ball/roller pts
8501 3200	DC motors electric
8536 1000	Fuses
8536 5000	Switches
8541 3000	Thyristors

Total Annual Requirement for Fibre Cement US $650,000

1.4. Sector: Small Bore Steel Piping

Tariff Class.	Product	Annual Cost (US$ '000)
7228 6000	Rods and bars, other	
Total Annual Requirement/Small Bore Piping		US$ 60,000

Part 2: Contractors' Plant and Equipment

2.1. Sector: Earthmoving equipment

Tariff Class.	Product	Annual Cost (US$ '000)
4008 1100 -		
4009 5000	Hydraulic hose	
4016 1000	Belts	
4016 9900	Belts	
8408 9990	Filters and fan belts	
	Diesel engine parts	
8431 4100 -		
8431 4900	Parts for earth moving machinery	
8482 1000 - 9900		
8483 1000 -		
8483 6090	Hydraulic fittings	
8484 1000 -		
8484-9000	Gaskets	

Total Annual Requirement for Earthmoving US$ 4,160,000

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2.2 Small Machinery

2.2.1 Small Concrete Mixer Manufacture

Tarrif Class	Product	Annual Cost Year 1	Subsequent years
8407 9000	Lister engine		
8408 9000	Lister engine		
Total		US$ 270,000	190,000

2.2.2 Large Concrete Mixer Manufacture

Tarrif Class	Product	Annual Cost Year 1	Subsequent years
8407 9000	Lister engine		
8408 9000	Lister engine		
8423 8290	Weighing equipment		
8483 9090	Transmission Parts		
8708 4090	Gearbox		
8716 9090	Axle parts		
Total Cost		US$ 270,000	135,000

2.2.3. Dumper Manufacture

Tarrif Class	Product	Annual Cost Year 1	Subsequent years
7304 3910	Brake pipe		
7318 1000	-		
7318 2990	Screws		
8407 9000	Lister engine		
8408 9000	Lister engine		
8409 9100	Block		
8412 2100	Master cylinder		
8483 1000	-		
8483 9090	Transmission Parts		
8708 3990	Brake parts		
8708 4090	Gearbox		
8708 9300	Clutch		
8708 9490	Steering box		
8716 9090	Axle parts		
Total Cost		US$ 510,000	180,000

Part 3: Professional Equipment

3.1 Surveying instruments

Tarrif Class	Product	Cost Year 1 (US$ '000)	Cost Subsequent years (US$ '000)
4202 1900	Containers		
8504 1090	Battery chargers		
8506 1900	Batteries		
8544 1900	Battery Cable		
9002 1190	Reflector prisms		
9015 2000	Theodolites		
9015 3000	Levels		
9015 8000	Electronic distance measurers		
9015 9000	Theodolite/level parts/accessories		
Total for Surveying Equipment		US$ 258,600	116,200

3.2 Drawing office supplies

3215 1100	Black ink
3215 1900	Coloured ink
3823 9090	Cleaning fluid
4016 9200	Erasers
8214 1000	Sharpeners
8479 8990	Cleaning units - pens
9017 1000	Drawing boards
9017 2000	Scale rules, stencils etc
9017 8000	Compass sets, measuring tapes etc
9017 9000	Clutch pencils
9603 3900	Drawing pens
9608 9100	Nibs
9608 5000	Pen sets
9609 2000	Leads

Total cost for three years US$ 120,000

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Debt Service on HIG loan

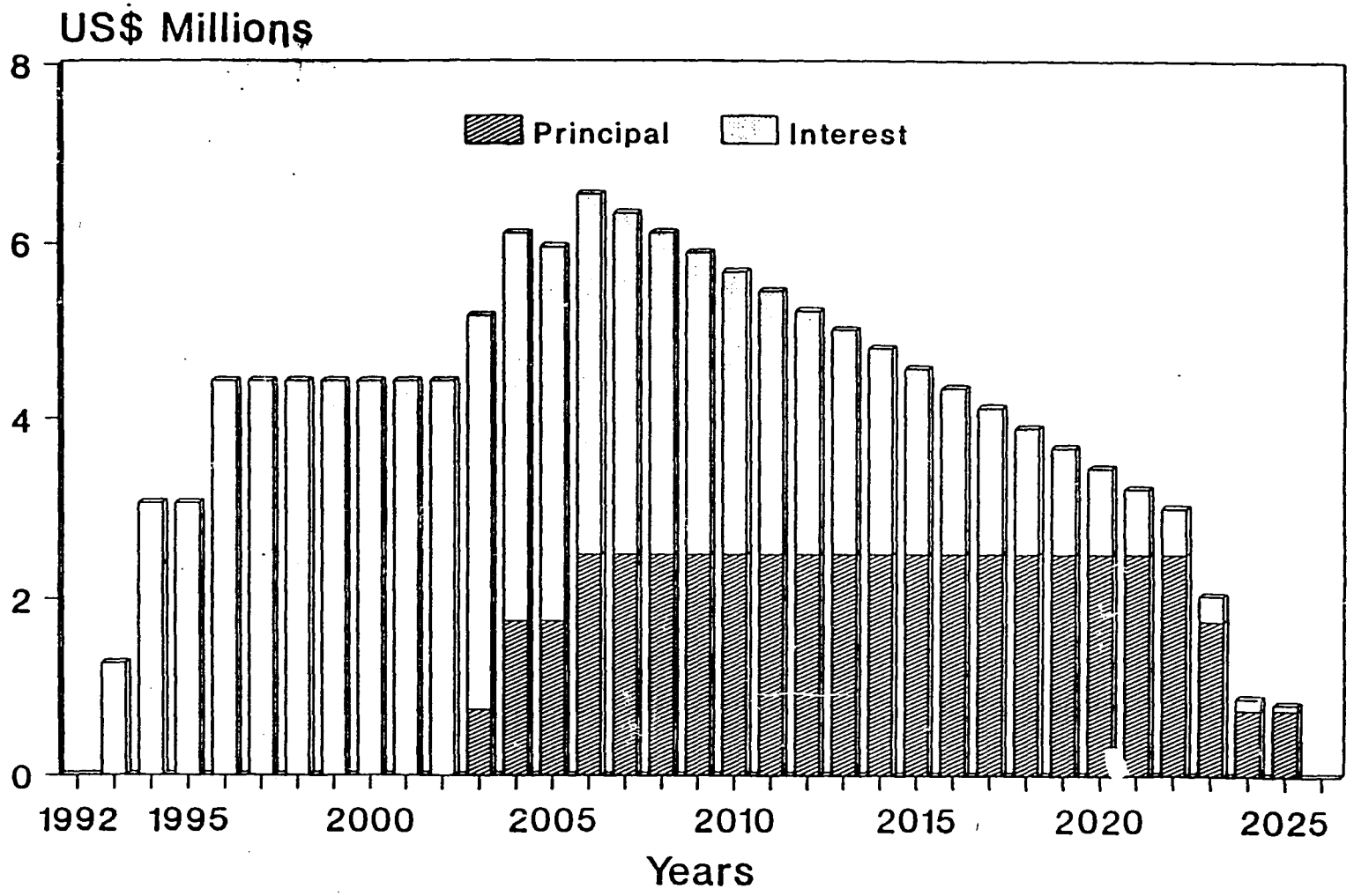

Table 5. Appendix I

HG Debt Service
(US$ 000)

Year	Loan Balance	Total Interest	Total Principal	Total Debt Service
1	0.0	0.0	0.0	0.0
2	15,000.0	1,275.0	0.0	1,275.0
3	35,000.0	3,075.0	0.0	3,075.0
4	35,000.0	3,075.0	0.0	3,075.0
5	50,000.0	4,425.0	0.0	4,425.0
6	50,000.0	4,425.0	0.0	4,425.0
7	50,000.0	4,425.0	0.0	4,425.0
8	50,000.0	4,425.0	0.0	4,425.0
9	50,000.0	4,425.0	0.0	4,425.0
10	50,000.0	4,425.0	0.0	4,425.0
11	50,000.0	4,425.0	0.0	4,425.0
12	50,000.0	4,425.0	750.0	5,175.0
13	49,250.0	4,361.3	1,750.0	6,111.3
14	47,500.0	4,207.5	1,750.0	5,957.5
15	45,750.0	4,053.8	2,500.0	6,553.8
16	43,250.0	3,832.5	2,500.0	6,332.5
17	40,750.0	3,611.3	2,500.0	6,111.3
18	38,250.0	3,390.0	2,500.0	5,890.0
19	35,750.0	3,168.8	2,500.0	5,668.8
20	33,250.0	2,947.5	2,500.0	5,447.5
21	30,750.0	2,726.3	2,500.0	5,226.3
22	28,250.0	2,505.0	2,500.0	5,005.0
23	25,750.0	2,283.8	2,500.0	4,783.8
24	23,250.0	2,062.5	2,500.0	4,562.5
25	20,750.0	1,841.3	2,500.0	4,341.3
26	18,250.0	1,620.0	2,500.0	4,120.0
27	15,750.0	1,398.8	2,500.0	3,898.8
28	13,250.0	1,177.5	2,500.0	3,677.5
29	10,750.0	956.3	2,500.0	3,456.3
30	8,250.0	735.0	2,500.0	3,235.0
31	5,750.0	513.8	2,500.0	3,013.8
32	3,250.0	292.5	1,750.0	2,042.5
33	1,500.0	135.0	750.0	885.0
34	750.0	67.5	750.0	817.5
35	0.0	0.0	0.0	0.0

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ZIMBABWE

PRIVATE SECTOR

HOUSING PROGRAM

(613-0235 & 613-0236)

ANNEX III

(PAAD)

AUGUST 1992

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ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM

ANNEX III

FEASIBILITY ANALYSES

ZIMBABWE
CONSTRUCTION SECTOR

Constraints on

Housing Production

and proposed remedies

R J Martin

RHUDO E & SA

March 1992

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ACRONYMS

CIFOZ	Construction Industry Federation of Zimbabwe
CIP	Commodity Import Program
ESAP	Economic Structural Adjustment Program
GOZ	Government of Zimbabwe
HG	Housing Guaranty program
OGIL	Open General Import License
SSE	Small scale enterprise
ZBCA	Zimbabwe Building Contractors Association
ZIMMAN	Zimbabwe Manpower Training Project

EXECUTIVE SUMMARY

1. The construction industry in Zimbabwe contributes about 6.5% of the GDP, and has a annual turnover of about Z$ 14.2 billion. Employing about 85,000 persons, it is the fourth largest sector in terms of employment in the economy.

2. However, shortages of materials and breakdowns of plant and equipment have been a feature of Zimbabwe's construction sector for many years. The cost to the economy in terms of prolonged contract completion periods, black market prices and the inability of small firms to cope with such difficulties has been considerable.

3. Two factors are already improving. The supply of some essential building materials is expected to improve in 1992 due to the completion of expansion projects. Secondly, the OGIL system is already assisting to increase the output of the cement industry, PVC piping, and some types of paint.

However, the problems of contractors' plant and equipment remains, and in spite of the achievements listed above the output of the building materials sector of the industry is insufficient to meet the demand.

The situation is expected to worsen because when the World Bank Urban II project and the USAID HG project are being implemented the rate of house construction will increase dramatically from its current low levels.

4. There is therefore a need for:

4.1 Funds for rehabilitation and maintenance

- Parts and equipment are required for the rehabilitation and maintenance of building materials manufacturing equipment.
- Consumables and raw materials inputs for the building materials manufacturing industries.
- Parts for the rehabilitation and maintenance of contractors' plant and equipment.

3.2 Funds for the expansion of the capacity of the building materials manufacturing industry. This can include funds for the:

- Expansion of existing plants;
- The development of new large scale formal sector plants, and
- The development of small scale and informal sector producers.

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4. Mechanisms for handling the importation of plant and equipment were studied. The two most favored solutions were allocation of the foreign exchange by an industry committee under GOZ chairmanship, following the precedents of various bilateral commodity import programs; or putting the commodities required into the OGIL system. The latter option is preferable from many points of view, notably its speed and simplicity, and, of course, the fact that it is a key component of the deregulation being undertaken under the structural adjustment process, which USAID is committed to supporting.

5. There are concerns that some commodities may be in demand by a much wider group than the construction industry, and that demand may outstrip the supply of forex to support the OGIL system. If this be the case, certain commodities may be placed on the restricted OGIL system, which will enable the Minister for Trade and Commerce to restrict their import to the construction sector.

6. This is a transitional arrangement, and by the third disbursement it is intended to place all items on the unrestricted OGIL.

7. It is recommended that studies be undertaken to determine the extent to which more labor intensive methods are appropriate and cost effective for the industry in Zimbabwe. This may include building materials manufacture and construction. Technical assistance will also be given to small scale enterprises to enhance their efficiency, particularly small and very small scale building contractors. This will build upon the experience of the contractor assistance program being implemented under USAID's ZIMMAN II project.

8. The program will further the ESAP in several important ways. It will strengthen the OGIL system, and enable industries in the building materials sector to increase their competitive advantage in the region as well as meeting local demand. It will also facilitate the development of more small scale enterprises (SSEs) in the building materials production sector. Lastly, it will increase employment, both by increasing output of the building materials sector and by strengthening the small-scale, labor intensive contractors.

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I. BACKGROUND

1. The construction industry in Zimbabwe contributes about 6.5% of the GDP, and has a annual turnover of about Z$ 14.2 billion. Employing about 85,000 persons, it is the fourth largest sector in terms of employment in the economy.

There are two sectors in the construction industry: the producers of building and civil engineering materials; and the contractors which assemble them. Both halves of the industry experienced severe difficulties in the latter half of the 1980's due to frequent breakdowns of their plant, vehicles and equipment. Due to the introduction of the the open general import licensing system (OGIL) for some commodities (such as cement) the situation is now much improved. Under this, a specified commodity may be imported without having to apply for an import license, and the GOZ effectively guarantees the foreign exchange to finance the import. In spite of this, there remain a number of bottlenecks in the production system.

These constraints placed a considerable burden on the economy. Its effects were felt throughout the industry. For the large contractors the main response was to increase their prices, which ultimately had an inflationary impact on the economy. Small contractors, trying to cope with severe shortages and black market prices, were often forced into bankruptcy, and left jobs uncompleted and debts unpaid. The individual householder, trying to build a modest house, using informal sector contractors, was faced with great difficulties in obtaining many components and materials, and ended paying far more either due to black market procurement or waiting until materials were available.

It is because construction had been regarded as a service industry by the GOZ that it suffered from an acute lack of foreign exchange in the past. The extent to which its machinery, plant and equipment had become run down and obsolete was not fully appreciated until the World Bank study on the sector was undertaken in 1990/1991. The analysis in that report showed the very damaging effect on the national economy that inefficiency in the construction sector was causing.

The analysis in this report is written from the perspective of the low cost housing sector, where the impact has been greatest. The major actors in the development of shelter are the small contractors and individuals who have the least economic power and influence to overcome shortages and breakdowns.

II EXISTING CONDITIONS

2. The Cost of Materials Shortages and Machinery Breakdowns
The problems being experienced fall into two categories: poor output due to lack of spare parts and insufficient capacity due to lack of machinery. These affect both the materials manufacturers and the building contractors. The two categories are strongly interrelated: never machinery would reduce the demand for spare parts and increase capacity, and in an open economy a large proportion of the machinery still in use in Zimbabwe would have been replaced by new machinery. However, in the context of severe forex shortages, this has not been possible.

The World Bank report gives examples of the delays caused by outdated and unreliable plant. In one case a rural roads project took about twice the time (two years as opposed to one), and cost 40% more than if it had been constructed by a contractor owning the typical mix of old and new plant that most contractors in an open economy would possess. In another example, a high rise apartment block, took six months longer than the 24 months that would normally be required and cost about 12% more. In the case of the road the GOZ, and in the case of the apartment block the private owner, paid directly for the cost overruns.

These examples focus on only one part of the equation: the plant. The other half is the materials shortages. Supplies of basic commodities such as cement and bricks have long been inadequate. Under the ESAP it is now possible to import cement, clinker and refractory bricks without an import license (under the Open General Import License (OGIL) system). This has greatly assisted in the supply of cement, and the situation is better today than it has been for many years. Nevertheless it is instructive to examine the case of a house building contract to determine the cost of delays in materials procurement.

Building contracts typically require a specific flow of tasks. If the damp proof membrane is not available, work on building the walls cannot start. If conduit for electrical wiring is not available, no plastering can begin, etc. Both these commodities are relatively cheap, but a shortage has very real cost implications. At today's interest rates a month's delay adds about 1.3% to the cost of the house, simply in terms of delayed occupancy. For the contractor, however, the real cost is in terms of underutilised labor and machinery which can add up to 30% to his annual costs. In response to pressures from their clients, and the need to maintain their cash flow and reduce the overheads mentioned above, many small contractors has been eventually to buy materials on the black market thereby decreasing their profit even further. For the self help house builder, such as participants in the USAID Kuwadzana project, who

procure materials for themselves and engage a labor-only contractor, the chase for materials is even more difficult. They lack the contacts that even small building contractors have, and also lack the time in which to make them.

It is the elimination of these delays and increased overheads, which drastically increase the cost of shelter in Zimbabwe. The objective of this part of the program is to provide the necessary plant and equipment and thereby make housing more accessible and affordable to the poor.

3. Categorisation of the Problems

3.1 Materials

Following is a list of the most important materials used in low income housing, together with notes on their availability.

Cement

The capacity of the cement industry is about 10,000 tonnes per month below today's demand, which is about 100,000 tonnes per month. Recognising this, the GOZ has placed cement on OGIL. However the cost of imported cement is about 30% higher than that produced locally. This is the most important material in the cost of a house, being a component in walling, flooring, roof sheeting and pipework. It is also an essential component of all infrastructure provision.

Bricks

In all sectors of the housing market, and most other buildings as well, walls are made of either bricks or concrete blocks. The shortage of cement has stimulated brick production, but, like cement, it is insufficient to meet the demand due to a lack of manufacturing capacity. This has lead to a black market, just as it has done in the case of cement.

Aggregate

This is an essential component for all concrete work, and is made by crushing rocks. Much machinery for the production of aggregate is antiquated, so periodic shortages occur.

Roof sheeting

The normal material for roof sheeting is fiber cement. Being cement based, this has been subject to frequent shortages, and there are delivery delays of twelve months from date of order.

Door frames

Door frames are made from imported sheet steel which cannot be made at the steel plant in Zimbabwe, ZISCO, and regular shortages are reported.

Window frames

Windows are made from steel sections that are produced by ZISCO, but have also been placed on OGIL. The days of shortages therefore appear to be over.

Paint

Wall paint (PVA emulsion) is made from materials already on OGIL, and there are adequate supplies. However, gloss paints (which are essential to prevent the deterioriation of steel and wood) require different materials for which specific import licenses are required, and shortages persist.

Electrical wiring and fittings

Though the fittings incorporate imported parts the supply appears to be adequate. Wiring is available.

Plumbing materials, sanitary fittings etc

Materials that would be used in a typical low income house are made in Zimbabwe and supply is generally adequate.

Water and Sewerage piping

These are mostly made out of either PVC or fibre cement. PVC is now on OGIL, and therefore the factory is working at full output. However, its capacity is inadequate. The capacity of the fiber cement pipe factory is reduced by recurrent cement shortages, but remains inadequate for the demand. Water fittings are generally available.

The above analysis masks the detailed problems facing the industries. These are that their machinery requires periodic maintenance and the replacement of worn or broken parts. Many also require consumables that must be imported. Delays in obtaining import licenses for these are a major factor in lost production which in turn significantly increases production costs, by having plant and labor lying idle.

3.2 Contractors' vehicles, plant and equipment

The requirement for these items was comprehensively studied by the World Bank's consultants (Construction Industry Development

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Study, Giersing Rosé A/S, Copenhagen, Denmark, June 1991). The consultants found that the cost of maintaining old plant was very high, and much should be replaced when foreign exchange becomes available. The consultants estimated that the total cost would be US$137 million, consisting of about US$100 million for plant - some of which could be bought second hand from abroad - US$17 million for vehicles, and US$10 million for a stock of spares to keep the industry going. Once the equipment had been purchased the consultants estimated that a further US$20 million would be required annually for replacements of vehicles and plant, and US$10 million for spares.

These figures do not include the demand from building materials manufacturers. Cement and brick producers both use heavy earthmoving machinery and transport, and are equally in need of more reliable equipment.

4. The Impact of ESAP on the Construction Industry

Under the structural adjustment program there have been a number of reforms that have been targetted at the construction sector, which have already reduced some supply constraints.

4.1 OGIL

The most important has been the placing of certain essential commodities on OGIL, namely refractory bricks and clinker (for the cement industry), steel sections (for the window frame manufacturers), PVC for piping, and ingredients used in PVA paint. The OGIL system eliminates the need for importers to apply for an import license, which is typically a long drawn out and uncertain bureaucratic process. In its place any importer can import unlimited quantities of goods that are prescribed by the GOZ and the foreign exchange for the transaction is guaranteed by the GOZ. In some cases, where demand for a commodity may exceed GOZ's foreign exchange capacity, the right to import is restricted to certain sectors.

4.2 Export Retention Scheme

GOZ has agreed to permit selected sectors, including the construction industry, to participate in the system, which allows producers to retain a percentage of their foreign earnings for use in purchase of inputs. The GOZ has stated that by mid 1993 the permitted retention will be 35% of the value of exports. Of the major producers the most important to benefit from this are cement, PVC piping and fibre cement.

(Note the paradox here. Although the capacity of the cement industry is not adequate to meet the needs of the country, the manufacturers nevertheless export in order to earn the foreign

exchange required to buy their essential inputs. The Bulawayo factory, which has a capacity of more than twice that of the Harare factory benefits particularly from its proximity to Botswana. Thanks to its export earnings it does not, unlike the Harare factory, require addditional foreign exchange allocations from the Reserve Bank. The Harare factory exports a very small portion of its output, but it is under considerable pressure not to export any more.)

4.3 Export Retention Fund

The possibility of establishing a construction industry export revolving fund is being studied. This would allow contractors to tender for foreign contracts with a minimum of red tape. This would work in a manner similar to that operated by industries at present in that a percentage of the foreign exchange earned by the contractor could be used to purchase plant and equipment, pay for operating expenses etc out of the country.

5. Current expansion plans

5.1 Cement

United Portland Cement have undertaken a modernisation of their plant in Bulawayo, and are planning an increase of about 20% in the capacity of their plant. About half the additional capacity will be exported, and the remainder will be for sale in Zimbabwe.

Circle Cement in Harare have a rehabilitation program for which the first stage has been financed by ADB, but funding arrangements for the second stage, which will increase their capacity by 25% and enable them to export significant quantities, have not been finalised. It is expected to cost US$8 million. The foreign exchange is expected to be provided jointly by their parent company in Britain and the Commonwealth Development Corporation.

5.2 Bricks

Willdale Bricks are expanding their capacity by 75% with a new plant that is to come on stream this August. They have plans to build additional brickworks in Gweru, and a tile making plant in Harare.

5.3 Fiber Cement

Turnall, makers of fiber cement, have almost completed an expansion of their roof sheeting plant. Thereafter they will require about US$0.5 million in consumables and spares annually. Their pipe plant requires an expansion totalling US$1.3 to keep

up with demand. In addition, a new plant is being built by another company in Kwekwe and is expected to be in production by the end of the year. Together the expansion of the existing plant and addition of a new plant are expected to satisfy the needs of the industry.

6. Future Developments

The World Bank Project

The premise behind the World Bank's study undertaken in 1991 was that since Zimbabwe's expertise in construction was high the construction industry could, if conditions were improved, become an important exporter to countries in the region, such as Angola and Mozambique, as they embark upon reconstruction programs following peace accords. Zimbabwe contractors are already fairly active in Botswana and occasionally Malawi. However, the World Bank found that exporting, while having considerable potential, could not be separated from the health of the domestic industry as a whole, and indeed there was a great need to strengthen the industry.

Since the study was completed the World Bank has started to prepare a project to strengthen the industry, and the latest mission was in November 1991. Current proposals are for a loan of US$50 million, of which US$32 million would go for equipment for medium and large contractors, US$3 million for small contractors, US$10 million for spare parts, US$4 million for training and technical assistance, and US$5 million unallocated. The project does not address the needs of the building materials industry, which is critical to domestic production and particularly low cost housing. However, the project proposes to use the JIC - a joint committee between CIFOZ and ZBCA, chaired by MPCNH - to make the foreign exchange allocations between the various interests. This methodology was chosen so that the industry could restrict allocations to its members in preference to the OGIL system, which could benefit many other sectors such as agriculture and mining.

7. Conclusions on the Current Supply Situation

7.1 Maintaining Existing Output Levels

The supply situation has improved considerably over the last twelve months. The OGIL system and export retention scheme have both made a real impact on the efficiency of the industry. However, there remain a number of difficulties in terms of the importation of essential spares for machinery, plant and vehicles, as well as consumables and raw materials required in the production sector.

7.2 Capacity

Although great advances have been made in increasing the capacity of the building materials industry during the past two years, and two major expansion plans are coming on stream in the next six months (Willdale Bricks and Turnall roof sheeting) production of some commodities will not keep pace with demand. The major building in progress today is industrial and commercial in nature, and the output of low cost house building has declined due to a reduction in donor financing and GOZ resources. With the forthcoming implementation of World Bank and USAID projects, however, we can expect a substantial increase in the demand for bricks, roof sheeting and low cost door and window frames.

Unless capacity is increased shortages will recur with all the consequent diseconomies that have marred the sector in the past.

III PROPOSALS

8. Outline Proposals

8.1 Materials supply industries

8.1.1 Rehabilitation and maintenance

As stated, the interlinkages in the construction process are such that an assured supply of all materials is required for efficiency. Thus, while cement, bricks, roof sheeting and water pipes are obvious priorities in terms of materials supply, the objective should be to make sure that the supply of all commodities is assured.

The initial priority is therefore to ensure that existing plant is working at full capacity. This requires two types of input: (a) the necessary spare parts and/or equipment to ensure that the production machinery works at its full rated capacity, and (b) the consumables and raw material inputs necessary for the production process. All the items needed for these inputs require foreign exchange.

8.1.2 Creating More Manufacturing Capacity

Funds are required for the expansion of capacity of existing plant or the creation of additional manufacturers. In some cases incremental expansion of existing facilities is the most appropriate approach. In others, it may be desirable to start a new manufacturing plant. The modality of this exercise must be market determined, and also seen within the framework of the two issues enumerated below.

8.1.3. Creating more competition

In general, the building materials industry is dominated by large firms which, particularly due an excess of demand over supply, have been trading virtually on a monopoly basis. A major objective of structural adjustment is to open the economy to market forces, and thereby encourage competition.

In addition to competitition in the manufacture of comparable products, there is also a need for increased diversity of products. For example, currently only one type of low cost door and window frame are used: steel ones. There are other alternatives, such as wooden door and window frames, and louvre windows. Another example is roof covering materials: fiber cement roof tiles, which can be a cost effective alternative to fiber cement sheets.

8.1.4 Facilitating the Growth of the Small Business Sector

There is much scope for the expansion of small business in terms of building materials manufacturing. As part of the thrust to

increase competition there is considerable scope for the introduction of much smaller scale plants, which can be geographically more dispersed, and which use low cost, unsophisticated technologies. Ideal products for this include brick, concrete blocks, roof tiles, door and window frames. Experiences in Kenya have been particularly positive in this respect. Building materials offer a labor intensive low cost entry into manufacturing, in which the high cost of transport offers a geographical advantage to small firms vis-a-vis large scale central manufacturers.

8.2 Plant and Transport

8.2.1 Increasing the Efficiency of Contractors

As stated above, the World Bank is preparing a project to partially meet the needs of the contractors for new plant and spares, and what follows hereafter assumes that this project will proceed.

The case for supporting the large contractors so as to equip them for export as well as to enhance their performance has been well made by the World Bank. Under their project it is intended to import new or good second hand machinery, particularly for road building and other civil engineering works.

The Bank acknowledges that their project is not sufficient to meet the demands of the industry and additional financing is required of the order of at least US$50 million. It is proposed that under the HG, project funds should be made available to meet the needs of the type of contractors who work on low cost housing projects. These fall into two types: (a) the civil engineering contractors who undertake large road, water and sewerage projects; and (b) the smaller contractors who will be building housing. The former need spares to rehabilitate and maintain their equipment, while the latter require machinery such as concrete mixers, dumpers etc. The split in funding between USAID and the World Bank whereby USAID supports the importation of spares and the Bank supports new equipment imports has been discussed formally with, and well received by, World Bank staff.

In the event that the World Bank project does not proceed, the impact on the construction sector will be to limit capacity in civil engineering works to that prevailing today. HG funds for the import of parts will, however, help to prevent further reductions in capacity. This limitation of capacity will, unfortunately, increase land servicing costs.

8.2.2 Increasing competition

With respect to competition between contractors, it has long been a concern of the GOZ that small black contractors have not

thrived. USAID has already, under the ZIMMAN II project, embarked upon an on-the-job training and technical assistance program to help small contractors to develop the management skills necessary to compete effectively in the market place. This program should be expanded under the project to widen its geographical coverage, and deepen it so as to benefit the very small scale contractors who are typically employed on individual low cost house building contracts.

9. Resource Demands

An initial analysis of the foreign exchange resources required to meet the above program is presented in the Table below. It should be stressed that although these estimates are based on interviews with a number of industries, it has not been possible to undertake a 100% survey. The figures for the rehabilitation and maintenance assume that the current levels of foreign exchange being received by these industries will continue to be made available: these funds are to meet the annual shortfall.

Table 1: Resource Requirements

Category	Year 1	2	3	4	5
Rehabilitation and maintenance					
Cement	1.2	1.2	1.2	1.2	1.2
Bricks	0.2	0.2	0.2	0.2	0.2
Fibre cement	0.3	0.3	0.3	0.3	0.3
Other	0.3	0.3	0.3	0.3	0.3
Plant	4.5	4.0	4.0	4.0	4.0
Increasing capacity					
Expansion		1.5	1.5	2.0	2.0
New Small Scale Enterprises		0.5	0.5	0.5	0.5
Unallocated	2.0	1.5	1.5	1.0	1.0
Total (construction imports)	8.5	9.5	9.5	9.5	9.5
Survey Equipment	0.3	0.2	0.1	0.1	0.1
Vehicles for surveyors	0.5				
Building Society computers	2.2				
Grand total	11.5	9.7	9.6	9.6	9.6

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10. Importation Methodology

10.1 The Options

There are a number of systems in operation in Zimbabwe under which goods are imported. The majority of imports are still processed under the import licensing system, by which individual applications are made by the importer, and are allocated under a prioritisation system which is matched to the availability of forex for the purpose. Depending on the perceived importance of the commodity, approval can take anything between two months and several years. The procedure is typically uncertain, slow, bureaucratic and lacks transparency.

Under the ESAP it is intended that this should be replaced progressively by the Open General Import License (OGIL), under which items prescribed by the GOZ can be imported without any licence specific to the importation. It is the intention of the GOZ to place all items on OGIL, except those related to national security, by the end of ESAP in 1995.

Thirdly there is the Export Retention Scheme, under which a percentage of earnings from exports can be retained by the exporter, and used to import materials required for the operation of the business. The GOZ has announced that by mid 1993, 35% of the value of exports will be able to be retained by producers and used as they see fit.

Finally there are Commodity Import Programs (CIPs), under which donors typically set up a line of credit in foreign exchange and importers are given allocations by a Government committee representing the industry that has been targetted for assistance.

Of the options listed above, the traditional import licensing system has proved inadequate in the past due to the bureaucratic procedures required. While the export retention scheme has merits, it is not a suitable mechanism for all industries, and creates an incentive to serve the export market, which, while positive for some aspects of the economy, may create domestic shortages. The choice is therefore between the OGIL and the CIP methodologies.

10.1.1 OGIL

The most important concept behind the GOZ's trade liberalisation process is the substitution of the OGIL system for the previous bureaucratic and non-transparent procedure for the individual allocation of import licenses. One of the major concerns, however, regarding the OGIL system is that it will be overloaded and insufficient foreign exchange will be made available to import the commodities. In such circumstances the system breaks down. Before placing additional commodities on the OGIL it is therefore important to determine the likely demand and categorise the commodities as precisely as possible.

Nonetheless, the GOZ demonstrated its strong commitment to the OGIL in late 1991 when they undertook US$15 million of short term commercial borrowing to meet OGIL demands while awaiting concessional IMF/IBRD/AFDB financing.

10.1.2 CIP

The attraction of the CIP methodology is that it allows for a clear cut definition of the target group, and imports can be restricted effectively to that group. Furthermore the allocations between the different subsectors can be determined in advance so that all interests are fairly served.

There are three objections to the process, however. The first is that, in determining the fairness and in processing the applications, a complex bureaucratic machinery must be established. Furthermore, because of the principle of tracking the money, a fairly elaborate paper trail is required. Thirdly, because of the nature of many of the imports required under this program - regular supplies of small units, spare parts and consumables - the CIP system would result in serious delays in processing.

10.1.3 The Case for OGIL

Under the ESAP, the intention is to move progressively onto a comprehensive OGIL system, thereby getting away from the complex bureaucracy of the past. The advantages in terms of the speed and simplicity of the OGIL system are unarguable. The only drawbacks are (a) that there has been a tendency in the recent past for importers to use the OGIL system for imports in excessive quantities, thereby depleting the foreign exchange supply prematurely; and, since items on the OGIL are classified by Customs tariff they can therefore be imported by any industry requiring that type of commodity; and (b) the openness of the OGIL system makes it difficult to target to a specific industry.

In response to these problems the GOZ uses a "Restricted OGIL" system, under which the Minister of Trade and Industry must certify an importer's eligibility to import a specific commodity under the OGIL system. Normally the criterion to be used in approving the importer is the industrial sector from which he comes. This is a transitional system to control demand and, as necessary, to target commodities to priority sectors as determined by the GOZ. Once a firm has been given rights to import under the restricted OGIL the procedures are the same as for the unrestricted OGIL. It is the GOZ's intention to place all items on unrestricted OGIL by the end of 1995.

10.2 Recommendation

10.2.1 Machine parts, consumables and raw materials

It is recommended that, to the extent possible, all commodities should be placed on unrestricted OGIL. These would be mainly machine parts consumables and raw materials that are essential for the manufacturing process, and spares for heavy plant and equipment used by contractors, quarries and brickworks.

Insofar as it is practical, the intention is to target items that are specific to the industry. This has already been done in the past. For example refractory bricks are an essential component used by the cement manufacturers and no other sector: by placing them on OGIL, the Government has made a significant contribution to increasing the output of the cement industry.

The priorities have been outlined above, for both the contractors and building materials industry. What remains to be determined is precisely what commodities are required and the likely demand for these commodities from both the construction sector and the economy as a whole. In Appendix 1 and 2 there is an illustrative list of the type of commodities/components that are required by the construction sector to maximise utilization of existing plant, and increase the efficiency of the contractors. This is summarized in the Table below.

Table 2: Summary of Import requirements

Industry	Annual requirement for foreign exchnge (US$)	Shortfall (US$)
Brick making	400,000	200,000
Cement	2,259,000	1,200,000
Fiber Cement	650,000	300,000
Small bore piping	60,000	20,000
Others	590,000	280,000
Earthmoving equipment	4,160,000	3,600,000
Small contractors plant	500,000*	400,000*

*In year one this figure is $900,000 due to the backlog.

Note: The term shortfall refers to the difference between the current annual allocations of foreign exchange for the sector and the annual demand.

If the commodities required by the sector are also in demand by other sectors, and the GOZ considers that there may be insufficient foreign exchange to meet the demand from the whole

economy, it will be possible to enter into an agreement for some of the items to be placed on restricted OGIL as a transitional step. By the end of the program all commodities should be placed on the OGIL.

10.2.2 Machinery for New Manufacturing Plant

Imports for the expansion of existing heavy manufacturing plant or the development of new factories cannot be handled under the OGIL system due to the vast variety of components. Indeed they have to be managed as a comprehensive investment package. These will therefore be channelled through the Zimbabwe Investment Center (ZIC) which is government's one-stop shop for all new investment.

10.2.3 Components for the Manufacture of Small Scale Plant for Contractors

While much of the machinery that might be suitable for the SSE sector is made in Zimbabwe, it is made in insufficient quantities due to shortages of essential components such as engines. For this sector, imports are required for the manufacturers of small scale plant and equipment in Zimbabwe, which can be done under the OGIL system.

10.3 Flow of Funds

The US dollars borrowed by the GOZ under the HG program will be held by the GOZ, in foreign exchange, for the OGIL account in the Reserve Bank. Importers purchasing the foreign exchange from the Reserve Bank will pay for it in Zimbabwe dollars. These Zimbabwe dollars will be held in a special account by the Reserve Bank, and periodically (probably quarterly), deposited in the National Housing Fund, held by the Ministry of Public Construction and National Housing. These payments to the National Housing Fund will be reflected in GOZ's annual budget.

11. The Program's Role Within the ESAP

11.1 Strengthening the OGIL System

Since the thrust of structural adjustment is to make Zimbabwe's industries more competitive in the world market, it might be expected that the construction and building materials industries would not have a high claim on either having their commodities placed on OGIL or for investment in their machinery. In practice the industry is, in fact, well placed with regard to international competitors, and could, given increased capacity, compete strongly in the region.

Even before the devaluation of the Zimbabwe Dollar building materials manufacturers in Zimbabwe were able to compete with other suppliers in the region - principally South Africa - on grounds of cost and quality. This is largely due to the fact that the manufacturing plant has been amortised long ago and, while running costs may be high due to breakdowns and reduced efficiency, net production costs are nevertheless low. Labor in Zimbabwe is more efficient and lower paid than in neighboring countries. Even when expansion plans requiring heavy capital expenditures are taken into account, most manufacturers of building materials are confident that the border price of their goods will compare very well with the competition. Last year's devaluation of the Zimbabwe dollar has given them an additional and very significant advantage.

However, while building materials manufacturers do export at a modest level, capacity constraints currently restrict them. These are the same constraints that reduce the productivity and increase the costs of the construction industry. An important objective of the assistance should therefore be to equip the building materials industry so as to eliminate the present constraints and develop an export capability. The OGIL system is designed to meet this need. The criteria set out by the GOZ for the granting of OGIL status is that industries in the following categories should receive priority:

1. Industries where the local price is significantly cheaper than the imported equivalent.
Examples of these are heavy and bulky materials such as cement and bricks, which are very expensive when imported due to the high transport cost;

2. Industries which have an assured export market.
These are the industries which will undoubtedly survive trade liberalisation, and which, in the forseeable future can survive. The main indicator to distinguish these industries from those that export solely to earn foreign exchange for use under the export retention scheme is that they should be selling on the export market at prices comparable to or higher than those prevailing on the domestic market; and,

3. Industries which produce essential components required by exporting industries.
Examples of this are packaging manufacturers.

Most of the building materials industries, targetted for assistance under the USAID program will qualify for either category 1 or 2 or both. For example, cement applies to both, bricks to the first, roof sheeting to both, pipes to the second etc. It is considered that, on this basis, the proposals under the Private Sector Housing Program fit very well with the ESAP program.

11.2 Increasing Competition

Increased capacity in the construction industry, combined with the entry of additional producers, particularly small scale producers, will further increase the supply of basic building materials as well as the range of products and price competition.

11.3 Increased Productivity in the Construction Sector

An assured supply of materials and reliable plant are expected to increase the efficiency of the industry and thereby decrease costs. The examples given showed that savings of between 12% and 40% can be expected. These examples were taken from large scale contracts: with respect to the improved supplies we can expect greater savings to be achieved by small contractors.

11.4 Increased Employment

Employment levels in the building materials industry can be expected to rise due to:

(a) Increased input levels to the building materials industry will make them operate at a higher level of output and thereby maintain a full workforce;

(b) The creation of additional manufacturing capacity in existing plants will require additional labor; and,

(c) The creation of SSE building materials manufacturers has the capability of substantial employment creation.

The building construction sector is the fourth largest employer in Zimbabwe, employing over 86,000 persons. Under the program it is intended to undertake studies to enhance the labor absorbtive capacity of the industry. Likely means by which this can be achieved are:

(a) Packaging construction contracts in such a way that they are suitable for the more labor-intensive small contractors. This has been resisted in the past due to inefficiencies in the small scale sector, which, as noted above are being remedied through a training program under ZIMMAN II. It is proposed to expand this contractor assistance program and examine ways in which even smaller contractors can be included.

(b) Working with consultants to develop design methodologies suitable for labor intensive construction.

12. The Value of US Procurement

In two categories, the US is a likely origin of the goods.

12.1 Heavy earthmoving equipment

The US firm Caterpillar is the market leader in heavy earthmoving equipment such as graders and rollers. This equipment is in widespread use throughout Zimbabwe, and USAID can therefore expect at least half of the imported spares to be manufactured by Caterpillar. However, not all Caterpillar spares are made in the US. Brazil, Germany, Belgium and Spain all manufacture components in Caterpillar machinery. It is considered likely that about about one half of all Caterpillar spares, i.e. about one quarter of the total budget for spares, will be US in origin, no matter where sourced, say US$3 million.

12.2 Raw Materials, Chemicals etc

Four major sources of raw materials exist for Zimbabwe: South Africa, Brazil, the US, and the EEC. The source chosen depends on several factors. Most importers maintain supplies from more than one source to guard against unforseen changes in exchange rates, political factors etc. In general, South Africa is chosen for speed at which supplies can be obtained, not on ground of cost or quality. Brazil is favored in terms of price, and the US and EEC on grounds of quality. The competition between the US and the EEC producers is a function of the relative strength of the US Dollar. When EEC currencies are strong, as has been the case during the last few years, the US is favored as a supplier.

Given these variables, which are a normal feature of international trade, it is very difficult to predict the amount of procurement of basic goods in the US under this program, but it is likely to be in the region of about US$3 million.

13. Risks

13.1 Competition Between Local Demand and Exports

The primary purpose of assistance to the construction sector under the Private Sector Housing Program is to meet the domestic demand through increased production. However, it appears that the major manufacturers are in a strong position to export, given the devalued Zimbabwe dollar, and the quality of their goods.

It is therefore possible that the increased productivity of the industry could be channelled into increased exports. This would defeating an essential objective of the program, namely to increase supply for the domestic market and increase efficiency and lower prices especially for the low income housing producers.

In order to prevent this, the GOZ may enter into an agreement with the manufacturers of the products that they will sell a certain percentage of their output on the domestic market, so that the supplies to the low income housing market can be assured.

13.2 OGIL System Fails due to a Lack of foreign exchange
Shortly after the OGIL system was introduced there were massive imports of commodities placed on OGIL, expecially consumer items such as tires and cement. This exaggerated demand was caused by a lack of confidence in the GOZ's assurances that the OGIL would be a permanent system. The signs today are that this message is now beginning to communicate itself and that importers are buying for their immediate needs and not stocking up for excessive periods.

In the context of the PSHP the products are largely self-targetting as the importers will be almost entirely industrial, and virtually no consumer items will be affected. The result is that imports are not expected to exceed real demand levels.

If, however, demand does appear to exceed the level of foreign exchange available at the time, it may be necessary to place some items on the restricted OGIL as a transitional phase. It is considered that this will be a sufficiently effective tool to maintain the operation of the system for the targetted sector.

13.3 Delays in Placing Items on OGIL

The objective of the program is to reduce all uncertainties of this nature by:

- obtaining the specific concurrence of the GOZ before program implementation to using the OGIL system for the commodities required.
- making the gazetting of the agreed commodities on the OGIL a condition precedent to disbursement.

14. Conditionality

The proposal outlined above is intended to be part of the wider PSHP under GOZ's ESAP to move to an OGIL system for the majority of imports. By supporting such a move with foreign exchange over and above the likely requirements for the industry, the program is strengthening Zimbabwe's foreign exchange resources as well as streamlining the importing system for a major sector of the economy.

14.1 First disbursement

While the commitment of the GOZ to ESAP and the OGIL system is not in doubt, a condition precedent for the first disbursement

should be the insertion of an agreed list of commodities on OGIL. The list is to be agreed in negotiations to be conducted before submission of the PP/PAAD to Washington.

14.2 Third Disbursement

Indications have already been received from GOZ that it might not be able to move directly to OGIL status for all products that are likely to be placed on such a list. They would therefore propose that some commodities that are not self-targetting to the construction sector be placed on the restricted OGIL system. This is acceptable in the spirit of a transitional system, but a CP for the final disbursement should be that the commodities referred to above all be placed on the unrestricted OGIL list.

14.3 Covenants

In addition to the conditionality stated above the GOZ will covenant that:

(a) The GOZ will adopt a policy for increasing the use of labor intensive building materials manufacture, construction and contracting methods, based on studies to be conducted in the early stages of the project.

(b) To prepare a plan, acceptable to USAID for the programming of the funds intended for the expansion of the capacity of the industry. Features of the plan would include:

> (a) An emphasis would be on the supply of materials used in low income housing;
> (b) A mix of investments suitable for SSEs and larger firms.
> (c) To the extent that is economically justified, the local component of the expenditure matches the imported content.
> (d) That the products are viable within a market economy, i.e. they can be manufactured at a price that is competitive with both locally produced and imported goods.

15. Necessary and Sufficient Steps

The steps required to take these activities to fruition are:
1. Obtain agreement from within the industry on the commodities required, as classified by the 8 digit Customs Tariff.
2. Obtain the concurrence of the GOZ to placing these upon the OGIL or restricted OGIL.
3. Obtain assurances from GOZ that sufficient funds will be held in order to meet the foreign exchange requirements of the construction industry, using the proceeds of the HG loan.
4. Develop a methodology with the ZIC for identifying the procedures for evaluating and approving projects to increase capacity in the industry.

Appendix 1:

Illustrative list of cost of import requirements
Classified by sector

(Note: this list is complied on the basis of interviews with selected manufacturers: it may not represent all requirements)

Part 1: Building materials industry

1.1 Sector: Bricks

Tariff Class.	Product	Annual Cost (US$ '000)
4010 1000	V belts	
4010 9100	Belts exceeding 20cm	
4016 9300	Gaskets Washers and other seals	
7315 1100	Roller Chain	
7315 1210	Transmission chain	
7315 1910	Parts for chains	
7318 1520	Mild steel bolts	
7318 1590	High tensile bolts etc	
7318 2400	Cotter and split pins	
7326 9020	Fasteners for trans/con belt	
8414 1000	Vacuum pumps	
8414 3090	Compressor, other	
8414 9090	Parts for vac. pumps & comprssrs	
8431 3900	Winch parts	
8459 6900	Turning tool for roller milling parts	
8474 1000	Sorting, screening, etc machines	
8474 2000	Crushing or grinding machines	
8474 3900	Brickmaking machinery spares	
8474 8000	ditto	
8474 9000	ditto	
8474 9010	Brick machinery sps (casting)	
8474 9090	ditto (rolling)	
8482 1000	Bearings	
8482 2000	Taper roller bearings	
8482 3000	Spherical roller bearings	
8482 4000	Needle roller bearings	
8482 5000	Other cylindrical bearings	
8482 8000	Other, inc. comb ball/roller pts	
8482 9100	Ball needles rollers and parts	
8482 9900	Bearings, parts other	
8483 4090	Gears, non engine	
8538 9000	Brick m/c switchgear parts	

Total annual requirement for brickmaking US$ 400,000

1.2 Sector: Cement

Tariff Class.	Product	Annual Cost (US$ '000)
4016 1000	-	
4016 9900	Airslide canvas	80
7208 4200	Boiler plate	80
7219 2100	Stainless Steel plate	120
7326 1100	Grinding media	200
8311 1010	Specialist welding electrodes	15
	Electro-static spares	100
8413 9100	F K Pump spares	100
8414 9090	Compressor spares	160
8421 3990	Air filters poly 153	80
8431 3900	Earth moving spares	500
8482 2000	Taper roller bearings	)
8482 3000	Spherical roller bearings	)
8482 4000	Needle roller bearings	)
8482 5000	Other cylindrical bearings	)
8482 8000	Other, inc. comb ball/roller pts	)
8482 9900	Bearings, parts other	) 400
8483 1090	Gear box spares	200
8536 4900	Electrical spares	92
8607 9100	Locomotive spares	20
9026 8000	Process control spares	92
9306 1000	Industrial bullets	20

Total annual requirement for cement US$ 2,259,000

1.3 Sector: Fiber Cement

Tariff Class.	Product	Annual Cost (US$ '000)
4010 9900	Conveyor belts	20
4016 9900	Rubber moulds	48
5911 9090	Machine Felts	170
7314 1100	Wire Covers	30
7326 9090	Stainless Steel Wire	20
	Steel templates	80
8202 3200	Diamond tipped saw blades	4
8208 9000	Circular cutting knives	15
8209 0000	Tool tips	10
8414 1000	Vacuum pumps	20
8421 1900	Centrifuges: other	
8439 9900	Rectangular lists	1
8441 9000	Suction Box covers	30
8441 9090	Rectangular lists	2
8456 9000	Vacuum box tops	70
8482 1000	Bearings	25
8482 8000	Other, inc. comb ball/roller pts	25
8501 3200	DC motors electric	60
8536 1000	Fuses	3
8536 5000	Switches	3
8541 3000	Thyristors	14

Total annual requirement for fibre cement US $650,000

1.4 Sector: Small bore steel piping

Tariff Class.	Product	Annual Cost (US$ '000)
7228 6000	Rods and bars, other	60
Total annual requirement for small bore piping		US$ 60,000

Part 2: Contractors' Plant and Equipment

2.1 Sector: Earthmoving equipment

Tariff Class.	Product	Annual Cost (US$ '000)
4008 1100 -		
4009 5000	Hydraulic hose	200
4016 1000	Belts	10
4016 9900	Belts	100
8408 9990	Filters and fan belts	450
	Diesel engine parts	1200
8431 4100 -		
8431 4900	Parts for earth moving machinery	1400
8482 1000 - 9900		400
8483 1000 -		
8483 6090	Hydraulic fittings	200
8484 1000 -		
8484-9000	Gaskets	200

Total annual requirement for earthmoving US$ 4,160,000

2.2 Small machinery

2.2.1 Small Concrete Mixer Manufacture

Tarrif Class	Product	Annual Cost Year 1	Subsequent years
8407 9000	Lister engine		
8408 9000	Lister engine		
Total		US$ 270,000	190,000

2.2.2 Large concrete mixer manufacture

Tarrif Class	Product	Annual Cost Year 1	Subsequent years
8407 9000	Lister engine		
8408 9000	Lister engine		
8423 8290	Weighing equipment		
8483 1000 -			
8483 9090	Transmission Parts		
8708 4090	Gearbox		
8716 9090	Axle parts		
Total Cost		US$ 270,000	135,000

2.2.3 Dumper Manufacture

Tarrif Class	Product	Annual Cost Year 1	Subsequent years
7304 3910	Brake pipe		
7318 1000	-		
7318 2990	Screws		
8407 9000	Lister engine		
8408 9000	Lister engine		
8409 9100	Block		
8412 2100	Master cylinder		
8483 1000	-		
8483 9090	Transmission Parts		
8708 3990	Brake parts		
8708 4090	Gearbox		
8708 9300	Clutch		
8708 9490	Steering box		
8716 9090	Axle parts		
Total Cost		US$ 510,000	180,000

Part 3: Professional Equipment

3.1 Surveying instruments

Tarrif Class	Product	Cost Year 1 (US$ '000)	Cost Subsequent years (US$ '000)
4202 1900	Containers	1	0.5
8504 1090	Battery chargers	0.4	0.2
8506 1900	Batteries	1.7	0.9
8544 1900	Battery Cable	2.1	0.9
9002 1190	Reflector prisms	3.4	1 7
9015 2000	Theodolites	63	46
9015 3000	Levels	38	13
9015 8000	Electronic distance measurers	102	40
9015 9000	Theodolite/level parts/accessories	47	13
Total for surveying equipment		US$ 258,600	116,200

3.2 Drawing office supplies

3215 1100	Black ink
3215 1900	Coloured ink
3823 9090	Cleaning fluid
4016 9200	Erasers
8214 1000	Sharpeners
8479 8990	Cleaning units - pens
9017 1000	Drawing boards
9017 2000	Scale rules, stencils etc
9017 8000	Compass sets, measuring tapes etc
9017 9000	Clutch pencils
9603 3900	Drawing pens
9608 9100	Nibs
9608 5000	Pen sets
9609 2000	Leads

Total cost for three years US$ 120,000

Appendix 2

Illustrative list of import requirements for certain industries, classified by tariff number

(Note: this list is complied on the basis of interviews with selected manufacturers: it may not represent all requirements)

Abbreviations:
B Brickmaking
C Cement
DO Drawing Office supplies
DU Dumper truck manufacture
E Earthmoving
F/C Fiber cement
LCM Large concrete mixer manufacture
S Surveyors
SCM Small concrete mixer manufacture
S/P Steel piping (small bore)

1. BUILDING MATERIALS INDUSTRIES:

1.1 CONSUMABLES AND MACHINERY PARTS

Tariff Class.	Product	Sector
4009 1100 -		
4009 5000	Hydraulic hose	E
4010 1000	V belts	B
4010 9100	Belts exceeding 20cm	B
4010 9900	Conveyor belts	F/C
4016 1000	Airslides and belts	C E
4016 9900	Airslides and belts	C E
4016 9300	Gaskets Washers and other seals	B
4016 9900	Rubber moulds	F/C
5911 9090	Machine Felts	F/C
7208 4200	Boiler plate	C
7219 2100	Stainless Steel plate	C
7228 6000	Rods and bars, other	S/P
7314 1100	Wire Covers	F/C
7315 1100	Roller Chain	B
7315 1210	Transmission chain	B
7315 1910	Parts for chains	B
7318 1520	Mild steel bolts	B
7318 1590	High tensile bolts etc	B
7318 2400	Cotter and split pins	B
7326 1100	Grinding media	C
7326 9020	Fasteners for trans/con belt	B
7326 9090	Stainless Steel Wire	F/C
	Steel templates	F/C
8202 3200	Diamond tipped saw blades	F/C

8208 9000	Circular cutting knives	F/C
8209 0000	Tool tips	F/C
8311 1010	Specialist welding electrodes	C
	Electro-static spares	C
8409 9990	Filters and fan belts	E
8409 9990	Diesel engine parts	E
8413 9100	F K Pump spares	C
8414 1000	Vacuum pumps	B
		C
		F/C
8414 3090	Compressor, other	B
8414 9090	Compressor spares	C
8414 9090	Parts for vac. pumps & comprssrs	B
8421 1900	Centrifuges: other	F/C
8421 3990	Air filters poly 153	C
8431 3900	Earth moving spares	C
	Winch parts	B
8431 4100 -		
8431 4900	Parts for earth moving machinery	E
8439 9900	Rectangular lists	F/C
8441 9000	Suction Box covers	F/C
8441 9090	Rectangular lists	F/C
8456 9000	Vacuum box tops	F/C
8459 6900	Turning tool for roller milling parts	B
8474 1000	Sorting, screening, etc machines	B
8474 2000	Crushing or grinding machines	B
8474 3900	Brickmaking machinery spares	B
8474 8000	ditto	B
8474 9000	ditto	B
8474 9010	Brick machinery sps (casting)	B
8474 9090	ditto (rolling)	B
8482 1000	Bearings	F/C
		B
		C
(8482 1000 - 9900)		E
8482 2000	Taper roller bearings	B
		C
8482 3000	Spherical roller bearings	B
		C
8482 4000	Needle roller bearings	B
		C
8482 5000	Other cylindrical bearings	B
		C
8482 8000	Other, inc. comb ball/roller pts	B
		F/C
		C
8482 9100	Ball needles rollers and parts	B

(continued over)

8482 9900	Bearings, parts other	B C
8483 1000	-	
8483 6090	Hydraulic fittings	E
8483 1090	Gear box spares	C
8483 4090	Gears, non engine	B
8484 1000	-	
8484-9000	Gaskets	E
8501 3200	DC motors electric	F/C
8536 1000	Fuses	F/C
8536 4900	Electrical spares	C
8536 5000	Switches	F/C
8538 9000	Brick m/c switchgear parts	B
8541 3000	Thyristors	F/C
8607 9100	Locomotive spares	C
9026 8000	Temperature control spares	C
9306 1000	Industrial bullets	C

2. BUILDING EQUIPMENT MANUFACTURE
(Concrete mixers, dumpers etc)

7304 3910	Brake pipe	DU
7318 1000	-	
7318 2990	Screws	DU
8407 9000	Lister engine	SCM
		LCM
		DU
8408 9000	Lister engine	SCM
		LCM
		DU
8409 9100	Block	DU
8412 2100	Master cylinder	DU
8423 8290	Weighing equipment	LCM
8483 1000	-	
8483 9090	Transmission Parts	LCM
		DU
8708 3990	Brake parts	DU
8708 4090	Gearbox	LCM
		DU
8708 9300	Clutch	DU
8708 9490	Steering box	DU
8716 9090	Axle parts	LCM
		DU

3. PROFESSIONAL EQUIPMENT

Surveying instruments		
4202 1900	Containers	S
8504 1090	Battery chargers	S
8506 1900	Batteries	S
8544 1900	Battery Cable	S
9002 1190	Reflector prisms	S
9015 2000	Theodolites	S
9015 3000	Levels	S
9015 8000	Electronic distance measurers	S
9015 9000	Theodolite/level parts/accs	S
Drawing office supplies		
3215 1100	Black ink	DO
3215 1900	Coloured ink	DO
3823 9090	Cleaning fluid	DO
4016 9200	Erasers	DO
8214 1000	Sharpeners	DO
8479 8990	Cleaning units - pens	DO
9017 1000	Drawing boards	DO
9017 2000	Scale rules, stencils etc	DO
9017 8000	Compass sets, measuring tapes etc	DO
9017 9000	Clutch pencils	DO
9603 3900	Drawing pens	DO
9608 9100	Nibs	DO
9608 5000	Pen sets	DO
9609 2000	Leads	DO

Appendix 3

Persons Met/Interviewed
Ministry of Public Construction and National Housing
Mr Paul Kodzwa, Secretary
Mr Vengasayi, Director of Works
Mr Tafangombe,

Treger Industries
Mr Knill

Turnall
Mr Mkushi, General Manager
Mr Chikwanda, Financial Accountant
Mr R Hutchinson, Project Manager

Willdale Bricks
Mr McGeogh, General Manager
Mr Brock

Caterpillar/Zemco
Steve Emsley, Sales Manager
Bryan Schaefer, Engine Representative, Caterpillar Oversease S.A.

CIFOZ
Keith Butterfield, Chairman
Willie Ralph
Barry Brunette, Secretary General

ZBCA
Chris Mapondera, Vice President

Prodorite
Dave Morris, Managing Director

Circle Cement
Greville George, General Manager
Ian Coulter, Commercial Manager
Mr Wakatama, Production Manager

United Portland Cement
J H Stobbs, Managing Director

Dulux
Brian Blake, Managing Director

Stewarts and Lloyds
Mr Bickerton, General Manager

Fort Concrete
Dave Shelton, Managing Director
Mr Holshausen

ZIMBABWE PRIVATE SECTOR HOUSING

PROGRAMME DESIGN:

FINANCIAL SYSTEMS ANALYSIS

MAY 1992

ZIMBABWE PRIVATE SECTOR HOUSING PROGRAMME DESIGN:

FINANCIAL SYSTEMS ANALYSIS

PREPARED FOR: USAID (HARARE)

BY: MERCHANT BANK OF CENTRAL AFRICA LIMITED
(Registered Accepting House)

arch 1992

The information contained in this report is given without any responsibility on the part of Merchant Bank of Central Africa Limited.

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EXECUTIVE SUMMARY

1 In designing a low cost shelter program called the Zimbabwe Private Sector Housing Program Development (the program), USAID/Zimbabwe's goal is to increase the private provision of housing for low income households.

2 In the Financial Systems Analysis, contained in this report, the objective is to explore ways in which the Zimbabwean private housing financial market can be broadened and deepened to attract private investment for long-term housing finance. In striving to achieve this objective due cognisance is taken of:-

- economic conditions in the transition to a liberal economy

and

- the long term objectives of Government for the financial sector.

3 The report has found that much progress has been made in the provision of low income housing by private sector finance since the mid-1980's. The majority of superstructure development is currently being financed by private sector institutions (either building societies, employers or individual savings) with infrastructure being largely dependent on Government funding.

4 The findings of the report conclude that real decapitalisation of the Building Societies was occurring from January 1992. This is due to a rapid rise in interest rates in the money market and banking sectors in the latter half of 1991 as well as the decision by the Reserve Bank to continue interest rate controls on the housing finance sector. The Building Societies' inability to compete with these rates could have severe implications for the provision of housing finance in the immediate future.

5 It is the Government of Zimbabwe's intention to maintain low income mortgages at their present 15% level over the transitional period, although all housing finance interest rates will be liberalised by the end of ESAP. If interest rates increase to levels beyond 15% there is the risk that $1,7 billion of Building Societies could be lost through defaults. The World Bank concurred with this policy. Given this constraint, money market rates would have to decline significantly to allow building societies to raise money on

the open market. They do not however have to come down to levels below the mortgage rate for low income housing because of the possibility of cross-subsidisation. Building societies can charge higher mortgage rates for commercial and industrial mortgages which can then be used to subsidise low income housing.

6 Building Societies have committed 25% of their portfolio for long-term low income housing finance.

7 In light of the prevailing economic conditions, a three-pronged approach is being proposed for the program:

(a) A **transitional strategy** to ensure that the delivery of low income housing by the private financial sector is not interrupted during Zimbabwe's period of structural adjustment.

(b) A **long term strategy** to ensure that systematic changes are being made to the financial sector to optimise the investment of private sector savings and investment into housing.

(c) An **expanded financial sector reform** to promote more competition in the financial system.

8 The objective of the **transitional strategy** is to raise housing finance which is still affordable to the low income groups over the next two years. This means specifying short term financial instruments that will raise funds at a cost of money lower than the low income mortgage rate. Open market instruments are precluded in the transition, as inflation and interest rates are anticipated to be sustained at high levels.

9 Eleven potential transitional instruments were identified; five are recommended for implementation, with three already being pursued by Government and the Building Societies.

10 With regard to the three financial instruments in the process of implementation it is recommended that:

- the program should support the implementation of the Housing Bond instrument and recommend the waiver of the housing benefit tax. The housing benefit tax is a tax on the difference between the interest rate charged by the building societies and the interest charged to an employee by the employer on a mortgage bond.

- the program promotes the effective utilization of surplus funds (these are undistributed profits of

foreign companies) as a short term instrument to improve the liquidity situation of the Building Societies over the transition. The investment of surplus funds is controlled by the government. It is likely that surplus funds will be exhausted by the end of ESAP.

- in 1986 the building societies were allowed to issue tax free Class C Paid Up Permanent Shares (PUPS). There are limits on the amounts individuals and companies can invest in PUPS. Over the structural adjustment transition the tax free ceiling on Class C shares should be constantly reviewed in the light of;

  (a) Government fiscal targets

  (b) real effective demand for low income housing

  with the objective of raising these ceilings as economic conditions permit. The current ceilings of $250 000 for individuals and $120 000 for companies limit the amounts that building societies can raise through the Class C shares.

11 A new transitional measure is proposed. Its implementation is largely dependent on the availability of grant funds from USAID. The recommendation is as follows:-

- that USAID grant money be used for the purchase of blocked funds for redeployment in the long term finance of low income housing. This should be done through building societies. The building societies will be required to raise an equal amount on the market to finance low income housing. The total effect will be to double the amount available for low income housing finance. This recommendation is made subject to USAID being satisfied that inflationary influences are minimised, and a satisfactory system for channeling the funds is agreed.

12 Under the long term strategy, the following recommendations are being made:-

- Share and deposit instruments currently at the disposal of the Building Societies be continued, with ceilings on these limits being lifted as competitive pressures increase in the financial sector.

- The program should support the rapid implementation of the issue of NHCD's. This should be done despite the fact that in the transition they cannot be used to raise finance for low income housing because of

the current high money market interest rates. An early development of the NHCD would set the stage for the time when the instrument will be necessary. The NHCD could also be used to finance other Building Society activities in the interim period. It is further recommended that in the longer term, when interest rates have stabilised, the NHCD should be viewed as an important instrument in the provision of funds for the low income earner.

- Under the program, support should be given to key actors in the housing finance sector to prepare for the creation of a Secondary Mortgage Market. The secondary mortgage market occurs when building societies sell their mortgages to investors at a discount. The key actors in the market would be the building societies, pension funds and insurance companies.

13 Under the expanded financial sector reform, the following are being proposed:

- Steps should be taken to explore the potential for and implementation of the issue of Municipal Bonds to raise finance for municipalities. These bonds are already in existence in Zimbabwe and constitute prescribed assets for insurance and pension funds. The bonds can be used for specific municipal projects or general operating expenses.

- It has been observed that there is substantial segmentation on the financial system which results in inefficiency. In line with Government's liberalization strategy, deregulation of the financial market by 1995 should be supported. This will have the effect of desegmentation and increasing competition among the financial institutions. In order to avoid financial turbulence, this process should take due cognisance of prevailing monetary and fiscal conditions.

14 For the successful implementation of the above recommendations, additional Training and Technical requirements were identified for the execution of the following instruments:-

- **Secondary Mortgage Market.** Building Societies should be trained in the packaging and selling of mortgages. An expert on the secondary mortgage market should be brought into Zimbabwe to study the possibility and methods of developing a secondary mortgage market.

- **Issue Of Municipal Bonds.** Local authorities need to be trained in the use of municipal bonds for both

general purposes as well as specific purposes. The local authorities would have to improve their financial reporting and management.

Furthermore, there is a need for technical assistance and training in the following areas:

- An indepth study of the financial system and the nature of segmentation in the system.

- Building Societies would have to be trained in areas of portfolio management.

- Government and Reserve Bank officials should be trained in appropriate regulation of housing finance.

general purposes as well as specific purposes. The local authorities would have to improve their financial reporting and management.

Furthermore, there is a need for technical assistance and training in the following areas:

- An indepth study of the financial system and the nature of segmentation in the system.

- Building Societies would have to be trained in areas of portfolio management.

- Government and Reserve Bank officials should be trained in appropriate regulation of housing finance.

1. INTRODUCTION

USAID/Zimbabwe is designing a low cost shelter program called the Zimbabwe Private Sector Housing Program Development (hereafter termed the program), to assist in increasing the private provision of housing for the urban poor. One of the constraints noted by USAID in this regard was the "inadequate incentives for attracting private financial resources to housing, resulting in limited availability of private mortgage finance for low income housing".

The objective of this study is therefore to explore ways in which the Zimbabwean private sector housing financial market can be broadened and deepened to;

- ensure the optimal funding of low income housing from private sector resources with the creation of a liberal economy

- given prevailing and anticipated economic conditions, to recommend financial instruments which have the effect of increasing the volume of loanable funds to low income housing.

The methodology pursued was to interview and gain relevant information from the Building Societies, Government, Reserve Bank of Zimbabwe, the World Bank and local financial institutions. Various financing options were then discussed with USAID. The ensuing report is a product of this process.

In sections dealing with the Long Term and Transitional strategies recommendations are made for the changes in the housing financial sector which should be addressed under the proposed program. These proposals involve both systemic changes to housing finance and changes of a more short term nature.

2. STRUCTURE OF THE ZIMBABWEAN FINANCIAL SYSTEM

Zimbabwe has a well developed financial sector which spans a central bank, discount houses, commercial banks, merchant banks, finance houses and building societies. The sector plays an important role in the economy. The key institutions in the money and capital markets are as follows:

RESERVE BANK OF ZIMBABWE (RBZ)

The Reserve Bank carries out normal central bank activities on behalf of government, of regulating the money supply, interest rates and controlling credit. In addition it administers exchange controls and holds all foreign exchange reserves. The functions of the RBZ will decline as ESAP progresses and the economy is deregulated. Interest rates will be market determined.

DISCOUNT HOUSES

There are three discount houses: these are BARD Discount Company Limited, Discount Company of Zimbabwe Limited and Intermarket Discount House. The discount houses provide a capital market for short term paper, taking up excess funds from the banking system, which includes the discounting of trade bills. The houses optimise their portfolio of securities, which range from negotiable certificates of deposit to treasury bills and Agricultural Marketing Authority (AMA) Bills. Under ESAP more discount houses will emerge and will be important in providing a market for new financial instruments.

MERCHANT BANKS

There are four merchant banks which are: Merchant Bank of Central Africa Limited, First Merchant Bank Limited, Standard Chartered Merchant Bank Zimbabwe Limited, and Syfrets Merchant Bank Limited.

The merchant banks offer acceptance credit facilities (against trade and stock bills) and loan finance, open letters of credit and arrange external lines of credit. They also provide services in the areas of corporate finance, project finance, countertrade and portfolio management. As the ESAP proceeds, merchant banks will enter into activities that have been done by commercial banks. This will be a result of deregulation and competition.

COMMERCIAL BANKS

The commercial banks in Zimbabwe are: ANZ Grindlays Limited,Commercial Bank of Zimbabwe Limited, Barclays Bank of Zimbabwe Limited, Standard Chartered Bank Zimbabwe and Zimbabwe Banking Corporation.

The commercial banks' activities centre on current accounts, savings accounts, fixed deposits, overdraft financing and also provide acceptance credit financing. Commercial banks will compete more under ESAP and provide new financial services as the reform programme progresses.

BUILDING SOCIETIES 4

There are four building societies in Zimbabwe: these are Beverley Building Society, Central African Building Society, Founders Building Society and The Zimbabwe Building Society. The Zimbabwe Building Society has just been registered and has not started operating. They provide mortgage finance for low, middle and high income households as well as industrial and commercial buildings.

Investments in building societies include: Class C paid up permanent shares, subscription shares, fixed deposits and savings deposits. (Class C of permanent shares are tax free). Building societies will evolve under ESAP and issue new financial instruments for raising funds. They may also develop a secondary mortgage market.

POST OFFICE SAVINGS BANK (POSB)

The POSB is state owned, allows tax free deposits, with prescribed ceilings, for companies and individuals. The POSB is a key source of finance for government requirements. As the government budget deficit is reduced, the advantages that the POSB has over other financial institutions may be reduced under ESAP.

FINANCE HOUSES 5

These are:

Grindlays Industrial and Commercial Finance Limited
Fincor Finance Corporation Limited
Scotfin Limited
Standard Chartered Finance Zimbabwe Limited
and udc Limited

The finance companies provide hire purchase, leasing and instalment finance as well as factoring of debts. These institutions will be more involved in providing mortgage finance for industrial and commercial buildings under ESAP. This may reduce the pressure on building societies.

AGRICULTURAL FINANCE CORPORATION (AFC)

The AFC, which is State owned, provides short to long term loans, to companies, co-operatives and individuals for agricultural production.

DEVELOPMENT FINANCE

- **ZIMBABWE DEVELOPMENT BANK (ZDB)**

ZDB provides medium to long term project financing, including the foreign component of the finance. (It is 51% GOZ owned, with European shareholders in addition to the Commonwealth Development Corporation (CDC), the African Development Bank (ADB) and RBZ).

SMALL ENTERPRISES DEVELOPMENT CORPORATION (SEDCO)

The major objective of SEDCO is to provide finance for the small enterprise sector.

PENSION FUNDS, PROVIDENT AND RETIREMENT ANNUITIES

These contractual savings institutions are governed by the 1976 Pension and Provident Funds Act. 60% of their assets have to be held in approved securities. This regulation will be removed under ESAP.

INSURANCE COMPANIES

There are over sixty insurance companies operating in Zimbabwe. They are governed by the 1966 Insurance Act. The Zimbabwe Reinsurance Corporation (Zimre) reinsures a percentage of all new insurance risk.

ZIMBABWE CREDIT INSURANCE COMPANY (ZCIC)

ZCIC Insures against commercial and political risk for export transactions. ZCIC can also advise on the credit worthiness of foreign buyers.

CONCLUSION

In general Zimbabwe's financial sector is modelled on post second world war British financial institutions with clear segmentation of the market. For example, the Merchant Banks concentrate on acceptance credit finance and the commercial banks on overdraft finance, while building societies concentrate on mortgage finance. The sector has also been highly regulated with controls on interest rates, nature of deposit taking and credit allocation.

The financial sector plays an important role in the Zimbabwean economy. In June 1991, savings with Commercial Banks, Merchant Banks, Finance Houses, POSB and Building Societies were $7,8 billion. The sector has been changing slowly since interest rates became volatile and high. There is a need for an indepth study of the financial sector in Zimbabwe as well as possibilities of deregulating it.

3. EXISTING LOW COST HOUSING DELIVERY SYSTEM

3.1. HISTORICAL BACKGROUND

Prior to independence the financing and the provision of low income housing was the responsibility of Government. Finance from the National Housing Fund (NHF) channelled through local authorities provided the principal source of funds for low income housing. The housing provided was generally rental accommodation. At independence the government successfully moved to a policy of homeownership. With the adoption of new financial mechanisms in the late 1980's, Government actively promoted home ownership in housing through building societies and self-help.

3.2. THE EXISTING SYSTEM

The existing system of housing delivery relies principally on public finance to provide the infrastructure (such as serviced stands) and private sector finance to provide the superstructure (ie., construction of the housing unit).

There are two central Government sources of finance for housing. These are the General Loan Fund (GLF) administered by the Ministry of Local Government Rural and Urban Development (MLGRUD) and the National Housing Fund (NHF) administered by the Ministry of Public Construction and National Housing (MPCNH). The GLF is used to finance the provision of bulk infrastructure, such as access roads trunk sewers and treatment works as well as main water pipelines. This is termed "off site" infrastructure. "On site" infrastructure is provided by the NHF, which includes water reticulation within the housing estate itself. The NHF, up to 1987, was also the major Government source of finance for the provision of superstructure.

In 1987 following the introduction of the Building Society Class C shares in November 1986, the cost of money to the Building Societies was significantly lowered as these shares were tax-free. The computerisation of the Building Society operations allowed the housing finance industry to handle more business at lower margins. As a consequence, the Building Societies were able to expand their annual low income mortgage business from virtually nothing in 1986 to 3,147 mortgages in 1987, to a peak of 5,578 in 1989. Annual additional advances were more or less sustained at 5,559 in 1990 and 5,534 in 1991. Building Societies have therefore become one of the principal providers of finance for super-

structures of low income housing.

3.3. **NATIONAL HOUSING FUND (NHF) AND GENERAL DEVELOPMENT LOAN (GDL) BUDGETS**

The Balance Sheets for the NHF are given as per Table 1.

As of 31 December 1991, local authorities owed the NHF $51 million. The four largest municipalities, Harare, Bulawayo, Gweru and Mutare generally maintain their balances up to date. The smaller authorities, on the other hand tend to experience repayment problems due to poor record keeping rather than non-repayment by beneficiaries. In some councils these repayments have been diverted to support other unrelated accounts. This has caused cash flow problems and arrearages with the NHF. Under the Urban II project, technical assistance will be provided to local authorities to set up separate Housing Funds. This problem will thus be resolved.

As at 30 November 1991, the NHF annuities to the Ministry of Finance Economic Planning and Development (MFEPD) were $46 million in arrears. Due to arrears from local authorities, in December 1991, the NHF was only able to service about 50% of the amount of interest due. In addition, the servicing of private sector loans contracted by the NHF before 1980, such as from the building societies and the insurance companies, has also contributed to the arrears to MFEPD. This is because the interest rates on the private sector loans to NHF have been periodically adjusted in line with market conditions, while the NHF has not been able to pass on these rates to the local authorities. The latter rate is determined by the rate at which the NHF borrows from MFEPD. This rate is currently at 10,5% and is due to increase to 11,0% in July 1992.

The General Development Loan (GDL) was established to provide finance for primary infrastructure requirements. The fund is used to finance major water pipes, sewerage, main trunk roads, plant and equipment, schools and local clinics. Interest is charged at 10,5% per annum and will rise to 11% from July 1992. The GDL has experienced poor repayments from local authorities because of the narrow revenue base of the smaller councils.

NATIONAL HOUSING FUND : BALANCE SHEET

TABLE

As at 30 June	1991 $'000	1990 $'000	1989 $'000	1988 $'000	1987 $'000	1986 $'000	1985 $'000	198 $'00
Capital Loans	453 087	401 231	387 881	351 513	320 705	284 521	227 887	195 58
Capital Grant	446	446	446	446	446	446	-	-
Accumulated Fund Surplus/(Deficit)	3 131	(17 378)	(11 631)	12 820)	(5 116)	(5 063)	(3 075)	(49
	456 664	384 279	376 696	339 139	316 035	279 904	224 812	195 09
Represented By								
Loans to Local Authorities	366 748	324 854	302 365	270 756	260 119	240 144	194 139	158 867
Loans to Central Rates Fund	3 792	3 937	4 065	4 183	4 295	4 397	4 490	4 57
Work in progress	24 903	27 635	17 652	14 404	2 339	932	4 537	18 02
Properties in course of sale	252	317	489	509	551	552	700	79
Properties rented	5 016	4 987	4 727	4 700	2 307	1 585	999	917
Other properties NAM houses	7 754	7 754	7 754	7 754	7 754	6 000	-	-
	408 466	369 484	337 052	302 306	277 365	253 610	204 865	183 17
Current Assets								
Interest Accrued	18 038	3 386	3 290	2 1	2 332	2 575	2 079	1 892
Local Authorities & Rural Housing Debtors for equipment and materials	10 018	6 723	19	35	53	68	110	-
Equipment and materials	14 315	13 093	19 971	7 489	6 187	5 414	3 245	1 049
Accounts receivable	46 277	37 065	34 570	29 887	26 246	20 446	13 215	7 649
Advance payments (recoverable)	-	-	-	-	-	-	184	1
Rent accrued	79	109	66	60	30	23	41	24
Deposits with financial institutions	18 791	7 510	23 020	27 548	22 652	6 910	2 885	2 671
Cash at bank on hand and in transit	1 764	-	61	2 362	203	8 635	168	535
	109 317	67 885	80 997	69 505	57 703	44 071	21 928	14 004
Less Current Liabilities								
Interest accrued	59 083	47 292	40 224	32 325	18 737	16 007	900	884
Retention money	169	169	169	107	107	3	142	890
Conveyancing deposits	24	27	37	41	41	42	46	49
Accounts payable	1 655	43	792	134	69	1 016	873	262
Advance payments	21	77	30	24	35	710	21	-
Gwanda, Bindura and Gokwe (funds)	118	83	98	42	43	-	-	-
Security deposits	49	39	-	-	-	-	-	-
Bank overdraft	-	5 362	-	-	-	-	-	-
	61 119	53 092	41 352	32 672	19 032	17 777	1 981	2 085
Net current assets	48 198	14 795	39 644	36 833	38 670	26 294	19 947	11 919
	456 664	384 279	376 696	339 139	316 035	279 904	224 812	195 092

4. FINANCIAL SITUATION OF THE BUILDING SOCIETIES

4.1. BACKGROUND

Until August 1990 the Building Societies were in a relatively comfortable situation with regard to liquidity. However, in August 1990 Government made its first move to liberalise interest rates in the money market and the banking system. This led to a tightening of the monetary situation and greater competition for deposits. In the face of these trends Building Societies were allowed to increase their mortgage and deposit rates in February 1991. In spite of this situation, building societies continued to be liquid.

However July to September 1991 witnessed a significant devaluation of the Z$ (37% against the US$) and rapid increases in the money market and bank lending rates. Fluctuations of money market rates increased. In general, Building Societies were, however, forced to compete against rates of up to 30% in the financial market. This led the monetary authorities to make a further adjustment to Building Society rates on 5 September 1991.
(See Table 2 for details of this adjustment)

Despite these adjustments the Building Societies expressed concern that there was a serious risk of decapitalisation. This was because most of their deposit rates were not competitive against money market rates. The only competitive building society deposit was the tax-free share.

The average cost of funds to the largest Building Society (as of the end of January 1992) was estimated to be 13,9% and its average return on money was 16,0%. Variations on these percentages occur in the other Building Societies dependent on their debt and asset portfolios.

The market share of the Building Societies at the end of February 1992 in terms of their mortgage advances was Beverley 29,34%, CABS 54,26% and Founders 16,40%. Market shares on Total Shares and Deposits was Beverley 28,62%, CABS 53,24% and Founders 18,14%.

4.2. FINANCING OF THE BUILDING SOCIETIES JUNE 1991 TO JANUARY 1992

In order to assess the effect interest rate movements have made on the Building Societies, an analysis of their share and deposit levels was carried out from June 1991, prior to major money market movements to January 1992 which is the latest

available information.

Table 3 summarises the level of shares deposits and savings of the Building Societies over the June, 1991 to January, 1992 period.

Total shares and deposits. Over the seven month period total shares and deposits being attracted into the Building Societies rose by 4%. Inflation figures for the period have not as yet been published. However with annualised inflation to January 1992 estimated at 29% it can be concluded that real decapitalisation of share and deposit levels did occur over the period. This does not mean that the nominal amount of these deposits declined. The figures have not been seasonally adjusted but they do further indicate that after marginal growth to December 1991 there was a fall in shares and deposits in January 1992.

Disaggregating the figures into the various possible investments in the Building Societies gives a clearer picture of recent trends in the flow of funds.

Permanent and Subscription Shares. Permanent shares with building societies may only be redeemed upon six months notice. There is no limit on the amount that can be invested in permanent shares. Subscription shares can be purchased monthly and have minimum and maximum periods of two years and ten years respectively. An individual can invest a maximum of $700 000 and a company a maximum of $1,3 million in subscription shares. These shares witnessed declines of 10% and 33% respectively from June 1991 to January 1992. Funds invested in these shares tend to come from corporate and larger investors. Whilst these shares offered returns ranging from 12% to 14% over the period, the money market and banking system were offering returns of the order of 20% to 40%. It is not surprising that there was a flight from societies of this type of capital.

Fixed Deposits. Again these deposits attract the corporate and large scale investor and local authorities. The period under review saw a 17% reduction of this form of funding. Even medium range individual depositors were reported to have removed their funds from Building Societies to other financial institutions over the period. Aggregation of funds by small size investors allowed them to reinvest in the money market at higher returns.

Savings. The Building Societies, especially CABS, have over recent years taken on a commercial banking type role for the lower income groups. These groups

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TABLE 3

Share and Deposit Situation June 1991 to January 1992

$'000

	June'91	July'91	August'91	Sept'91	Oct'91	Nov'91	Dec'91	Jan'92	% Change Jan/June	% of Total June	% of Total Jan
Permanent Shares	755 305	749 759	748 497	769 008	748 313	707 723	697 703	679 254	-10.07%	34.53%	29.82%
Subscriptions	6 737	6 937	5 050	4 990	4 905	4 932	4 746	4 534	-32.70%	0.31%	0.20%
Tax Free Pups	504 304	518 734	530 553	550 051	571 470	588 678	604 077	616 692	22.29%	23.06%	27.07%
Fixed Deposits	12 808	12 670	12 570	12 748	12 535	12 007	11 798	10 689	-16.54%	0.59%	0.47%
Savings	908 185	950 545	952 745	994 664	996 035	1 061 801	1 009 383	966 591	6.43%	41.52%	42.44%
Total Shares and Deposits	2 187 339	2 238 645	2 249 415	2 331 461	2 333 258	2 375 141	2 327 707	2 277 760	4.13%	100.00%	100.00%
Mortgage Advances	1 689 377	1 722 144	1 754 702	1 789 221	1 817 821	1 863 584	1 886 832	1 909 527	13.03%		

have limited access to higher return investments in the banking and monetary sector and principally utilise the Building Society system to channel their monthly earnings. Investments of this nature were not, therefore, attracted into alternative instruments and they grew by 6% over the period. Seasonal fluctuations, with the payment of a bonus at the year end account for the drop in saving levels at the end of January compared with the end of December.

Tax Free Pups. On the positive side, Tax Free Pups, which are explicitly linked to reinvestment in low income housing, grew by 22% over the period. This form of investment in the Building Societies thus increased in **real terms**. These shares, with a nominal return of 12.65%, over the period provided an effective return of +/- 25,3% for both individual and corporate investors. Ceilings on this type of investment did limit growth, especially for companies which were restricted to investments of $80 000. Relative to inflation these shares did, however, continue to prove attractive.

Globally Tax Free Pups and Savings have become more important sources of income for Building Societies over the period, while Permanent Shares and Fixed deposits have declined in importance. (See Graphs 1 and 2.) This reflects the more attractive returns available to large scale investors in the money market and banking system and the limited ability to invest in the tax free instrument due to ceilings. This also reflects the government's policy to keep mortgage rates down.

To conclude, although there was nominal growth in building societies' capital, real decapitalisation was occurring beginning in January 1992 and this could have severe implications for the provision of housing finance in the immediate future. There is however strong indication of the high priority of shelter in the government's policy. There is need for new instruments to raise housing finance in the country.

5. FINANCIAL OUTLOOK FOR THE BUILDING SOCIETIES

Government has embarked upon an Economic Reform Programme. The period of adjustment was envisaged to take place over 1991 to 1995. In view of the fact that the Building Societies are the major providers of finance for low income housing superstructures it is important that some prognosis of their situation is made over the period of transition.

In the case of the Building Societies, there appear to be two conflicting policy positions being taken by Government and the Reserve Bank of Zimbabwe.

The primary monetary policy measure is to tighten up liquidity in order to stabilise the macroeconomic situation in a period when trade and price controls are being lifted. This involves financing Government expenditure with private savings with the consequent increase in the cost of money to real rates. This monetary approach was started in August 1990, with substantial increases in the cost of money in the latter half of 1991. Money market rates, depending on the nature of the funding, as of March 1992, vary between 21% and 36%.

In contrast, Government policy with regard to low income mortgages is to keep them affordable over the ESAP period. In discussions with Government and the RBZ, it would appear that this means maintaining low income mortgage rates at 15% per annum level. Above this level, it is submitted that purchasing power becomes a major problem for the low income earners. It has been stated that mortgage rates above the current levels would result in defaults and the building societies would lose $1,7 billion of their portfolio. This view is supported by local World Bank representatives. The major obstacle to an increase in mortgage rates is politics and the risk of defaults on repayments.

These two conflicting policy stances obviously present a major problem to the Building Societies. In maintaining a 15% mortgage rate to low income earners, they cannot effectively compete for deposits with the monetary/banking sector.

The building societies, however, also provide mortgages for high and middle income housing, industrial and commercial buildings. The mortgage rate for middle and high income housing is 17%. The interest rate for commercial property is 32%, while for industrial property is 18,5%. There are other rates for non-owner occupied housing which depend on whether the loans are new or existing.

The problem is further compounded by the drought presently being experienced in the country. Government's "Framework for Economic Reform" published in January 1991 forecast inflation as a percentage change in the GDP deflator, at the following levels:

% CHANGE G.D.P. DEFLATOR

	1991	1992	1993	1994	1995
Inflation	16,0	14,0	12,0	10,0	10,0

The consumer price index to December 1991 indicates that inflation was running at 28%. The drought experienced in the 1991/92 season means that all Government forecasts over the structural adjustment period will have to be revised. Large levels of food imports are required which will entail a major revision to Government's fiscal and monetary forecasts. These revisions have not as yet been carried out, but there is consensus among officials from the Reserve Bank and the World Bank that there will be an increase in inflation.

This means that inflation is likely to be higher for longer. The inflation forecast for 1992 is 25%. Longer term forecasts are difficult until a clearer picture of costs of the drought and the method of financing imports emerges in conjunction with a revision of Government fiscal and monetary figures.

The implication for the Building Societies is that their financing problem, given a maximum low income mortgage rate of 15%, is likely to last for the next two years. It is currently assumed that inflation will not drop to single figures until 1996.

Building Societies report that on low income housing, with high administrative costs per mortgage, they require margins of the order of 3,5%. This could be reduced to 3% with greater computerisation of their operations. Building societies have two options. First, for Building Societies to raise money on the open market for low income housing, rates would have to drop to 12% if the low income mortgage barrier of 15% is not to be broken. This situation is unlikely to prevail until the mid 1990's. Alternatively, building societies could charge higher rates for commercial and industrial mortgages and subsidise lower income housing. In such a situation, interest rates may not have to be well below low income housing mortgage rates.

6. LOW INCOME HOUSING FINANCING STRATEGY

Three objectives have been identified in defining a strategy for low income finance.

- To broaden and deepen ways in which the private sector financial market can provide finance for low income housing. This involves systemic changes to the financial system to optimise the use of private sector savings in low income housing.

- To ensure the affordability of housing to low income groups. In this case, the target income group is the lower income group, and for our analysis we recognise that government will push to maintain mortgage rates of 15% per annum. (See Micro Analysis paper for the program).

- To provide for an adequate flow of funds to meet demand for low income housing.

In sections 3 and 4 we have concluded that;

- while deposits are growing, real decapitalisation of the Building Societies is presently taking place;

- the short term outlook of high inflation and cost of money rates does not allow the Building societies to compete for funds in the open market and at the same time maintain affordable low income mortgage rates. There are limits to which cross-subsidisation can take place for low income housing in the current environment.

Given the housing finance objectives and the prospect of an "inflation hump" until the mid 1990's, it is clear that if all three objectives are to be achieved a three pronged housing finance strategy should be pursued.

This strategy would have three elements to it:

(a) A transitional strategy to ensure that the delivery of low income housing by the private financial sector is not interrupted during Zimbabwe's period of structural adjustment,

(b) A long term strategy to ensure that systematic changes are being made to the financial sector to optimise the investment of private sector savings in low income housing.

(c) The expanded financial sector reform is aimed at increasing competition in the financial system and allow financial institutions to respond to market forces.

The Transitional and Long Term Strategies are discussed in Sections 7 and 8 respectively. The expanded financial sector reform is discussed in Section 9.

7. TRANSITIONAL STRATEGY

The objective of the transitional strategy is to raise private housing finance during the implementation of ESAP which is still affordable to the low income groups.

In the case of the major housing finance institutions, the Building Societies, this means specifying short term financial instruments that will raise funds at a cost of money lower than the low income mortgage rate. Market financing over the current high inflation period is precluded because, at existing mortgage rates, these finances cannot be redeployed into low income housing, even with cross-subsidisation. This should not prevent the Building Societies in the interim from deepening their open market financing for reinvestment in commercial and industrial construction.

It is important to note that the purpose of specifying these short term instruments is to raise **additional finance for the low income housing sector.** It is not the objective of this section to lower the cost of finance to the low income earner and so increase the affordability of housing. The assumption made is that existing mortgage rates of 15% per annum are affordable to low income groups.

Detailed discussions were held with Government, RBZ, the three Building Societies, and other interested actors such as the World Bank, the Money Market and Financial Institutions. This research in addition to further in-house analysis revealed that 5 out of 11 instruments had potential for attracting additional finances into the Building Societies. The other 6 either had limited potential or were undesirable and so eliminated. Before pursuing the recommended approaches we shall briefly describe the rationale for discarding the other 6 transitional instruments.

7.1. ELIMINATED APPROACHES

7.1.1. LOWER INTEREST TAX FREE SHARES

The major rationale behind this approach was to enhance the purchasing power of low income groups by reducing the cost of money to the Building Societies. This in turn would allow them to lower low income mortgage rates. The objective was not to raise additional finance for low income housing. In view of the Building Societies' decapitalisation problem to January, 1992, Government in February, 1992 allowed the Societies to raise their tax free share interest rates from 12,65% to 13,5%. This increased the effective return to the investor to 27,3% and thus increased their

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competitiveness with money market rates, currently ranging from 21 to 35%. By reducing the interest rate of the tax free shares to say 11.5% and thus allowing an effective rate to the investor of approximately 23%, it is feared that the tax free PUPS will become less attractive in a tight monetary situation and therefore their growth would be halted. It was for this reason that this approach was eliminated.

Making the Negotiable Housing Certificate of Deposit (NHCD) Tax Free. Tentative approval has been given to Building Societies to issue a NHCD. Legal procedures are now being finalised to permit this. Existing NCD's in the market over the last 7 months have been trading at rates varying from 28% to 40%, depending on daily liquidity situations and the period of the NCD. Clearly raising finance at these rates is not suitable for low income financing. It was proposed that by floating a tax free NHCD at a rate of half that prevailing in the market would attract finance into the Building Societies for low income housing.

There were three major problems with this approach. Firstly the major potential investors in the tax free NHCD, the Pension Funds, Life Insurance and General Insurance companies have effective rates of taxation of 5.%, 5.% and 26% respectively. This would not, therefore, prove an attractive instrument to them. Secondly there was some concern by the authorities as to the administrative requirements of monitoring tax exemption of an instrument that is traded in a primary and secondary market. Finally, given previous trends, even tax free NHCD's may have to be traded at rates of above 15% which would not make them a suitable financial instrument for low income housing. It was for this reason that this approach was abandoned.

7.1.2. **UNIT TRUSTS**

The principle of Unit Trusts was to oblige large institutional investors (e.g. pension funds) to invest specified sums in these Trusts for onlending at subsidised rates for low income housing requirements. There was general consensus that this approach went against the spirit of liberalisation and would aggravate the position of these institutions in an already tight monetary

situation.

7.1.3. **PRESCRIBED INVESTMENTS**

Prescribed investments are those assets that pension funds and insurance companies are required to purchase by the government. They are in the form of government stocks, parastatal stocks and municipal bonds. This regulation will be removed by the end of ESAP. This instrument has much the same rationale as that of the unit trusts, except that investments in the Building Societies would form part of institutions' prescribed investments and thus would channel funds to low income housing. If prescription requirements were not raised and investments in Building Societies simply added as a prescribed asset, this would pose less of a problem to the institutions. However for the "liberalisation" reason cited in 7.1.2 above, this approach was dropped.

7.1.4. **FREEING LOW INCOME MORTGAGES BUT ALLOWING TAX RELIEF TO LOW INCOME EARNERS**

This approach envisaged the freeing up of low income mortgage rates, but allowing the low income earner tax relief on his interest payments. The effective tax rate of the median income earner ($600 per month) is 15.%. Clearly tax relief would not compensate for increases in mortgage rates and therefore would impact heavily on affordability.

7.1.5. **IMMEDIATE DEREGULATION OF LOW INCOME MORTGAGES BUT PROVIDING AN UP FRONT CAPITAL CREDIT**

The rationale again of this approach was to deregulate mortgage rates but to compensate the low income earner by reducing his debt to the Building Society (or designated financial institution) to an amount that would give the same effective cost of borrowing, that is 15%, as before. USAID grant money would be used to provide the credit component. As an example, let us assume that the repayment on a mortgage is $200 at a mortgage rate of 15% and $350 at a mortgage rate of 25%. The low income earner would be credited with grant money to effectively reduce his repayment by $150. This is done by reducing his debt burden. This approach would therefore be limited by the amount of grant money available, which

could not cover all low income earners. The system would necessarily favour certain low income groups and prejudice others and so was abandoned.

7.2. RECOMMENDED TRANSITIONAL APPROACHES

The first three recommendations have already been acted upon by Government and the Building Societies in February 1992.

7.2.1. HOUSING BONDS

There are a number of large companies in Zimbabwe who deem it in their interest to provide housing for their employees. It would be convenient if these companies could utilise the Building Societies to administer and channel the housing finance provided for these purposes. In February 1992, Government allowed the Building Societies to take deposits from companies at an interest rate mutually agreed by the two parties, as long as dollar for dollar the money was onlent to their employees (again at a mutually agreed rate) for housing purposes. In essence, the authorities do not specify the cost or return on money for the Building Societies as long as all the finance is channelled into employee housing. The Building Societies margins were quoted as ranging from 2.5% to 4.0%. The effectiveness of raising additional money from this approach depends on the willingness of companies to finance employee housing. There is obviously an opportunity cost on the redeployment of the employers' resources in the money market. However, this is a private sector decision. Initial Building Society estimates envisage that a total of $100 to $150 million can be raised from this instrument. There is however the problem that government taxes employees who have subsidised mortgages from their employers. For example, if the repayment on a mortgage from a building society is $200 at an interest rate of 15% and the repayment from a company loan at an interest rate of 5% is $100, the employee is taxed for the difference as income tax. The scheme would become more attractive if the housing benefits tax were waived.

It is recommended that USAID should support the implementation of the Housing Bond instrument and recommend the waiver of the housing benefit tax.

7.2.2. ATTRACTING SURPLUS FUNDS INTO BUILDING SOCIETIES

Surplus Funds are retained earnings of locally incorporated foreign controlled companies. In accordance with exchange control regulations, such funds may be used to conduct normal business operations or to finance expansion of existing business operations. Where surplus funds have not been used in this manner they may only be invested with finance institutions at a rate of 5% per annum. From 1 June 1989, surplus funds could also be invested in non-negotiable certificates of deposit issued by RBZ which now currently pay 10% per annum. The regulation of surplus funds will be altered under ESAP. Surplus funds will also decline under ESAP as firms become less profitable.

In the case of the Building Societies, such funds were restricted to a maximum deposit of $50 000 per foreign controlled company at 5%. In February, 1992, in response to the Building Societies decapitalisation problem, Government increased the ceiling to $200 000 and raised the interest rate to 8%. It is still too early to establish how much additional finance this instrument will attract into the Building Societies. It is reported that there is approximately $200 to $300 million surplus funds in the system. It is estimated that about half of these funds could be attracted into Building Societies. However the Building Societies report that the large foreign controlled companies have indicated that 8% is not a sufficiently attractive rate to place their money with Building Societies, and require a return of 11%. Discussions are currently under way with Government to increase this rate.

USAID has proposed the surplus fund instrument as a possible measure in the past. It is recognised that this is a short term instrument that does not represent a long term investment in Building Societies. Furthermore it is likely to be a diminishing resource as competitive pressures reduce levels of liquidity and profitability of foreign companies.

Notwithstanding the above, it is recommended that theprogram supports the effective implementation of this measure as a short

term instrument to improve the liquidity situation of the Building Societies over the transition.

7.2.3. **INCREASING THE CEILINGS ON TAX FREE SHARES**

This is a measure that Government has consistently used in the past to ensure that Building Society tax free shares grow in line with inflationary pressures.

In February 1992, Government raised the ceilings on tax free shares from $180 000 to $250 000 for individuals and from $80 000 to $120 000 for companies. At the same time returns on tax free pups were increased from 12.65% to 13,5%. As Section 3 indicated, the funds raised by Tax Free PUPS are the only Building Society investment that is growing in real terms. (Growth over the June 1991 to January 1992 period was 22%, whereas total growth for all shares and deposits was only 4%). This instrument is therefore increasing in its importance as a source of funds to the Building Societies.

The Societies predict that with the additional February, 1992 measures, growth in the funds will not be as strong as in the past because of the tightening monetary situation. However, estimates from the Building Societies approximate that an additional $150 to $180 million could be raised over the coming year.

In utilising this instrument Government is obviously balancing housing finance requirements with revenues foregone to the fiscus. In supporting low income housing it also has to ensure that the fiscal targets are being met.

It is recommended, therefore, that over the structural adjustment transition and during the implementation of the program the tax free ceiling be constantly reviewed in the light of;

(a) Government fiscal targets

(b) Real effective demand for low income housing.

The objective being to move these ceilings as and when appropriate.

7.2.4. **PURCHASING BLOCKED FUNDS**

This proposal is a new measure that relies on USAID grant funds as a source of funding. In view of the finite nature of these funds, the implementation of this instrument is restricted by the quantum of these resources.

There are currently estimated to be approximately $600 million blocked funds in Government of Zimbabwe External 4% Bonds. If an acceptable instrument can be devised for their investment in low income housing, they could constitute a large additional source of finance for low income housing.

At today's exchange rate it is expected that a large parcel of blocked funds could be purchased for approximately 50% of their face value. The proposal for the utilisation of blocked funds is as follows:

- US$10 million grant money would be made available to Government of Zimbabwe (GOZ) to purchase Z$100 million blocked funds at a 50% discount over the five year program period.

- GOZ would onlend these resources to the Building Societies at a marginal rate (between 0 and 2%) for reinvestment in low income mortgages.

- Furthermore, the Building Societies would be required to raise on the money market a certain proportion of the money received from the Government. For example, $1 for each $1 they receive from government. This would raise another $100 million.

- The building societies would lend a total of $200 million to low income housing.

- At today's rates, the building societies would be able to raise 5 year money at 24% to 25%. This finance blended with 1% money from blocked funds on a one to one basis should result in an effective cost to the building society of 12% to 12.5%.

- To allow for <u>blending</u> which results

in an effective cost of 12.5%, the amount that should be raised by the building societies for each $1 received from government should be variable. It would depend on the rate at which building societies can raise finance on the market. Thus if market rates are above 25% the building societies would have to raise less than the 1 to 1 ratio to make the effective cost of money equivalent to 12.5%. Similarly, if market rates are below 25%, the building society would have to raise more than $1 for each $1 received from government.

It would be a condition of the programme that all funds raised in this manner would be reinvested in low income housing.

There are three major problems to the implementation of this instrument.

(a) Government of Zimbabwe External 4% Bonds currently finance the Government budget. If the release of blocked funds for housing is not matched with a corresponding decrease in the deficit, then the application of the blocked funds could fuel inflationary pressures in the economy. It is proposed that the Government of Zimbabwe funds allocated to the NHF be reduced to counteract the possible inflationary impact of the blocked funds. These funds will be replaced with local currency generated from the Housing Guarantee Loan.

(b) Reinvestment of blocked funds in housing does not conform with present Exchange Control regulations. A policy decision by the Ministry of Finance and the Reserve Bank to reinvest these funds in low income housing would therefore have to be taken.

None of these problems are insurmountable if Government considers housing requirements to be of high priority and takes the necessary decisions to redeploy these resources.

8. LONG TERM STRATEGY FOR THE BUILDING SOCIETIES

8.1. INTRODUCTION

In the long-term, building societies should develop new instruments (that is, methods of raising finance), as well as modify existing instruments for financing low income housing. These instruments would have to evolve as the financial markets become sophisticated and the macroeconomic environment stable. Ideally, these instruments should be non-distortionary and responsive to market conditions. For this to occur, legislation which governs the activities of financial institutions should be changed in order to reduce financial market segmentation and allow for securities to be more marketable.

The objective of this section is to determine the strategy that Building Societies should be encouraged to adopt in the long-term. The chapter commences by setting out the long-term macroeconomic environment for Zimbabwe in 1995 on the basis that the Economic Structural Adjustment Program is successful[1]. Based on this long-term environment, this section analyses the existing financial instruments issued by Building Societies and how they would evolve. The section proceeds to propose the development of a new instrument, termed the Negotiable Housing Certificate of Deposit, along the lines suggested in previous work for USAID's Regional and Urban Development Office[2]. The possibility of securitisation or the creation of a secondary market for mortgages is also examined.

8.2. MACROECONOMIC ENVIRONMENT

In general the long-term macroeconomic situation is assumed to be as follows:

(a) Low rates of inflation which are around 10%. Consequently interest rates will be low but real. This should result in a stable financial market and economy. This is the ultimate objective of ESAP.

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[1] This model may appear too optimistic given the current macro-economic instability. The rational for assuming stability is that it is only in a stable environment that building societies can plan. The actual timing is immaterial - it can be 1995 or even later.

[2] Merchant Bank of Central Africa Finance for Low Income Housing in Zimbabwe, October 1989.

(b) The economy will have been deregulated in most areas especially the trade and financial sectors. This implies that interest rates would be market determined. This free market environment will result in financial innovation. Financial institutions would be allowed to enter into non-traditional areas of lending and raising finance. This environment will result in the development of new financial instruments to mobilise finance.

(c) The public sector borrowing requirement would decline due to a low budget deficit. A low budget deficit is the most direct way of reducing inflation. Reduced public sector borrowing will imply that Government may reduce the amount of prescribed assets on financial institutions especially institutional investors, allowing them to invest in new financial instruments.

(d) Pension funds and insurance companies will have more resources for investment. As the relative size of the state declines, the proportion of national savings that are absorbed by the state declines and these may be channelled to the private sector including pension funds, insurance companies and other contractual savings institutions. The prescribed investments for these firms will also be eliminated. Furthermore, as more people become employed as a result of economic growth, more funds will be invested in pension funds and insurance companies.

(e) There will be increased demand for low income housing due to increased employment (formal and informal) and urbanisation.

In the light of this environment, it is important to determine how Building Societies can utilise low rates of inflation and increased savings to finance low income housing.

The analysis first looks at existing deposits and then reviews new financial mechanisms as detailed below.

8.3. CONTINUATION OF EXISTING DEPOSITS

It has already been stated that Building Societies have a number of financial instruments presently at their disposal for raising finance for mortgages. These are:

(a) Paid Up Permanent Shares Class C (Tax Free)

PUPS. This instrument has played an important role in mobilising finance for low income housing since its introduction in 1986. Through the use of this tax free instrument, Government allowed Building Societies to link savings from small savers to low income housing finance. This was an improvement on the pre-1986 situation when low income housing was financed by Government through local authorities. The Building Societies have exceeded the initial requirement that at least 25 per cent of funds raised through this instrument should be reinvested in low income housing. The building societies are now committed to lend 25% of their total portfolio to high density mortgages. The important link between small scale savers to low income housing indicates that the private financial markets can be used to finance low income housing through appropriate financial instruments. Since PUPS have been successful in the provision of low income housing, it is therefore suggested that this instrument be retained in its present form.

(b) Fixed Deposits: Fixed deposits should continue in the long-term because they ensure that Building Societies have long-term funds for use in mortgages. The nature of mortgage finance is such that a degree of matching is required - Building Societies can effectively lend long if they are financed long. Fixed deposits are more expensive to Building Societies and tend to be used to finance non-low income housing. Even though fixed deposits are not linked directly to low income housing, they are important in that they release cheaper funds for use in low income housing.

(c) Subscription Shares: This is a long-term investment which varies from two to five years. It is also an important long-term instrument that is used by Building Societies in raising additional finance. Although it is expensive, it plays the same role as the fixed deposit.

(d) Savings Deposits: These funds tend to be short-term deposits and may pose problems for long term mortgage financing. There are significant risks in committing such funds into long-term use. However, savings deposits play an important role in providing liquidity to Building Societies. Through the use of savings deposits, Building

Societies can meet their immediate cash and short-term requirements. In the long-term, given the stability of a more liberal environment, this instrument will play an important role in the operation of Building Societies.

In the long-term, it is suggested that government removes the maximum limits on all these instruments. The limits are distortionary in that they do not allow for flexibility in portfolio management by firms and households. They are also contrary to financial market liberalisation under ESAP. It is also suggested that interest rate differentials between these instruments be a result of fundamental differences between the instruments: that is, relative risk, return and marketability. This should be possible once the financing requirements of the public sector have been reduced. We are assuming that these limits and interest rate differentials were placed to assure government of financing for the budget deficit.

8.4. THE NEGOTIABLE HOUSING CERTIFICATE OF DEPOSIT

In two studies for USAID[3], the development of a Negotiable Housing Certificate of Deposit (NHCD) was proposed as an important instrument for long term housing finance. The study was conducted during a period of low interest rates and high liquidity in building societies. Even though the situation has changed dramatically, the long-term situation had been correctly anticipated in the design of the NHCD. Furthermore Government has tentatively agreed to the issue of NHCD's by Building Societies and currently legal and procedural matters are being pursued to effect this policy decision. This section draws its contents from the pioneering reports mentioned.

The objective of an NHCD is to develop a security that is attractive to large contractual savings institutions so that they can be used for financing housing. Pension funds and insurance companies have been growing at a fast rate and will continue to do so in the long-term.

The NHCD should be acceptable to Building Societies, Pension Funds and Insurance Companies as well as the Government. This can only occur if it satisfies the different but not necessarily conflicting requirements of these three groups of actors in the

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[3] Ibid 1 and
Merchant Bank of Central Africa Requirements For The Issue of NCD's By Building Societies In Zimbabwe, October 1990.

market. The Building Societies would require:

(a) That the NHCD term structure should have some relationship with their commitments. A short-term instrument with maturity of less than a year would not be beneficial as this cannot be matched with their long-term lending. It is therefore important that the NHCD should have maturities that are not less than one year.

(b) The cost of raising finance through the NHCD should be market driven to enable the Building Societies to charge their normal margin on mortgages. Assuming that the inflation rate in a stabilised economy is 8%, and that the margin charged by building societies on low income housing in a completely liberalised environment would be 2.5 per cent, Building Societies could accept a maximum NHCD rate of 10,5% per annum.

(c) The Building Societies should be free to optimise their method of raising finance with PUPS, Fixed Deposits and Subscription Shares in addition to the NHCD.

The insurance and pension funds would require that:

(a) The return on the NHCD should be competitive on the money market with securities of a similar nature. In Zimbabwe, the competing instruments are the NCD and Government Stock.

(b) The NHCD should be tradeable on the money market. This will give the investors liquidity and flexibility in portfolio management. In the initial stages, the central bank may have to be the buyer of last resort of the NHCD in order to foster the development of a secondary market in NHCD's.

For government to be satisfied that the use of the NHCD is prudent and being directed to low income housing, the following conditions may be important in a liberal environment:

(a) The Government would need to place liability requirements on the building societies for prudential purposes. It is suggested that the NHCD should constitute a maximum of 30 per cent of a building society's liabilities to the public at the time of issue. This ratio has been suggested because it is

currently applied to Finance Houses.

(b) Building societies should maintain 25% of their portfolio in financing high density areas as agreed.

An instrument that can meet these conditions does not have to be more complex than the existing NCDs issued by Finance Houses and Merchant Banks. However, the Building Societies Act should be amended to allow the Building Societies to issue NHCD's in response to market conditions. The issue of NHCDs by Building Societies could pave the way for financial market desegmentation and eventual securitisation of mortgages.

It is therefore recommended that under the program the speedy implementation of the issue of NHCD's should be supported. The programme in the longer term should view NHCDs as an important instrument in the provision of funds for the low income earner.

8.5. THE SECONDARY MORTGAGE MARKET

The instruments discussed so far relate to an increase in the liabilities of building societies as a means of raising finance. The past few years have seen the development of a secondary mortgages market in some developed countries: this is technically known as securitisation. Securitisation involves the raising of finance by means of packaging mortgages (i.e. assets) of Building Societies and selling them on the capital markets. This has the effect of releasing funds for onlending without an increase in liabilities of the building societies.

Securitisation involves the reduction of the default risk specific to a borrower to insignificant levels. Examples of securitisation in Zimbabwe are Government Stocks and Bank Acceptances. The same can be done for mortgages. Building Societies can securitise mortgages by packaging a number of mortgages with the same maturity into an instrument for sale on the capital markets. For this to occur, the following issues will need to be resolved:

(a) Security - investors would want the instrument to be backed by the Building Societies so that there is non-recourse to the mortgage holder. This will safeguard the investors against default by mortgagee.

(b) Stamp duties - currently there is a stamp duty on mortgages which must be paid every time the mortgage is transferred. This reduces marketability of the mortgage. The stamp duty would have to be removed to avoid

this problem.

There are two basic ways in which securitisation of mortgages can be effected.

(i) The Building Societies can issue a mortgage backed bond for sale on the capital market.

(ii) The Building Societies could establish a subsidiary securities company which purchases mortgages from the building societies. The securities company would issue bonds/shares as liabilities to the public for financing the mortgages.

The second option is preferred because the investor does not have to look at the underlying transaction or the risk profile of the mortgages. This option also removes the responsibility of administering the securities from the Building Societies.

Zimbabwe already has a developed capital market which can be used for trading the Building Societies' bonds through discount houses. It is anticipated that the pension funds and insurance companies will be the major investors in the bonds.

The secondary mortgages market has the advantage of being responsive to the demand for housing finance. The Building Societies would only utilise it when extra housing finance is required.

It is therefore recommended that under the program, support be given to key actors in the housing finance sector to prepare for the creation of a Secondary Mortgage Market. There is need for an indepth study of the possibility of establishing the secondary mortgage market. The following issues will need to be addressed:

(a) The need for a secondary debt market.

(b) The economic requirements of establishing a secondary debt market.

(c) Problems associated with secondary debt markets and their solutions.

(d) The legal and administrative requirements of establishing a secondary debt market.

and

(e) Training of both investors and building societies on the operation of this market.

9. EXPANDED FINANCIAL SECTOR REFORM

9.1. INTRODUCTION

The objectives of the expanded financial sector reforms are -

(a) To support ESAP
(b) Strengthen the economy, and
(c) Strengthen the financial position of local authorities.

Despite having a well developed financial sector, there are problems with the functioning of the financial system in Zimbabwe. These problems relate to the regulation of the financial system which reinforce segmentation. Segmentation in the financial system occurs when financial institutions tend to restrict their activities or specialise in particular areas of lending or deposit taking. This, of course, does not necessarily mean that specialisation (segmentation) is always bad. It is unlikely that any financial institution can provide all financial services efficiently. The ability of a financial institution to provide a service depends on its capacity to attract deposits and lend the funds prudently. This in turn depends on, among other things, institution size, skills, network and past experience. However, there are cases where segmentation is not a result of economic factors but inappropriate policies. In Zimbabwe, these policies take the form of regulations and controls on the activities of financial institutions.

The aim of this section is to analyse segmentation that emanates from regulations and controls. It is assumed that segmentation that results from market behaviour is either desirable or will be removed by competitive pressures after successful deregulation.

9.2. THE NATURE OF FINANCIAL REGULATION IN ZIMBABWE

All financial systems need some form of regulation to ensure the necessary confidence in the system and facilitate intermediation. There are however certain regulations that do not promote financial intermediation. The problem for long-term policy in Zimbabwe relating to financial sector reform hinges on distinguishing between appropriate and inappropriate regulation. Above all, transparency is important in the regulation of the system.

The major regulations governing the financial sector are as follows:

(a) The Banking Act

(b) The Building Societies Act
(c) The Hire Purchase Act
(d) The Post Office Savings Bank Act
(e) The Agricultural Finance Corporation Act
(f) The Zimbabwe Development Bank Act
(g) The Bills of Exchange Act
(h) The Pension and Provident Funds Act
(i) The Insurance Act
(j) The Reserve Bank Act.

The POSB Act, AFC Act, ZDB Act and the Reserve Bank Act will not be examined because they relate to specialist institutions which act as policy instruments for government. The Hire Purchase Act governs lending on hire purchase in general. The Bills of Exchange Act governs trading and gives legal status to bills of exchange[4]. It is therefore apparent that the regulations that may be maintaining segmentation in the financial system are the Banking Act, the Building Societies Act, the Pension and Provident Funds Act and the Insurance Act.

9.2.1. THE BANKING ACT

The Banking Act defines the activities of commercial banks, merchant banks, finance houses and discount houses. In terms of this act, merchant banks are supposed to concentrate on acceptance facilities while commercial banks concentrate on demand deposits withdrawable by cheque. The act also prohibits any other institution from accepting demand deposits or deposits withdrawable at short notice. Finance houses are not allowed to accept deposits withdrawable on notice of less than thirty days. Banks and finance houses are prohibited from transferring their assets and liabilities without the approval of the Minister.

9.2.2. THE BUILDING SOCIETIES ACT

The Building Societies Act governs the activities of building societies in Zimbabwe. In terms of this legislation, building societies are allowed to accept

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[4] Bill of exchange is defined as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person, or bearer." Government of Zimbabwe, The Bills of Exchange Act, Chapter 277

deposits and issue shares and lend against a security of a mortgage. The Act prohibits any other organisation from doing this business unless they are registered as a building society.

The building societies are not allowed to accept any deposit except as a savings deposit or as a fixed deposit. They are not allowed to accept any deposit as a fixed deposit for a period which is less than twelve months or more than five years. Building societies are also prohibited from issuing accounts withdrawable by cheque.

There are restrictions on the maximum savings and fixed deposits by individuals and companies. These are prescribed by the Minister of Finance. The Minister also prescribes the maximum amount to be held on fixed period and subscription shares. Furthermore, the issue of Negotiable Certificates of Deposit by the building societies require ministerial approval.

9.2.3. **THE PENSION AND PROVIDENT FUNDS ACT**

The Act governs the operation of pension funds. In terms of the Act, pension funds are required to hold not less than 35 per cent of their assets in -

(i) local registered securities (issued or guaranteed by the State, local authority or statutory body).

(ii) loans to a local authority or statutory body.

9.2.4. **THE INSURANCE ACT**

The act restricts the investments which insurance companies can make. The Minister of Finance determines the proportion of prescribed securities that insurance companies are required to hold. In this case, prescribed securities are stocks, bonds or other securities issued by the State, a statutory body or a local authority. This may include any other investments approved by the Minister of Finance.

9.2.5. **OTHER REGULATIONS AND CONTROLS**

Apart from the above legislature, the government controls interest rates charged

or offered by the different financial institutions on loans and deposits. For example, the base lending rate gives the minimum rate commercial banks, merchant banks and finance houses can lend at. There are also differential rates for productive sectors (i.e. manufacturing), commercial sectors (i.e. retailing) and final consumers. The government similarly controls the minimum rates on deposits with the commercial banks, merchant banks, building societies and the Post Office Savings Bank. Until March 1992, the Reserve Bank of Zimbabwe required banks to maintain statutory reserves of 12,5% on all deposits. This was reduced to 6,25% at the end of March. There are also controls on mortgage rates charged by building societies for different classes of borrowers as well as different purposes. That is, there are different mortgage rates for commercial and industrial buildings, low income houses and high income housing.

9.3. EFFECTS OF REGULATIONS ON SEGMENTATION

The effects of regulations on segmentation are difficult to quantify. However, a qualitative analysis of the portfolio of financial institutions reveals a high degree of segmentation that stems from regulation. Table 4 summarises the financial instruments issued by financial institutions in Zimbabwe. Even though there are overlaps on both assets and liabilities, there is substantial differentiation and relative specialisation. The segmentation between commercial banks and accepting houses is distinguished by type of customers. Merchant banks specialise in lending to the corporate and public sector while commercial banks lend to private individuals and corporate bodies.

In other classes of banking, the specialisation is characterised by a specific instrument or a group of instruments (which are in italics). It is the specific instrument that determines the bulk of the activities of each institution. For example, finance houses tend to specialise in hire purchase and lease because they are allowed to take term deposits with a minimum maturity of thirty days. In this way they can match their borrowing to their lending. It is important to note that the specific instruments are stipulated in the various acts that have been discussed (The Banking Act and the Building Societies Act).

The regulation (and hence segmentation) often result in inefficiency in the allocation of resources. The

inefficiency is reflected in the following:

(a) Higher than normal costs of financial intermediation which also result in high profitability in the banking industry.

(b) Inability of the financial system to respond to market requirements. This is particularly the case with the condition that the issue of new instruments has to be approved by the Minister. This has had the result of delaying the issue of NCD's by building societies.

(c) Controls on interest rates imply that banks have to ration credit. In some cases interest rate controls result in unfair competition among the different financial institutions. For example, the POSB has an advantage over building societies on fixed deposits.

(d) Reserve requirements have the effect of reducing the ability of banks to lend as well as raising their cost of money (banks would still have to pay interest on deposits which are not being used productively).

(f) Controls on the portfolio composition of pension funds and insurance companies limits the availability of savings to the financial system. It also limits the extent to which these institutions can participate in the financial market.

9.4. LONG TERM POLICY IMPLICATIONS

Given the inefficiency implications of the segmentation, there is a need for a financial system reform in Zimbabwe. The most effective way of desegmenting the market is by deregulating the financial system. Deregulation should be done carefully so that only inappropriate regulations are removed and the appropriate regulations are retained. In this regard, it is recommended that an indepth study be conducted on the following regulations:

(a) The Banking Act
(b) The Building Societies Act
(c) The Pension and Provident Funds Act
(d) The Insurance Act.

Furthermore all the controls being exercised by the Central Bank on banks (especially interest rates and reserve requirements) should be re-examined.

However, it is important to note that deregulation should be a long-term policy objective and gradual. This is because fast deregulation in the presence of uncertain monetary policy and macroeconomic imbalances can result in serious problems (or even turbulence) in the financial sector. In a turbulent financial system certain socially desirable activities like low income housing finance may either be made expensive and unaffordable or may not even be financed.

9.5. MUNICIPAL BONDS

In a liberal environment local authorities should be able to augment their finances. They also have to be less dependent on the State for capital projects. Local authorities should be encouraged to develop **their own sources of financing** infrastructure development such as roads, schools etc. This can be done through the issue of municipal bonds. (It is important to note that the subject of municipal bonds is wide and warrants a separate and an indepth study). The aim of this section is to discuss the basic issues and make tentative suggestions on developing municipal bonds.

Municipal bonds can take two forms:

(i) The General Revenue Bond - This bond is used where the funds raised are not for a particular purpose or where the municipality does not link repayment to revenue generated by a particular project.

(ii) The Dedicated Revenue Bond - This bond is issued to finance a particular project by a municipality. It usually links bond repayment with revenues from the project. For example, a bond issued to finance the construction of a market may be repaid using rates collected by the municipality from the vendors.

9.5.1. MUNICIPAL BONDS IN ZIMBABWE

Municipal bonds are well developed in Zimbabwe and constitute a prescribed asset for pension funds and insurance companies. In terms of The Urban Councils Act, for a municipality to issue bonds, it has to be granted borrowing powers by the Minister of Local Government. The following requirements have to be fulfilled for the borrowing powers to be awarded:

(a) The funds to be raised should be for any of the following projects:

(i) acquisition or construction of permanent works
(ii) acquisition of immovable property
(iii) liquidation of principal on a previous loan
(iv) acquisition of plant, equipment and vehicles.

(b) The municipal council should be operating a consolidated loans fund. The consolidated loans fund would be used for redemption and payment of interest on funds borrowed by the municipality.

Harare and Bulawayo are the only municipalities that are allowed to issue bonds.

The municipal bonds are secured against the municipal assets and income. In the case of a default, the Minister of Local Government would direct the municipality to levy a property rate to repay the loan. There has never been a default by the two Municipalities in the past.

Currently, the City of Harare and Bulawayo raise an average of $28 million and $20 million a year respectively, through municipal stocks.

The issue of municipal stocks has operated well in a highly controlled environment. Municipal stocks constituted a prescribed asset for pension funds and insurance companies and hence there was an assured market. In a less controlled market environment, municipalities may have to raise more resources through the issue of stocks because of declining resources from the central government. The following considerations have to be taken into account:

(a) The administrative and fiscal behaviour of some municipalities need to be improved. This is important to ensure that funds raised through this instrument are used for specified purposes.

(b) The issue of municipal bonds should be monitored by the placing of parameters within which municipalities can issue bonds. These parameters should include

ratios of debt to total municipal assets and the ability of municipalities to generate income. This will ensure that the municipalities are not over-borrowed or have sufficient revenues to cover their debt service commitments.

(c) Some form of security must be established to reduce the default risk of municipalities. Municipalities may fail to meet their interest payments or may be unable to redeem the principal amount of the bond when it becomes due. There is therefore need for some agency to guarantee or underwrite the bonds. This may take the form of Government or a bank.

(d) The tax status of municipal bonds needs to be established. Since the objective of developing this bond is to make finance available at low cost, interest from the municipal bonds should be exempt from taxation. This has the benefit of keeping interest costs low relative to interest rates paid by other borrowers.

(e) The interest and return on municipal bonds should be sufficient to make them attractive to investors. This can be achieved through the tax free status of municipal bonds.

These considerations may have been ignored in the past because interest rates were static and municipal bonds were a prescribed asset. They will be important as the competition for savings increases and investors evaluate more carefully the risks and returns from investments.

Municipal bonds may take different forms depending on the market conditions, maturity period and security provided. This requires innovation by the municipalities. For example, local authorities can issue bonds with fixed interest rates.

Alternatively the bond could take the form of a zero-coupon bond which has a discounted face value. The zero-coupon bond can be traded on the market at a discount. For example, a $100,000 tax-free bond with a

maturity of one year will be purchased at $90,000 by an investor if the rate of interest on the market is 20% and taxation is 50% on all interest income. The interest rates on the bonds could also be variable - this is particularly important during inflationary periods.

The potential investors in the municipal bonds also need to be determined. It has already been stated that municipal bonds constitute prescribed assets for pension funds and insurance companies. This will change as financial markets are liberalised under ESAP and all prescribed investments are removed. Institutional investors (i.e. pension funds and insurance companies) are expected to be the major investors in municipal bonds even after ESAP. Apart from the statutory requirements, there are other reasons for this. First, institutional investors tend to hold long-term investments and are not involved in wide scale speculative activities. Second, they have access to large savings and can thus hold bonds with large denominations. Third, institutional investors are the major players in the secondary market for securities and equities in Zimbabwe.

Private companies and discount houses could be important investors in the municipal bonds. These also have access to large savings and have played an important role in the equities market in Zimbabwe. They would be attracted by the tax free status of municipal bonds.

There are limitations on the development of municipal bonds which relate to institution building. An underwriting capacity needs to be developed amongst the potential underwriters (that is, Commercial Banks, Merchant Banks and Government). Underwriting is important to assure the potential investors that the municipalities will meet their commitments on capital and interest.

In the short-term, the scope of municipal bonds is limited because they offer relatively low interest rates relative to market rates. (The last issue had an interest rate of 15,3%). This is compounded by the fact that prescribed investment requirements for insurance companies and pension funds will be removed. It is

therefore proposed that under the program, municipality bonds should be given a tax-free status to make them attractive to private investors.

Furthermore, the development of municipal bonds could play an important role in the provision of low income housing, given a more dynamic money market.

It is therefore recommended that under the program steps should be taken to explore the potential for and implementation of the issue of Municipal Bonds to raise finance.

10. TECHNICAL ASSISTANCE TRAINING REQUIREMENTS OF THE PROGRAM

In interviews with Government, RBZ, the Building Societies and the Money Market there was general consensus that there was no additional training requirement necessary for the implementation of the recommended transitional measures.

With regard to the long term measures three areas were identified as requiring a strengthening of expertise.

10.1. SECONDARY MORTGAGE MARKET

To develop a secondary mortgage market three areas of expertise development were identified.

Expertise to package and onsell mortgages would require wide ranging skills development, mainly in the Building Societies or in any other institutions which, with market desegmentation, would be in the housing mortgage business.

Expertise to manage the buying and selling of mortgages in the money market. This would mainly revolve around the development of skills to identify the quality of the variety of mortgage packages and thus the appropriate return on the mortgages being offered.

Finally the investors themselves need to develop expertise as to the attractiveness or not of the various packages of mortgages on offer.

10.2. MUNICIPAL BONDS

In order for municipal bonds to be developed as a long term resource for municipalities, technical assistance is required at two levels.

Expertise will need to be developed in the larger municipalities to;

- assess the appropriateness of issuing municipal bonds in prevailing and forecast monetary conditions.
- develop the administrative capacity of issuing these bonds.

The development of this form of expertise will prove particularly important to the money market and for investors in the municipal bonds.

10.3. FINANCIAL DEREGULATION

There is a need for an indepth study of the

functioning of the Zimbabwean financial system.

In supporting Government's efforts to deregulate the financial market over the structural adjustment programme, a wide range of skills will need to be developed over the whole spectrum of the financial market. These skills will have to be responsive to the dictates of market allocation of resources, rather than the skills that have been developed in the past which were a result central regulation. There will be need for training personnel in financial institutions in the operation of a deregulated financial system. Of importance will be training of Government and Central Bank personnel on deregulating financial systems.

10.4. PORTFOLIO MANAGEMENT

Building societies have operated in a controlled environment and do not have sufficient skills in portfolio management. However, as the economy is liberalised and ESAP takes place, the financial system will become more competitive and complex. Building societies will need technical assistance in portfolio management so that they can optimise on their deposit taking and lending.

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LIST OF APPENDICES

TABLE 2	SEPTEMBER 1991 BUILDING SOCIETY RATES
GRAPH 1	SHARES AND DEPOSITS : PERCENTAGE CHANGE
GRAPH 2	PERCENTAGE OF TOTAL : SHARES AND DEPOSITS
APPENDIX I	LIST OF PEOPLE CONTACTED

TABLE 2

SEPTEMBER 1991 BUILDING SOCIETY RATES

A. MORTGAGE LENDING RATES OF INTEREST	INTEREST RATE PER ANNUM		
	JAN 1991	FEB 1991	SEPT 1991
1. IN RESPECT OF RESIDENTIAL PROPERTIES (Including units held under Sectional Title)			
(a) Owner occupied - all areas existing and new loans (Property occupied by the mortgagor)			
(i) Loans up to $35 000	11,5%	13,00%	15,00%
(ii) Loans of $35 001 or more	13,75%	14,50%	17,00%
(iii) Property registered in the name of a Company or Trust			
- Existing Loans	14,75%	20,00%	23,00%
- New Loans	14,75%	30,00%	32,00%
(b) Non-owner occupied: Existing Loans			
(i) Property registered in the name of an individual	14,75%	16,00%	19,00%
(ii) All other categories	18,25%	20,00%	23,00%
(iii) All loans granted previously at	-	30,00%	32,00%
(c) Non-owner occupied: New Loans			
(i) Property registered in the name of an individual	14,75%	16,00%	19,00%
(ii) All other categories	18,25%	30,00%	32,00%
2. IN RESPECT OF NON-RESIDENTIAL PROPERTIES			
(a) Commercial Properties			
(i) Existing Loans	14,75%	20,00%	23,00%
(ii) New Loans	14,75%	30,00%	32,00%
(iii) Commercial properties outside Municipal areas, existing and new loans	-	20,00%	23,00%
(b) Industrial Properties			
Existing and new loans	14,75%	16,00%	18,25%

(c) **Tourist Development**			
Existing and new loans	-	20,00%	23,00%

B. INVESTMENTS	INTEREST/DIVIDEND PA		
	JAN 1991	FEB 1991	SEPT 1991
PAID-UP PERMANENT SHARES			
CLASS C (TAX FREE) PUPS			
(New Limits - $180 000 Individuals)	9%	11,00%	12,65%
- $ 80 000 Companies)		(Tax-Free)	
FIXED DEPOSITS			
(Limits - $ 900 000 per individual)			
- $1 800 000 per company)			
- $3 000 000 per Municipality)			
12 - 23 months	9,75%	12,85%	14,85%
24 - 60 months	10%	13,00%	15,00%
SUBSCRIPTION SHARES			
(Limits - $ 700 000 per individual)			
- $1 300 000 per company)			
24 - 35 months	9%	12,00%	
36 - 59 months	10%	12,50%	14,00%
60 months and over	10,5%	13,00%	
SAVINGS DEPOSITS			
Limit - $300 000 per individual or company			
AT CALL (immediate access)	7,75%	12,00%	
AT NOTICE (Special savings or certificates)			
1 month		12,15%	14,15%
3 months	8,75%	12,25%	14,25%
6 months	9%	12,50%	14,50%
9 months	9,5%	12,75%	14,75%

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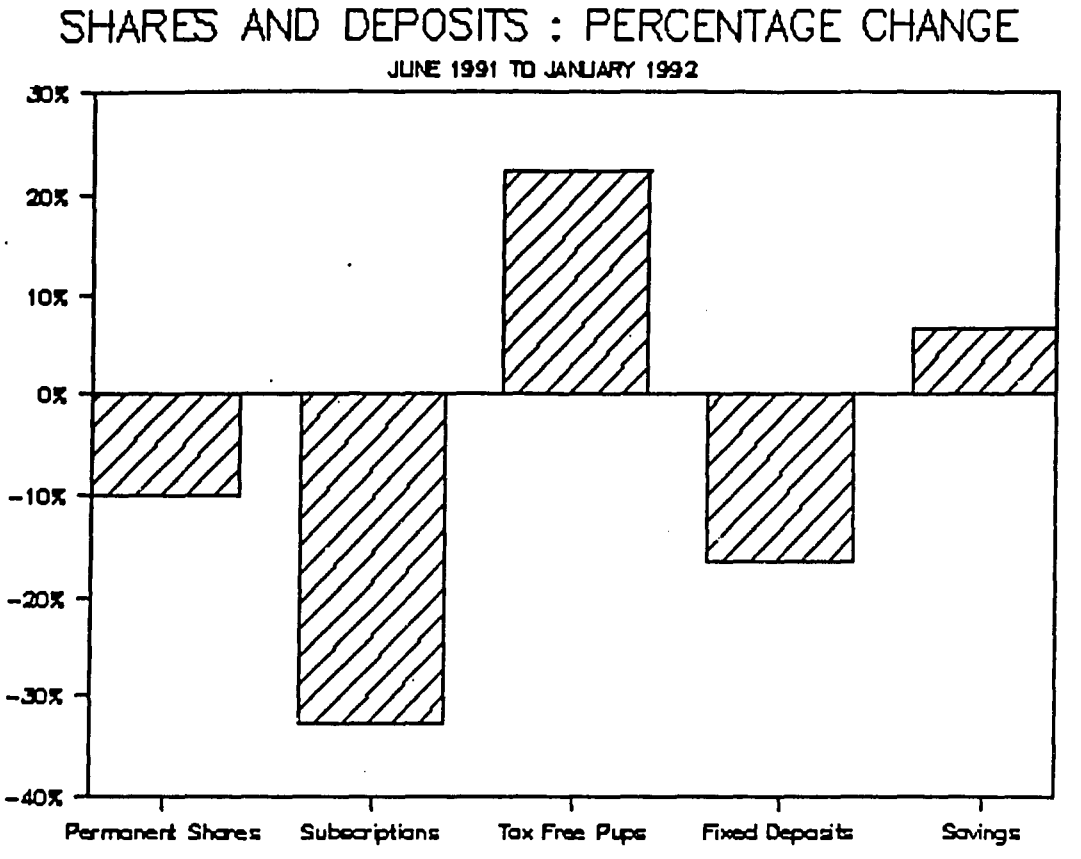
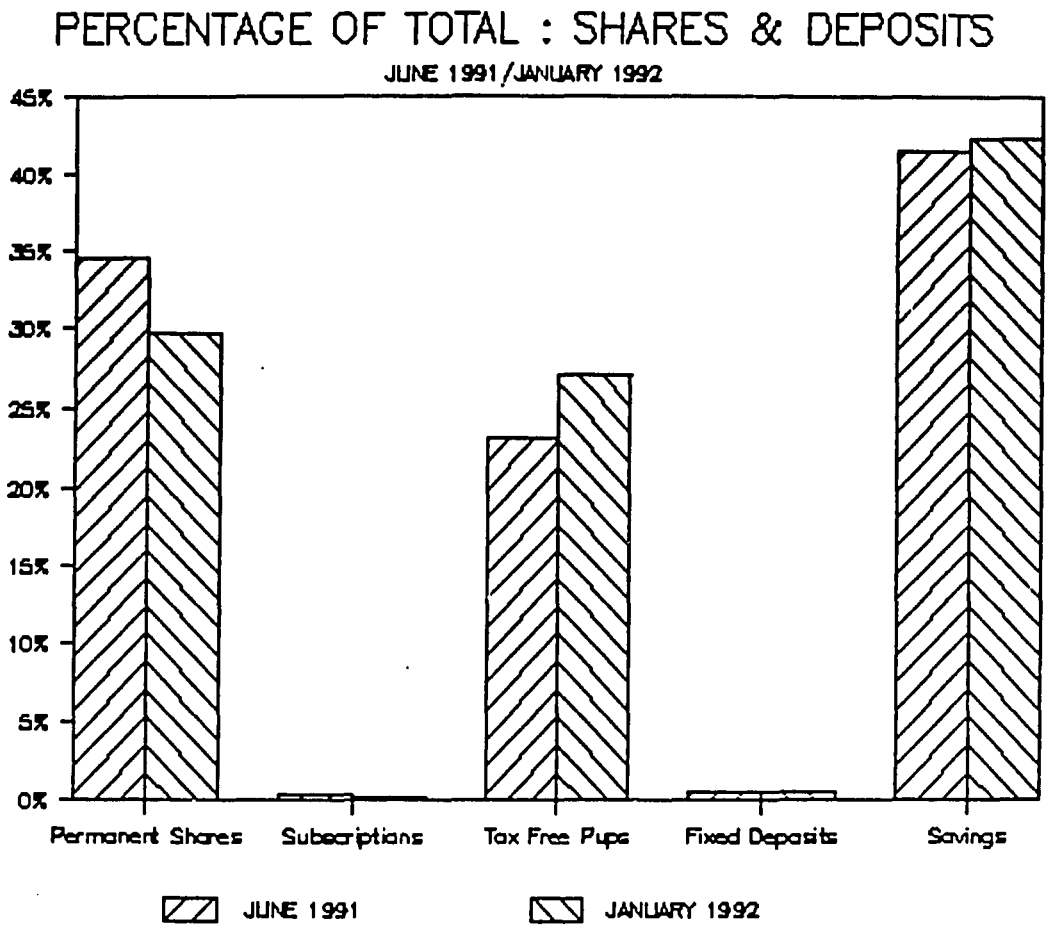

SHARES AND DEPOSITS : PERCENTAGE CHANGE
JUNE 1991 TO JANUARY 1992
30%
20%
10%
0%
-10%
-20%
-30%
-40%
Permanent Shares
Subscriptions
Tax Free Pups
Fixed Deposits
Savings


PERCENTAGE OF TOTAL : SHARES & DEPOSITS
JUNE 1991/JANUARY 1992
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Permanent Shares
Subscriptions
Tax Free Pups
Fixed Deposits
Savings
JUNE 1991
JANUARY 1992

APPENDIX I

LIST OF PEOPLE CONTACTED

1. **FOUNDERS BUILDING SOCIETY**

   Mr T Conway General Manager

2. **BEVERLEY BUILDING SOCIETY**

   Mr G Burmester General Manager

3. **CABS**

   Mr G Hollick General Manager

4. **WORLD BANK**

   Mr L McKay Deputy Resident Representative.

5. **OLD MUTUAL PENSIONS**

   Mr G Melliar

6. **OLD MUTUAL LIFE ASSURANCE**

   Mr P Dangarembizi

7. **THE DISCOUNT COMPANY OF ZIMBABWE**

   Mr I Helby

8. **RESERVE BANK OF ZIMBABWE**

   Mr S Malaba Head of Economics
   Mr J Dhliwayo Deputy General Manager, Exchange Control

9. **MINISTRY OF FINANCE, ECONOMIC PLANNING AND DEVELOPMENT**

   Mr S Meda Registrar of Pensions and Insurance

ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM

STUDY OF CONSTRAINTS IN THE HOUSING AND INFRASTRUCTURE DELIVERY SYSTEM

REPORT OF FINDINGS

(April 28, 1992)

EXECUTIVE SUMMARY

Despite the average annual production of 12,000 to 14,000 low cost units over the past five years, the Government of Zimbabwe estimates that only one third of urban housing demand is being met.

The [illegible] primary impediments to increased low cost housing production in Zimbabwe have been identified by USAID:

- Lack of foreign exchange for the construction sector which has resulted in a severe shortage of plant and equipment;

- A shortage in private sector housing finance due to inadequate incentives to attract financial resources to housing; and

- [illegible] of regulatory [illegible] by the private [illegible] unnecessarily expensive.

The purpose of this report is to present the findings of a study [illegible] the regulatory bottlenecks which constrain serviced land delivery and make shelter unaffordable to the lowest 50 income percentile of the urban population. Required mechanisms to achieve policy action to overcome the obstacles are made.

The following problems and required actions to overcome the problems were identified at different stages of the serviced land and shelter delivery processes.

Land Identification and Acquisition
Problem Statements

1. Lack of long term urban development plans indicating future directions and extent of urban growth and associated infrastructure servicing costs result in delays in the redefinition of expanding urban boundaries and hinder orderly and timely development.

2. Most urban centers are operating on outdated and inflexible zoning plans. Once land within an urban boundary has been acquired for low cost housing purposes, inappropriate zoning regulations can delay development by a minimum of one year and frequently longer.

Required Actions

1. Technical assistance to local authorities to prepare long term statutory master plans or mid-term strategic land use and

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infrastructure delivery plans to guide the timely expansion of urban boundaries.

TA would be carefully targetted to the needs of each local authority. It might include up-to-date aerial photography to record peri-urban incremental development and areas suitable for in-fill; short-term TDYs to input on specific elements in the plan preparation.

[illegible]. Technical assistance to local authorities to update Local Development Plans to rezone identified areas for low cost housing.

Layout Plan Preparation

Problem Statements

1. The sheer volume of output of layout plans is low in comparison to the need.

2. The quality of layout plans is often [illegible] and [illegible] and slowing down of cadastral survey at a later stage.

Required Actions

1. Local authorities still involved in land delivery should be encouraged to use the services of private sector planners to pick up overload from their offices and for experienced input when needed.

2. In-service and career advancement training should be offered to local planners (professionals and technicians) in both the public and private sectors who are active in low cost housing programme. Training take the form of short-term [illegible] workshops as well as sponsorship to attend relevant [illegible] courses in policy and skills training at U.S. institutions.

Cadastral Survey

There is no one reason why cadastral survey is currently a slow process nor is there one simple remedy.

Problem Statements

1. In numerous cases survey is delayed because of inconsistencies between an approved layout plan and reality on the ground.

2. The number of registered land surveyors working in the country is small. Registered surveyors operate under a legislated prescribed schedule of fees and there is a tendency

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for them to leave the country once they are registered for more competitive remuneration packages offered elsewhere.

2. Approval of plans by the Surveyor General's office is currently taking 13 months due to lack of experienced personnel, a limited operational budget and the lack of incentive structure for personnel. The last factor equally affects the operations of the Deeds Registry where further delays are experienced.

Required Actions

1. Deregulate the fee structure of land surveyors and allow them to charge a market rate for their services so as to retain survey skills within the country.

2. Replace the present "critical areas allowance" paid to all professional posts in the civil service with an individual specific "performance related pay allowance", rewarding individual effort.

[illegible] to Service [illegible]

[illegible] Elements and Required Actions

1. The sales prices of plots serviced by private developers is higher than in the case of local authority developers because the capital costs of water and sewerage reticulation are not spread across city-wide tariffs. Private developers also cannot benefit from potential cross-subsidies at a city-wide level in this respect.

Water and sewerage charges should be charged in the plot sale price for local authority and private developer alike.

2. Savings can be effected by using 100mm diameter sewer pipes instead of the conventional minimum pipe size of 150mm. To prevent blockages due to extraneous matter entering the pipes, smaller diameter pipes should be used in short lengths of up to 100m at the head of sewers. Further savings can be effected by laying sewers at a minimum depth of cover of 300mm rather than the conventional 750mm, saving on excavation costs. Together these measures would effect a 15% saving on sewerage costs.

3. Roads and stormwater drainage account for 40% upwards of plot servicing costs even though vehicle ownership in low cost housing areas is an estimated low 4%.

Given the high costs of sealing roads and the low volume of car ownership in low cost housing areas, only bus routes and major collector roads need to be tarred. This measure would account for a 35% cost saving on all other non-sealed roads.

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Granitic sands suitable for <u>in situ</u> wearing course material on roads are found in about 50% of the country. Where suitable IWC is available and used, a saving of 27% on unsealed road costs can be effected.

4. Ancillary land use standards, particularly for schools, are high in Zimbabwe in comparison with standards used elsewhere in the region. Even taking into account double sessioning at Zimbabwean schools, school lots are three times more generous than in neighbouring countries.

If school sites were reduced by only 40% (to 8ha for secondary schools and 3.6ha for primary schools), on a layout of 1,000 X 300m2 plots, an additional 190 plots could be provided. It would account for a 16% cost saving in the servicing of each residential plot, equivalent to a saving of Z$954 per plot assuming 300m2 plot sizes.

Savings on smaller plot sizes are even more dramatic. [illegible] 1,000 X 220m2 residential plots could be created [illegible] savings of Z$1,138 per plot and [illegible] as an infrastructure [illegible]

A percentage of the plots created from the savings could be allocated for teachers' housing.

5. The current minimum plot frontage and related minimum plot size was set by the MPCNH in 1982 as being 18.5m and 300m2 respectively. The minimum acceptable plot size should be reduced to 180m2 with an effective minimum frontage of 8.5m. This will result in a direct cost saving of 28% per serviced plot. Furthermore it will result in more efficient use of urban land reducing urban sprawl, journey to work travel times and costs of bulk infrastructure.

Superstructure and Building Standards
<u>Problem Statements</u>

1. The 200mm thickness of external walls as specified in Chapter 5, Section 6(1) of the Model Building Bylaws is unnecessarily thick given the small load-bearing requirements of single storey low cost residential structures. External walls of 230mm thickness add a cost of Z$900 per habitable room in comparison to using 115mm thickness.

2. A household requires a minimum monthly income of Z$1,200 to afford the mortgage repayments on a four roomed core house set by the MPCNH as the minimum size of unit. By MPCNH's own admission this excludes 60 - 70 percent of households currently on the waiting lists and is almost double the urban household median income level.

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Recommended Actions

1. The Inter-Ministerial Committee on Building Bylaws should amend Chapter 5, Section 6(1) of the Model Building Bylaws so as to permit fair-faced external walls of a minimum thickness of 115mm in low cost housing development. This would achieve a cost saving of 10% off all habitable rooms.

2. MFCNH Circular No. 8/89 should be superceded so as to permit a minimum of a wet block and one room slab on a serviced plot. This would mean that shelter delivery to this minimum standard would be affordable to the 32 - 50 income percentiles of urban households over the next five year period.

These households would be able to afford the costs of:

(i) A serviced 150m2 plot (assuming sewer savings of 15%, tarred bus routes only and reducing school lots by 10%);

....

(ii) A superstructure consisting of a wet block (toilet\shower) and foundations and floor slab for one habitable room (3m x 3m).

PREFACE

The study was commissioned by the United States Agency for International Development's Office to Zimbabwe. Technical review was provided by the Regional Housing and Urban Development Office for East and Southern Africa, USAID. The study's findings are to be used to assist in the design of USAID/Zimbabwe's Private Sector Housing Program.

The report details and analyzes the housing and land delivery systems currently prevailing in Zimbabwe. It identifies bottlenecks in the systems and recommends action to overcome the constraints. The result will be smoother and more efficient delivery systems which better meet the needs of urban low-income households.

The study was carried out by Colleen Butcher of Plan Inc. Zimbabwe P/L., with additional technical inputs from Ron Marks of Stewart Scott NCL, Jeff Broome of Burrow Binnie Ltd., Shen Han-[illegible] C.G.Bowse and Richard Martin of RHUDO/ESA. The views [illegible] in this document are those of the author alone and [illegible] necessarily reflect those of either USAID/ZIM [illegible]

March [illegible], 1992

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A C R O N Y M S

CSO	:	Central Statistical Office
DPP	:	Department of Physical Planning
GOZ	:	Government of Zimbabwe
MLGRUD	:	Ministry of Local Government Rural and Urban Development
MPCNH	:	Ministry of Public Construction and National Housing
RTCPAct	:	Regional, Town and Country Planning Act, 1976
SG	"	Surveyor General
USAID	:	United States Agency for International Development
[illegible]	:	Urban State Land Office, MLGRUD
Currency	:	The unit of currency used throughout this report is the Zimbabwe dollar. US$1 = Z$5.1 at the time of writing.

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1.0 INTRODUCTION

1.1 Background

The rate of urbanization in Zimbabwe is rapid. By the year 2000, 40% of the population will be living in urban area. At Independence in 1980, the urban population totalled only 17%. The Ministry of Public Construction and National Housing estimates that demand for urban low cost housing will exceed 400,000 units between 1988 and 2000. Despite the average annual production of 12,000 to 14,000 low cost units over the past five years, the Government of Zimbabwe estimates that only one third of urban housing demand is being met.

Three primary impediments to increased low cost housing production in Zimbabwe have been identified by USAID:

- Lack of foreign exchange for the construction sector which has resulted in a severe shortage of plant and equipment;

- A shortage in private sector housing finance due to [illegible] incentives to attract financial [illegible] to housing;

- A series of regulatory obstacles which limit the servicing of urban land by the private sector and make shelter development unnecessarily expensive.

To alleviate the constraints identified, USAID is proposing a Zimbabwe Private Sector Housing Program. It will comprise a grant and loan guarantee to the Government of Zimbabwe to expand the private production and delivery of housing. Legislation governing the HG Program requires that the benefits be affordable to households earning at or below the median income level.

The housing delivery system in Zimbabwe for higher income groups works fairly well with the private sector acting as developer and financier. However, the public sector is the primary developer of the shelter for low income groups. Although the financial role of Building Societies has expanded since the mid-1980's, acquisition of urban land and development of off-site and on-site infrastructure has traditionally been the responsibility of Local Government. As a result a number of policies inhibit the private sector role in delivering serviced land and housing for low income groups.

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Specifically the regulatory constraints are with respect to:

(i) public/private sector inequalities concerning the recoupment of off-site infrastructure charges;

(ii) difficulties in bringing appropriate urban land onto the market;

(iii) inappropriately high land use and infrastructure standards, and

(iv) unaffordably high minimum building requirements.

The purpose of this study is to analyze the regulatory constraints in more detail, including associated costs and legislative reforms required to amend current policies. Possible solutions are to be recommended to encourage the production of low cost shelter by the private sector and positively address the excessive building and development costs.

[illegible]

The Terms of Reference of the study are presented in Annex 1.

The consultant interviewed key informants over a two and one half week period in Zimbabwe. Personal interviews were held with officials from:

- the Ministries of Local Government, Rural and Urban Development, Public Construction and National Housing, Surveyor General's Office, Ministry of Education, ZESA, and Harare and Marondera local authorities; and

- private developers, estate agents, land surveyors, town planners, and building societies.

Telephone interviews were held with local authority officials and private developers in Bulawayo.

Attitudinal and housing preference data derived from the phase 1 socio-economic household surveys and focus group discussions have been considered in formulating recommendations o as to match with beneficiary socio-cultural considerations.

The consultant commissioned the services of a Civil Engineer (roads and storm water drainage), a Civil Engineer (water and sewerage), and a Quantity Surveyor to determine the actual unit costs of infrastructure services and superstructure building

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costs. The unit costs were used in a computer model developed by RHUDO/ESA to simulate alternative options with respect to varying plot sizes, infrastructure levels and superstructure sizes, and standards of finish.

Finally, information from potential beneficiary households was derived from the Phase I household income/expenditure survey and focus group work. The data was used to take cognizance of socio-cultural preferences when recommending alternative technical options.

A list of individuals interviewed and consulted during the course of the study is presented in Annex 3.

2.0 Land and Shelter Delivery Process : Constraints Identification and Possible Actions

Figure 1 shows in summary form the main steps in the land and shelter delivery process from the initial identification and acquisition of suitable raw land through to the beneficiary households occupying their houses. The basic process is similar the same for both private and public sector developers [illegible] internal variation.

2.1 Land Identification and Acquisition

Land in urban areas is held under individual title comprising a unique property name (with information on locality, extent, name of owner and previous owners, and rights enjoyed by the property) registered in the Registrar of Deeds office. This is accompanied by a survey diagram or general plan filed in the offices of the Surveyor General giving a mathematical definition of the limits of the property.

The developer acquires land in the free market. In cases where the local authority is the developer, land may be compulsorily acquired in terms of the Land Acquisition Act of 1965 (which may soon be superseded by the more severe measures of the Land Acquisition Bill of 1992).

Before acquired land can be developed for low cost housing it must meet two statutory requirements:

(i) It must lie within the municipal or town area boundary (gazetted in terms of the Urban Councils Act); and

(ii) It must be appropriately zoned in terms of the operative Town Planning Scheme, Local Plan or Master Plan

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(gazetted in terms of the Regional, Town and Country Planning Act, 1976).

The onus lies with local authorities to keep track of land availability within the gazetted boundaries and to initiate expansion of boundaries ahead of development needs. Currently development in many urban areas has overtaken available land and local authorities are only flagging land needs when the need is acute. Recognition is not given to the lengthy lead times involved in statutorily expanding the urban boundary.

All land within the majority of urban centers in the country is subject to zoning regulations laid down by Town Planning Schemes or Local or Master Plans. Typically, the Plans are fairly inflexible documents giving local authorities (responsible for their administration) little leeway to permit development not in accordance with a stipulated zone.

In terms of Section 27(6) of the Regional, Town and Country Planning Act, 1976 a local authority is bound by the provisions of an operative Scheme or Plan - no matter how out of date. With the exception of Bulawayo and parts of Harare, most urban [illegible] are covered by zoning plans which are 30 years or more [illegible]. There are only two possible ways to [illegible] land [illegible] [illegible] by a zoning plan:

(a) Supersede the Scheme or Plan with a newly prepared Local Development Plan or Master Plan (Sections 14 and 15 of the Regional, Town and Country Planning Act); or

(b) The Minister of Local Government, Rural and Urban Development may himself determine an application for development. His decision will over-ride the operative Scheme if he is satisfied that "having regard to the national or regional implications,... it is in the public interest to do so" (Section 30 of the RTCPAct).

Problem Statements

1. Lack of long term urban development plans indicating future directions and extent of urban growth and associated infrastructure servicing costs result in delays in the redefinition of expanding urban boundaries and bottlenecks to timely development.

2. Most urban centers are operating on outdated and inflexible zoning plans. Once land within an urban boundary has been acquired for low cost housing purposes, inappropriate zoning regulations can delay development by a minimum of one year and frequently longer.

Required Actions

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1. Technical assistance to local authorities to prepare long term statutory master plans or mid-term strategic land use and infrastructure delivery plans to guide the timely expansion of urban boundaries.

The latter need not be complex technical documents. They would identify suitable land for development, report on how existing services could be extended and at what financial cost. The recommendation falls in line with the medium range (10 - 15 years) "Integrated Urban Infrastructure Development Plans" proposed by the World Bank under the Second Urban Development Project.

TA would be carefully targetted to the needs of each local authority. It might include up-to-date aerial photography to record peri-urban incremental development and areas suitable for infill; short-term TDYs to input on specific elements in the [illegible] preparation.

[illegible] and TA would be [illegible] through the [illegible] by local Planning, MLGRUD, but would be most effectively located at the local authority level.

2. Technical assistance to local authorities to update Local Development Plans to rezone identified areas for low cost housing.
Local Plans are statutory documents and preparation times are a minimum of 9 months. With the exception of Bulawayo and Harare local authorities do not have the in-house capacity to undertake the timely preparation of LDPs. The Department of Physical Planning is equally hard pressed to do so.

TA would be similarly targetted and co-ordinated as in Required Action 1 above. Local authorities should also be encouraged to make use of the services of private sector town planning consultants to prepare LDPs on their behalf.

2.2 Layout Plan Preparation

Once a suitable block of land is acquired, a layout plan showing detailed plot boundaries is prepared for subdivision purposes. The layout must be approved in terms of Section 41 of the RTCPAct (in the case of private developers), Section 44 of the RTCPAct (in the case of smaller local authorities) or Section 160 of the Urban Councils Act (in the case of municipalities).

Problem Statements

1. The sheer volume of output of layout plans is low in comparison to the need. A review of layout plans approved over

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the past five years shows that on average 4 500 plots per annum are approved under Section 160 and 3 000 plots per annum under Section 44. The numbers of low cost housing plans prepared under Section 41 are very low indicating the limited private sector involvement in land delivery for this income group to date.

The low volume of output of plans is a reflection of lack of experience among planners in the public sector and lack of incentive structures for civil servants.

2. The quality of layouts prepared is often lacking because of a number of factors;

(a) reliance of inadequate base mapping as a short term cost saving;

(b) planners' lack of attention to detail; and

(c) planners' lack of appreciation of urban development [illegible] and how the quality of a layout affects [illegible] costs.

The result is both increased infrastructure costs due to poor design and slowing down of cadastral survey at a later stage.

The consultant came across numerous cases where, residential stands shown on approved layouts could not be developed on the ground due to rock or surface drainage; roads indicated on plans went through quarry excavations or were on sheer rock faces; sewer runs were interrupted by plot misalignments; and similar.

Required Actions

1. Local authorities still involved in land delivery should be encouraged to use the services of private sector planners to pick up overload from their offices and for experienced inputs when needed. On a layout for a large area (e.g. 1 000 plots) planning fees would amount to Z$35 per plot - a figure easily justified by more timely and efficient land delivery.

2. In-service and career advancement training should be offered to local planners (professionals and technicians) in both the public and private sectors who are active in low cost housing programs. Training would ideally be offered on short-term courses. Locally run workshops on planning layout and design would be organized through the DPP andZimbabwe Institute of Regional and Urban Planners. Short-term external TA would be used to design and facilitate the workshops.

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Sponsorship to attend short-term courses in policy and skills training at U.S. institutions would be extended to senior level planners involved in formulation and implementation of low cost housing policy. Identified courses include:

- Land Development: University of California, Berkeley and the Lincoln Institute of Land Policy, Mass.

- Housing Finance: Fels Center of Government, U.Penn, Philadelphia and the Research Triangle Institute, N.C.

- Project Appraisal and Urban Design: International Training Program, Harvard, Mass.

- Housing Settlements Infrastructure: MIT, Mass.

- Public/Private Sector Ventures in Urban Development and Shelter: Technical Support Services Inc., Washington D.C.

[illegible] Plan Approval

Section 160 and Section 44 approvals are by the Minister of Local Government, Rural and Urban Development and the Director of Physical Planning respectively. Speed of approval is directly related to the quality and comprehensiveness of plans submitted. Unnecessary delays are not typically experienced at this stage.

Section 41 approvals are made by either municipalities or RDC depending on the urban center. The RTCPAct stipulates an approval period of 4 months but some local authorities, in particular Gweru and Harare, typically take 10 months or more to approve plans. Delays are primarily related to poor office management procedures.

5.4. Cadastral Survey

Once the layout plan is approved, a permit to subdivide is issued by the local authority. The permit is implemented by a registered Land Surveyor in terms of Section 25A of the Land Survey Act (Chapter 147). Implementation consists of the Land Surveyor placing permanent beacons demarcating each plot on the ground and submitting a plan showing the mathematical delineation of the plots to the Surveyor General's Office for approval. Following SG approval, the Registrar of Deeds issues certificates of registered title for every plot in terms of the Deeds' Registries Act (Chapter 139).

Cadastral survey has been cited as one of the major bottlenecks in land delivery for low cost housing. Various solutions have

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been suggested ranging from the use of block survey only (instead of individual plot survey) to the deregistration and deprofessionalization of the land surveyors.

The cadastre system in place in Zimbabwe is comprehensive and provides a sound basis for both individual security of tenure and the value of property for collateral purposes (e.g. low cost residential mortgage finance). In the 1980's block boundary surveys were used as a means of speeding up the survey process. However it was abandoned because of inaccurate laying out of service infrastructure and the need for subsequent re-survey to be carried out.

There is no one reason why cadastral survey is currently a slow process nor is there one simple remedy.

Problem Statements

1. In numerous cases survey is delayed because of [illegible] between an approved layout plan and reality on [illegible]. Surveyors are given some flexibility by [illegible] to change layout plans but negotiations between surveyors and planners cause unnecessary delays. In some cases layout plans - particularly when bounded by existing development, are unsurveyable.

2. The number of registered land surveyors working in the country is small - 15 in number in the private sector and 9 in the SG's office (of whom 2 are semi-retired). The University of Zimbabwe now has a Department of Surveying and 15 students have graduated over the past 3 years. The four year academic course must be followed by one year of practical articles followed by a trial survey for registration purposes. The registration requirements are not excessive when compared to other professional qualifications (e.g. two years practical post-graduate experience for urban and regional planners and for engineers. The latter also write a professional practice exam).

Registered surveyors operate under a legislated prescribed schedule of fees (Statutory Instgrument 200/90). There is a tendency for surveyors to leave the country once they are registered for more competitive remuneration packages offered elsewhere (e.g. Canada, Botswana and South Africa).

3. Private sector surveyors currently have sufficient equipment to operate efficiently but lack vehicles. Vehicles are now on OGIL and are being imported into the country but at inflated prices (e.g. Z$180 000 for a one ton pick-up truck worth US$20 000). The price is recently declining currently Z$155000 as trade liberalization takes effect but is still in excess of the official exchange rate cost of the vehicle.

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Future private land survey equipment needs and equipment needs of the Surveyor General's Office are to the value of Z$13 million.

4. Assuming that the layout plan is prepared to an acceptable standard, private surveyors are able to start survey of the plan 4 months after commissioning. They are able to provide general plan by general plan (200 - 300 stands) on a rolling basis ahead of servicing requirements. The general plans will have passed a preliminary examination (now carried out by the private land surveyor) but require S.G. approval before Title Deeds can be issued against the property (a requirement for mortgatge finance). SG approval is currently taking 13 months due to lack of experienced personnel, a limited operational budget (of Z$1 million p.a. representing 50% of requirement) and the lack of incentive structure for personnel. The last factor equally affects the operations of the Deeds Registry where further delays are experienced.

[illegible] Options

1. [illegible] and training of planners as detailed in Sections 2.1 and 2.2.

2. Deregulate the fee structure of land surveyors and permit them to charge a market rate for their services, which would have to be initiated through the SG's office. It will require an amendment to S.I.200/80.

The survey costs of a low cost plot are in the order of Z$200 - representing 3% of the value of a serviced undeveloped plot or 1.25% of a plot with one room and wet block structure on it. Even the doubling of current fees would not result in a prohibitive cost increase and would assist in retaining skilled surveyors in the country.

3. Vehicles specifically for the survey profession should be allocated through the restricted CGIL committee with linkage to the USAID grant facility. Further TA and grant assistance is required to augment exciting survey equipment in both the private and public sectors.

4. TA is required in the SG's office to surmount the backlog of approvals. An imput of qualified short-term contractors would be effective as long as they had locally recognised professional qualifications.

5. Currently all professionals (engineers, planners, architects, surveyors, etc.) in the civil service at both central and local government are paid a "critical areas allowance" of 10% of the monthly salary. The CAA is paid to a post rather than

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the person filling the post and irrespective of the productivity of the individual.

A "performance related pay allowance" ranging from 12.5% to 0% should be considered as a means of encouraging greater productivity in professional and technical departments of the civil service. The PRPA would be paid only if performance criteria set annually by the Department and Treasury are met (e.g. preparation of X layout plans; screening of Y general plans for approvals).

The introduction of PRPA in place of CAA would need adoption by the Public Services Commission and Treasury in consultation with affected Ministries.

[illegible] Infrastructure Services

[illegible] of issues are raised in this section. On the one hand [illegible] infrastructure costs are recouped. On the other hand, are the design standards in use.

MLGHUD policy advice to urban local authorities servicing land is that infrastructure costs be recouped in the following manner:

(i) The capital costs of the house (which include the costs of the dwelling unit itself, road access and stormwater drain, the plot price and survey fee, water and sewerage connection fees and capitalised interest) are recovered direct from the individual beneficiary through a purchase agreement. The cost laid down in a purchase agreement can only be increased if there is a general rise in interest levels.

(ii) The capital costs of water and sewerage reticulation within the estate are recovered from tariffs charged across all high density suburbs, or in some cases (e.g. Harare) across the city as a whole. In Mutare only 80% of the costs are recouped directly: 20% are recouped by general tariff increases across the city as a whole.

(iii) Operation and maintenance costs (as well as administrative costs are recovered from fixed monthly supplementary charges (or, in the case of Harare, rates).

However private developers (with some recent exceptions in Harare and Marondera) have to bear the full capital costs of water and sewerage reticulation. This is passed on to home owners as an upfront item in the plot sale price. As a result the plot sale

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prices in private developments appear more expensive than in the case of local authority developed plots and there is no means of cross-subsidies at a city-wide level.

The specifications and standards used for design of infrastructure for low cost housing development are laid down in a series of technical reports prepared by the Housing Development Services branch in the then Ministry of Local Government and Housing in the early 1980's. Two frequently referenced reports are "Design Approach to Roads and Stormwater Problems Relative to High Density Housing Developments in Zimbabwe" (August 1981) and "Infrastructure Design Standards in Zimbabwe" (March 1982).

In common with all construction costs, infrastructure costs have escalated rapidly over the past decade. Whereas in 1982 a 300m2 plot cost Z$1 500 to service, the same size plot costs Z$7 000 in 1992. There is a clear need to review the standards being implemented against the declining real incomes of low income households.

[illegible] Statements

1. The sales prices of plots serviced by private developers is higher than in the case of local authority developers because the capital costs of water and sewerage reticulation are not spread across city-wide tariffs. Private developers also cannot benefit from potential cross-subsidies at a city-wide level in this respect.

2. Design standards being used by some local authorities in low cost housing tenders do not make full use of the minimum standards laid down in the 1981/82 HDS reports. Use is being made of unnecessarily expensive design solutions such as roll-over kerbs, excessive use of trapezoidal drains, and similar with little consideration of the cost implications.

3. All low cost housing schemes in Zimbabwe have full water reticulation systems with house connections. It would require a major political policy decision to alter this situation. As a result the volume of sullage water to be disposed of is high and requires large plot areas for disposal. In high density areas full sewerage as opposed to on-site disposal is called for.

SEWERS must be designed to convey peak flows and are conventionally designed to be laid at a gradient which ensures that peak flows carry away any solids deposited during periods of low flow. The achievement of self-cleansing velocity at least once per day, at peak daily flow, is usually accepted as a minimum requirement. To achieve this, engineers make use of rules of thumb guidelines which have tended to become more conservative over the years.

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Recent work carried out by the UNCHS (Habitat) indicates that desired self-cleansing velocities do not occur in small diameter individual plot connections and street laterals where flow is intermittent. Solids are shifted along these pipes by the flushing action of sequential waves of waste-water. As the solids deposit on the pipe invert, the subsequent waste-water flow backs up until the pressure is sufficient to move the solids along the pipe. There therefore seems little justification to use minimum diameter pipes of more than 100mm; in fact small diameter pipes have better solids transport properties.

The following table illustrates the cost savings that can be effected by using 100mm pipes instead of the conventional minimum 150mm.

Table 2.5.1 : Price Per Metre of Block Sewers
(12.5m plot frontage assumed: 1982 costs)

	150mm	100mm
Excavation	18.20	15.34
Bedding	2.90	2.09
Pipe	22.65	15.18
Specials	5.64	4.25
Manhole	14.36	13.26
Total	63.84	51.57
Cost per plot	333.01	321.23
% Saving	0	13

13% savings can be effected by using a smaller diameter pipe size. A caveat should be noted that blockages can occur from extraneous matter gaining access to the pipes. For this reason smaller diameter pipes should be used in short lengths of up to 100m at the head of the sewer. This can result in a 15% saving in sewer costs.

Further savings can be effected by laying sewers at a minimum depth of cover of 300mm rather than the conventional 750mm, saving on excavation costs.

Field investigations in the U.K. have found no correlation between blockages and gradients and sewers laid as flat as 1 in 1200 were observed to function well for decades. Shallow sewer

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designs should seek to maximize the frequency of discharges to increase the efficiency with which solids are transported in small diameter pipes. The use of long pipelines serving few houses should be avoided. If 20 houses were permitted to use a common connection, cost savings of up to one third could be achieved.

4. ROADS and stormwater drainage account for 40% upwards of plot servicing costs even though vehicle ownership in low cost housing areas is an estimated low 4%. The following table shows the unit costs of roads based on June 1991 costs at standard cross section designs. The costs are applicable to a development which is efficiently planned, flat terrain with no special topographical problems and average to strong subgrades.

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TABLE 2.5.2 : UNIT COSTS OF ROAD CONSTRUCTION
TO STANDARD CROSS-SECTIONS
(June 1991 prices)

Item	Cost per lin.m in Road Reserve widths of 8m	10m	12.5m	20m
1. Clear R.R.	$2.60	$3.25	$4.06	$6.50
2. Construct to SG level	$25.52	$31.32	$37.12	$40.60
3. e.o. when cut/fill >150	$6.96	$9.28	$11.60	$18.56
4. [illegible] to compact top 150	$13.61	$13.01	$13.01	$20.23
Total	$47.69	$57.43	[illegible]	[illegible]
5. 120 wearing crse, 6km haul	$30.69	$30.69	$30.71	$47.75
Sub total	$79.38	$88.15	$87.10	$136.69
6a.Prime & Single Seal	$21.00	$21.00	$21.00	$33.50
6b.Prime & Double Seal	$36.00	$36.00	$36.00	$36.00
6c.Extra 30 Base(120 to 150)	$6.62	$6.62	$8.02	$10.28
Double Seal Road	$122.00	$130.77	$134.72	$208.98
Single Seal Road	$107.00	$115.77	$114.72	$188.48
Imported Wearing Course Road	$79.38	$88.15	$87.00	$133.00
In-Situ Wearing Course Road	$58.43	$68.95	$79.87	$103.13

Given the high costs of sealing roads and the low volume of car ownership in low cost housing areas, only bus routes and major collector roads need to be tarred. This measure would account for a 35% cost saving on all other non-sealed roads.

Proponents of sealed roads claim that the capital costs of initial sealing are lower than the on-going maintenance costs of

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non-sealed roads; tarred roads are said to be virtually maintenance free: In fact this is not the case. A double or single seal needs resealing (Z$4,50/m2) every 7 - 10 years plus occasional surface patching and possibly shoulder regravelling.

Unsurfaced roads need regravelling every 5 - 9 years plus occasional gravel patching and grading. 100 vehicles per day causes a loss of 20mm per annum but erosion is frequently the prime cause of loss in townships. Maintenance of drainage channels is more important than grading unsurfaced streets.

Unpaved streets normally have no surfacing and the top layer becomes the wearing course. The streets require a gravel wearing course of 100mm thickness. However if the <u>in situ</u> material meets the specified material requirements, a gravel wearing course need not be transported to the street and the local material or sub-grade can be used as the wearing course.

Sandy silts sands suitable for IWC are found in about 50% of the [illegible]. Where IWC is available, a saving of 30% on unsealed [illegible] can be effected.

5. Ancillary land use standards in Zimbabwe's low cost housing areas are high in comparison with standards used elsewhere in the region. One of the uses most obviously over-provided for is schools: 6 ha (15 acres) for primary schools and 12ha (29 acres) for secondary schools.

The large school plot sizes are laid down in a Ministry of Education circular dating back to the early 1980's and renewed every year. It is justified by the Ministry on the grounds that:

(i) Most schools experience "hot-seating" (double sessioning) and small plots would be over-crowded.

(ii) The Ministry has a policy of "education with production". Part of the large school sites are used for school gardens and agriculture classes. Land hungry school sites account for a large cost burden on the residential plots in the total housing estate - the land is not paid for directly by the public authority (it forms part of an "endowment"); nor are the infrastructure services running along the plot perimeters. The costs are spread across all residential plots in the estate.

The table below illustrates the size of Zimbabwean school sites in comparison with educational facilities in Kenya, Tanzania and Zambia.

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TABLE 2.5.1 : EXISTING SPACE STANDARDS FOR EDUCATIONAL FACILITIES IN ZIMBABWE, KENYA, TANZANIA AND ZAMBIA

FACILITY	POPN. CATCHMENT	LAND REQRD. (HA)	LAND PRORATED TO ZIMBABWEAN CATCHMENT
Primary schools			
Kenya	5,000	1.25-1.5	0.75-0.9
Tanzania	4,800	2.5	1.56
Zambia	4,500	1.6	1.1
Zimbabwe	3,000	6.0	6.0
[illegible] schools			
Kenya	25,000	4.0	1.6
Zambia	20,000	5.0	1.8
Zimbabwe	7,500	12.0	12.0

Even taking into account double sessioning at Zimbabwean schools, local standards are three times more generous than elsewhere in the region.

If school sites were reduced by only 40% (to 8ha for secondary schools and 3.6ha for primary schools), on a layout of 1,000 X 300m2 plots, an additional 190 plots could be provided - decreasing the per unit infrastructure cost burden. It would account for a 16% cost saving in the servicing of each residential plot, equivalent to a saving of Z$[illegible] per plot assuming 300m2 plot sizes.

Savings on smaller plot sizes are even more dramatic, as shown in the table below.

TABLE 2.5.2 : EFFECTS OF SMALLER SCHOOL SITES ON NUMBERS OF NEW RESIDENTIAL PLOTS CREATED AND SAVINGS ON INFRASTRUCTURE COSTS

(Assume initial nominal estate size of approx. 1,000 X 300m2 plots; endowment of at least 20% of which 10% is open space; and road provision of 15%)

Plot Size	No. Schools PS	SS	No. Plots Before	After	Plots Gained After Reductn	Savings per plot
300m2	2	1	1,000	1,191	191	Z$958
200m2	3	1	1,500	1,864	364	Z$1,006
150m2	4	2	2,000	2,763	763	Z$1,283

9. The current minimum plot frontage and related minimum plot size was set by the MPCNH in 1982 as being 12.5m and 300m2 respectively. All infrastructure costs are directly affected by plot frontage widths. Using present design specifications with respect to road and s.w.d., water and sewers, cost savings of 14% and 23% can be effected by reducing the plot frontage to 10m and 8.5m respectively.

The table below summarizes the impacts of introducing amended specifications for infrastructure and school sites at variable plot sizes.

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TABLE 2.6 : SUMMARY OF PLOT SERVICING COSTS
AT VARIABLE PLOT SIZES, Z$ 1992
(Includes intrinsic land costs, street and tower lighting, water, sewerage, roads and stormwater drainage)

PLOT SIZE	PRESENT STANDARDS	TAR BUS RTS ONLY & SMALL 0 SEWERS (IN SITU WC)	TAR BUS RTS ONLY, SMALL DIAM SEWERS, SCHOOLS -40%
12 X 25m (300m2)	6,426	5,973 (5,830)	5,015
10 X 20m (200m2)	5,520	5,152 (5,037)	4,146
[illegible]	4,949	4,646 (4,545)	[illegible]

Required Actions

1. Water and sewerage costs should be charged in the plot sale price for local authority and private developer alike. It makes for easier accounting procedures, better record of plot servicing costs and sale prices can be directly related to size and location of plot. This would be in the form of policy guidelines on USAID projects by MLGRUD to local authorities.

2. Workshop training on appropriate infrastructure design solutions need to be facilitated on an on-going basis, exposing engineers in local authorities to cost efficient designs. TA could be routed through the Zimbabwe Institute of Engineers which has a well established local career advancement training program.

3. A minimum pipe diameter of 100mm at a 0.3m depth of cover should be introduced at the head of sewers for lengths of up to 100m (serving approximately 20 plots). This would effect a cost saving of 15% on sewer costs.

4. Only bus routes and major collector roads in low cost housing areas should be tarred. This would effect a 35% saving on road costs.

5. Where suitable in situ granitic sands should be used as the wearing course on roads instead of hauling wearing course material from off the site. This would result in a 27% saving on road costs.

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6. 25% of all road provision should consist of the setting aside of unformed road reservations only - no cutting and forming, grading, etc. will be undertaken by the developer/local authority. Clearing of the road reservation to provide access to plots will be undertaken by households as is already done in rural areas. This will result in a 25%saving on construction costs of minor plot access streets.

7. Primary and secondary school sites need to be reduced by 40% to 3.6ha and 8ha respectively. Sites would still be large enough to accommodate double-sessions and education with production activities. A 16% saving on servicing costs of each residential plot (equivalent to Z$954 on a 300m2 plot) would be made. In addition, a housing area of 46ha (1000 x 300m2 plots) an additional 190 residential plots of 300m2 would be achieved or 361 x 200m2 plots or 762 x 150m2 plots.

If school sites were reduced, 25 residential plots per school would be allocated to teachers. This would be over and above the [illegible] of all layouts already set aside for rent by Government [illegible].

8. The minimum acceptable plot size should be reduced to 150m2 with an effective minimum frontage of 8.5m. This will result in a direct cost saving of 23% per serviced plot. Furthermore it will result in more efficient use of urban land reducing urban sprawl, journey to work travel times and costs of bulk infrastructure.

8.8 Plot Allocations

Whether the land is developed by a private developer or local authorities, local authorities retain control over the eventual allocation of plots. Allocations are made on the basis of a number of criteria, the most important of which are:

(i) Household must be registered on the local authority's housing waiting list. The date of registration gives that household a priority date: other things being equal, households which registered first are allocated plots first.

(ii) Length of proven employment (formal or informal sector are acceptable) and residence in the city. Generally this must be a minimum of 10 years.

(iii) Proven household income between established minimum and maximum limits (currently approximately Z$350 - Z$650 p.m).

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Problem Statement

1. Plot allocating is an area of potential abuse by local authority personnel. However under the present acute housing shortages and lack of a workable alternative it is a system used by all local authorities. At the time of plot allocation being made, more assistance could be given to households in areas such as:

- details of obtaining and using mortgage finance;
- a schedule of building materials needed to build different house plans (plans are already available at nominal charges);
- a list of reputable local building suppliers and small contractors; and similar.

Aspects of this community outreach assistance are detailed in the sociological study undertaken by a separate contractor.

3.7 BENEFICIARIES APPLY FOR MORTGAGES

Availability of mortgage finance through local building societies is elaborated in a separate report undertaken by a different contractor and is not dealt with in this study.

3.8 SUPERSTRUCTURE and BUILDING STANDARDS

The superstructure built on all stands are governed by:

(i) The Model Building Bylaws R.G.N.41 of 1978 as amended in S.I.310 of 1985 in terms of Section 163 of the Urban Councils Act (CAP 211). The Bylaws (with the exception of Chapter 11 dealing with fire protection) have been adopted by all urban local authorities and are enforceable in a court of law.

The MBB consist of nine chapters, 44 parts and 457 sections. It is not possible to summarize the contents; however Chapter 5 dealing with masonry is of particular relevance to low cost housing in that it specifies the minimum acceptable thickness of external walls as being 200mm of masonry (or 100mm thick reinforced concrete). (Conventionally 230mm or double brick is used).

(ii) MPCNH Circular No. 8/1989 which states that households must "complete a 4 roomed house within 2 years (extendable to 3 years)". This is interpreted by local authorities and building societies as being that a minimum 4 roomed core house must be built; each habitable room must be larger than 7m2. The present

cost of a 4 roomed house (assuming a very modest standard of finish) is Z$31 400.

The table below gives a breakdown of current building costs for varying stages of construction. The figures assum that external walls will be only 115mm thick and the figures exclude the cost of a serviced stand.

TABLE 2.8 : SUPERSTRUCTURE COSTS (1992)
(Assume 115mm perimeter walls)

1.	Wet block (2m x 1m, toilet/shower)	Z$ 5,030
2.	Wet block and 1 room slab (3m x 3m)	Z$ 6,165
3.	Wet block and 2 roomed slab	Z$ 7.300
4.	Wet block and 3 roomed slab	Z$ 8,435
5.	Wet block and 4 roomed slab	Z$ 9,570
6.	Wet block and kitchen (3m x 3m)	Z$11,360
7.	Wet block and 1 room (3m x 3m)	Z$13,502

Problem Statements

1. The thickness of external walls as specified in Chapter 5, Section 8(1) of the Model Building Bylaws is unnecessarily thick given the small load-bearing requirements of single storey low cost residential structures. In many urban housing schemes in the country built during the 1980's external walls were 115mm thick as are all housing schemes of Zambia. The housing has stood the test of time. External walls of 230mm thickness add a cost of Z$3 600 on a four roomed core house in comparison to using 115mm thickness (Z$900 per habitable room).

2. A household requires a minimum monthly income of Z$1 200 to afford the mortgage repayments on a four roomed core house. By MHCNH's own admission this excludes 60 - 70 percent of households currently on the waiting lists and is almost double the urban household median income level.

The consequence of the policy, exacerbated by the housing shortage, is that the majority of low income house owners take in lodgers in order to repay monthly mortgages. This leads to overcrowding of the housing stock (on average one family per habitable room and up to 30 people per plot) with concommitant social pressures and infrastructure over-burden.

If the following assumptions are made:

(i) the urban household median income figure is extrapolated over the next 5 years at assumed wages increases;

(ii) building costs are extrapolated over the next 5 years at assumed percentage increases;

(iii) households will be eligible for mortgages of 25% of incomes; and

(iv) households will pay a 5 percent deposit on shelter;

then over the next five years, median income urban households will only be able to afford the costs of:

(i) A serviced 150m2 plot (assuming sewer savings of 15%, tarred bus routes only and reducing school lots by 40%);

(ii) A superstructure consisting of a wet block (toilet\shower) and foundations and floor slab for one habitable room (3m x 3m).

It is desirable that a household build a wet block on the plot as early as possible so that it will be permitted by health bylaws to move onto the stand and not have to pay rent elsewhere. Whilst the first permanent habitable room is under construction, the household (and lodger if necessary) would live on the plot in a temporary shack (known locally as a "tangwena").

Recommended Actions

1. The Inter-Ministerial Committee on Building Bylaws should amend Chapter 5, Section 6(1) of the Model Building Bylaws so as to permit fair-faced external walls of a minimum thickness of 115mm in low cost housing development. This would achieve a cost saving of 10% off all habitable rooms.

The Bylaws would have to be amended by the Minister of LGRUD in terms of Section 183(5) of the Urban Councils Act and would be of force in urban local authority areas without the councils themselves having to individually adopt the amendment.

2. MPCNH Circular No. 8/89 should be superceded so as to permit a minimum of a wet block and one room slab on a serviced plot. This would mean that shelter delivery to this minimum standard would be affordable to the 32 - 50 income percentiles of urban households over the next five year period.

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In terms of the Model Building Bylaws, if no building work is commenced within 12 months of building plan approval, then the plan approval lapses. This would be an additional incentive to households to get construction under way as soon as possible.

3. SUMMARY AND PRIORITIZATION OF REQUIRED ACTIONS

The actions required to effect more timely and cost effective land and shelter delivery to meet the neds of low income households can be separatged in three categories:

(i) TA by USAID;

(ii) Policy actions required in the short term to make housing and infrastructure affordable (conditions precedent); and

(iii) Policy actions required in the short to medium term to ensure that housing and infrastructure costs are kept to a minimum affordable level over the next five years.

1. TA by USAID

Target	Content	Channel
Local authorities	Prepare Master Plans and strategic land use and infrastructure plans	DPP
Local authorities	Update LDPs and rezone land	DPP
Public and private sector planners	Land development, housing finance, etc.	DPP/ZIRUP
Private surveyors	More equipment for expansion	SG/CGTL
Professionals in civil service	Enhanced management and introduction of PRPA	PSC/MFEPD
Private and public sector engineers	Design specs. workshops for low cost housing	ZIE

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2. Short Term Policy Actions

(i) Reduce school sites by 40% in urban areas to effect 16% savings on unit plot servicing costs. 25 residential plots per school would be allocated for teachers' housing.

Policy review by Ministry of Education, implemented by DPP.

(ii) Reduce minimum plot frontages to 8.5m and minimum plot sizes to 150m2 to effect 23% savings on unit plot servicing costs and reduce urban sprawl and associated probems.

Policy review by MPCNH, implemented in plan approvals by DPP.

(iii) Amend MPCNH Circular No. 8/89 to permit a minimum of a wet block (toilet/shower) and one room slab on a serviced plot to target low cost shelter delivery programs at the lowest 50 income percentile of the urban population.

Amendment by MPCNH, circulated to all local authorities.

(iv) Amend Chapter 5, Section 6(1) of the Model Building Bylaws to reduce external walls of habitable rooms from 200mm to 115mm and effect a saving of Z$900 per habitable room (3m x 3m).

Amendment by the Minister of Local Government, Rural and Urban Development in terms of Section 183(5) of the Urban Councils Act.

(v) Deregulate the prescribed scale of fees for land surveyors. Even a doubling of current fees would only amount to 3.6% of the cost of a serviced plot with wet block and one room slab. Deregulation would lead to the retention of survey skills within the country.

Amendment of Statutory Instrument No. 200/80, to be initiated by the Surveyor General.

3. Short to Mid-Term Policy Actions

(i) Only bus routes and major collector roads are to be tarred in future low cost housing areas to effect a saving of 35% on road costs (in comparison to all roads being tarred).

Policy directive to all local authorities by means of a MLGRUD/MPCNH circular.

(ii) Where suitable in situ granitic sands are found in low cost residential areas, they are to be used for the wearing

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course on low volume plot access roads instead of imported wearing course. This will effect a saving on road costs of 27%

Policy directive to all local authorities by means of a MLGRUD/MPCNH circular.

(iii) 25% of all low volume plot areas roads (8m and 10m reservations) are to be left as road reservations only in low cost residential developments. The developer/local authority will not carry out cut and forming, grading or any maintenance of the roads (which will be carried out on a self-help basis by neighbourhood residents as is currently the case in rural settings). This will effect a 25% reduction on low volume access road costs. Roads to be treated in this way are to be indicated on all plans put forward for Section 41, Section 44 and Section 160 approvals.

Policy directive to all local authorities by means of a MLGRUD circular.

(iv) A minimum sewer pipe diameter of 100mm at a depth of cover of 300mm is to be used for lengths of up to 100m at the heads of all sewers in low cost housing developments to effect a saving of 15% on sewer costs.

Policy directive to all local authorities by MPCNH circular.

(v) All local authorities are to make use of the services of private planning consultants to prepare Section 44 and Section 160 layout plans and Local Development Plans where this will result in more timely land delivery for low cost housing development.

Policy directive to all Provincial Planning Officers and local authorities by DPP.

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ANNEX 1 : ABRIDGED TERMS OF REFERENCE

OBJECTIVE

The study will:

(a) identify the issues pertaining to the present system by which private sector developers pay for all infrastructure costs and public sector agencies do not, and to prepare a realistic schedule for reforming the system;

(b) examine constraints relating to land transfer, survey, titling and planning approvals for low income housing and make recommendations for reform;

(c) identify the land use, servicing and building standards that contribute most significantly to higher costs for low income groups. (This should include a detailed analysis of how costs can be reduced with illustrative examples.);

(d) examine housing costs and explore alternative design solutions with a view to reducing costs; and

(e) examine other potential constraints and possible solutions which are inhibiting the production of low cost shelter by the private sector and contributing to excessive building and development costs.

DETAILED SCOPE OF WORK

1. Meet with officials in the Ministries of Public Construction and National Housing as well as the Ministry of Local Government, Rural and Urban Development and local authorities to determine their plans for the reduction in planning and building standards.

2. Examine the legislative process required for the reform of specific standards, and make recommendations with a view to speedy implementation of such reforms. Determine a realistic schedule for implementing the reforms.

3. Determine which components in the planning approval/land survey/registration and conveyancing process are causing delays and discuss with GOZ officials their plans for accelerating/simplifying the procedures, and make recommendations regarding reforms.

4. Obtain information on current building and infrastructure costs. Detail and illustrate how these costs can be reduced without affecting health and environmental standards.

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5. Discuss reduced standards with GOZ officials and design alternative options for the reduction of costs. Again, detail and illustrate how these costs can be reduced without affecting health and environmental standards. Determine a value to the actual cost savings.

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ANNEX 3 : INDIVIDUALS CONSULTED

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ZIMBABWE PRIVATE SECTOR HOUSING PROGRAMME DESIGN:

MICRO-ECONOMIC ANALYSIS

PREPARED FOR: USAID; HARARE

BY: MERCHANT BANK OF CENTRAL AFRICA LIMITED
(Registered Accepting House)

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The information contained in this report is given without any responsibility on the part of Merchant Bank of Central Africa Limited.

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EXECUTIVE SUMMARY

Access to finance for low income urban housing is facilitated through both the public sector and the private sector. The public sector's role is largely that of provision of infrastructure while the private sector is largely responsible for the superstructure through finance from building societies, or individual savings, or companies assisting their employees.

The current situation is one where the demand for low income housing far exceeds supply with an estimated 500 000 households on the local authorities waiting list, 70% of which represents demand by low income households. Low income households access to housing finance is initially constrained by the limited availability of serviced stands which are surveyed for title purposes. Title to land is essential as security where the developer would be seeking building societies mortgage finance. Where stands are available for title purposes, low income households are constrained by incomes which are low relative to the high cost of construction and therefore limited mortgage amounts. A median low income of $800 per month would qualify for a mortgage bond of approximately $15 000 or unit cost of $15 790 inclusive of the 5% deposit. This would not be sufficient to meet the current minimum building structure of a wet block, four room slab and kitchen, which together with a serviced stand, cost $17 786. The situation is currently exacerbated by the tight liquidity situation in building societies which has restricted their lending capacity over the past 6 months resulting in a backlog of mortgage applications. Front-end costs which include the 5% deposit, bond and transfer fees and stamp duties are a constraint to some low income earners but on a lesser extent. In addition, some would be homeowners are being constrained by the fact that they may not be able to finance recurrent costs associated with owning a house such as electricity and water charges, and supplementary charges.

The above constraints could be alleviated through rationalisation of building standards i.e. through a reduction of plot sizes below 300m^2, lowering the minimum required building structures to for example wet block and one room slab, expanding the building materials supply sector by providing the required foreign currency to import capital goods and spares. Front-end fees could be reduced by incorporating bond and transfer fees and

stamp duties into the bond value as is done with valuation fees. There is a need to come up with both short term and long term solutions to mobilise funds into building societies to enable them to increase their role in provision of low income housing finance.

Affordability projections indicate that median low income of $800 per month would in 1992 be able to afford to borrow up to $15 000 to finance the cost of a reduced stand size to 150m^2 with a wet block and one room slab costing $10 813 and therefore use the balance to develop the stand. However, in view of the relatively high cost of building, the difference between the cost of a unit and bond size is narrowed as plot sizes increase above 150m^2 and as the development increases over the wet block and one room slab. Unless current stipulated building standards are rationalised, there is a danger that people below the median income would be squeezed out of the housing market due to reduced purchasing power.

Current estimates put the housing waiting lists of urban local authorities at 500 000 units. Assuming that 70% of this is due to low income households i.e. 350 000, there is a need to provide on average 70 000 units per year over the next 5 years just to clear the current waiting list. The 80 000 units envisaged under the World Bank II 5 year programme would therefore only cover one year requirements to clear the waiting list. The present economic situation of drought and ERP is acting as a disincentive for a large number of low income earners to own a house. This may limit growth of the waiting lists as some people may not bother to register. However, should housing production improve, anticipation and desire to own a house will increase. This could be the situation from 1993 onwards with the positive effects of ERP being felt and possible reduction in mortgage rates.

DESCRIPTION AND CONTEXT OF CURRENT BORROWER ACCESS TO HOUSING SECTOR FINANCE

METHODOLOGY

The objective of the Microeconomic Analysis is to determine probable real effective demand for low-income housing units by urban households with below median incomes and to examine those factors which will most strongly affect this demand. Examination of the above issue involves a description of the existing procedures and regulations governing low income households access to housing finance; identifying the likely cost of shelter; determining the median income and what shelter it can afford; and given affordability determine probable real effective demand.

Discussions were held with the 3 operating building societies and the new one currently not in operation in order to determine existing procedures and regulations and the relationship between income and mortgage bond size for low income housing. Data from Central Statistical Office was analysed to determine median income while cost of shelter was obtained from the chapter on Land Issues and Building Standards. Ministry of Public Construction and National Housing was contacted to establish the current demand. Reference was also made to the chapter on Financial Systems Analysis.

As the housing guarantee programme is over 5 years, it was essential to forecast inflation rates, wage increases, and mortgage rates. This necessitated discussion with the World Bank in order to get some indications of likely trends given the drought and projections in the Economic Reform Programme (ERP) document.

A. EXISTING PROCEDURES AND REGULATIONS GOVERNING LOW INCOME HOUSEHOLD ACCESS TO HOUSING FINANCE

1. ACCESS TO HOUSING FINANCE

Access to housing finance in Zimbabwe for the low income urban households is facilitated through both the public sector and the private sector. Prior to 1980, construction of houses in the high density areas was contracted to the large private construction companies to service stands and put up the

superstructures. Houses were then allocated by local authorities to individuals largely on a rental basis.

After 1980, following government's policy to promote homeownership, large construction companies moved out of high density constructions as stands were being allocated on an individual basis for development on a self-help basis or with building societies loans. This resulted in a proliferation of small indigenous contractors and building brigades who would negotiate individual contracts with each individual developer. Over the years the more experienced contractors have moved up the ladder to construction of middle and high income houses. The construction industry is currently overheated. The large construction companies realise the huge demand for low income houses and the potential future business this represents. They would consider going back into high density housing provided the houses are done in lots of 50 units and above. Some of the smaller but experienced companies are willing to undertake lots with lesser units.

Essentially, the role of the public sector has since 1980 developed more to that of provider of basic infrastructure with the private sector being responsible for providing finance for superstructures.

PUBLIC SECTOR

The National Housing Fund (NHF) in the Ministry of Public Construction and National Housing (MPCNH) is Central Government's primary source of low cost housing finance through loans to local authorities. The NHF loans to local authorities are for on-site infrastructure i.e. reticulation within the housing estate for sewage, water, etc. Funds for off-site infrastructure i.e. truck sewers, main water pipelines, access roads, etc are provided through the General Loan Fund (GLF) in the Ministry of Local Government, Rural and Urban Development (MLGRUD). Local authorities repay infrastructure loans to NHF and GLF over 30 years.

Each local authority has various schemes through which it provides shelter to low income households. These include provision of serviced stands only; serviced stands with a wet block; serviced stands with a wet block and slab for one to four rooms; shell house with no window frames and doors; complete built up house in very few cases. In some cases local authorities allocate

virgin land for development by the private sector.

Depending on the type of scheme, each local authority would request the MPCNH for funding through the NHF. MPCNH would in turn seek for the funds from Ministry of Finance, Economic Planning and Development (MFEPD) through the annual budget allocation. Over the past 5 years MFEPD has on average allocated to the NHF less than 25% of the urban councils' requests due to budgetary constraints. The MPCNH would then allocate to local authorities the available funds based on, amongst other factors, each local authority's approved borrowing powers from MLGRUD also taking into account availability of funds for off-site infrastructure through that ministry; financial, technical and other management capabilities; past performance in terms of loan servicing.

Local authorities usually engage private contractors to develop the stands up to a level depending upon the type of scheme. The serviced stands are then allocated to people based on housing waiting list of each authority. In order to qualify for the waiting list, one has to show proof of income currently below $650 per month for Harare which is the highest, and prove that one resides in a particular area of the local authority. MPCNH have indicated that they have revised the income cut-off point upwards to $1 200 per month for recommendation to local authorities. It is important to note in this regard that the median cash income based on an analysis of the 1990/91 Household Survey was $490 as per Appendix I.

Previously, local authorities would then recover the cost of providing the shelter from beneficiaries over 25 years at varying rates currently between 10,5% to 17,5%. In view of the prevailing huge unmetiable demand for stands, local authorities have increasingly become short-term providers of finance through selling stands for cash or insisting on payment for the stand over a period of 2 to 5 years. This is done in order to generate funds to recycle in the provision of more stands. As a result individuals have had to pay for the stands from own savings, or obtain loans from building societies, or obtain financial assistance from employers.

PRIVATE SECTOR

Demands on the private sector, ie building societies, employers and

individual self-help, in the provision of long-term low income housing finance have been increasing as local authorities have shifted to concentrating on provision of serviced stands and a shorter recovery period.

A history of building societies lending for low income mortgages is detailed as Appendix II. This shows total mortgage advances of 24538 from 1 July 1986 to 30 June 1991 or an average of 4907 mortgages per year. With an estimated annual supply of low income urban houses of between 12000 to 14000 units per year, building societies are financing approximately 40%. The balance is therefore being financed either through individual savings or directly by employers. The situation regarding building societies mortgage lending is currently constrained by the tight liquidity situation which has resulted in an overall reduction in mortgage lending particularly for housing. This aspect is covered fully in the chapter on Financial and Systems Analysis which explores the short term and long term instruments to attract financial resources into building societies.

2. BUILDING SOCIETIES PROCEDURES AND REGULATIONS

Building Societies direct lending for low income house mortgages started towards the end of 1986 following the introduction of Class C Tax Free Paid Up Permanent Shares (PUPS). Twenty-five percent (25%) of the annual funds generated by PUPS is required to be ploughed into low cost housing development. During 1989 and 1990 the societies actually loaned more than the 25% requirement. As per Appendix II, high density mortgage advances have been growing at over 5500 units per year for the years 1989 to 1991.

Building societies lending for low income mortgages has largely been done either for schemes where the home developer is engaged in self-help or building through a contractor on a fix and supply basis.

The developer would be required to apply to a building society for a loan and submit a quote preferably from a contractor who is registered with the National Industrial Council (NIC), together with a plan, proof of income, and letter from the local authority as proof of having been allocated a stand. The building society would then do a valuation through its inspector based on the plan and the quotation. The valuation could result in either

an approval of the quotation, or rejection where the quotation is unreasonable, or an adjustment of the quotation. Once the valuation is approved, and is in line with the bond available as determined by income, the application is signed and an offer letter is given to the individual. The building society would then engage its lawyers to register a bond on the property to be developed for a fee to be paid by the mortgagor. Simultaneously, the council would need to transfer the property (ie the serviced stand) to the developer as the bond can only be registered when transfer has taken place. Again the transfer fee is paid by the developer. Once this process is done, the contractor will be paid by the society upon reaching agreed building stages, and at the satisfaction of the society's building inspector. In the case of self-help, the society would initially release 25% of the approved bond and make further releases as per supplier's invoices and builder's invoice. Building societies are now reluctant to lend for self-help schemes as the funds could easily be diverted for use other than for building, and prefer to lend for fix and supply contact schemes.

Building Societies' lending policies are governed by the Building Societies Act and general risk assessment of the individual which is virtually standardized. The factors that govern lending to low income households are discussed below.

a. There has to be a stand surveyed for title deeds purposes which facilitates ownership and security against which building societies can lend. In the cities where land is either owned by the council or privately owned, an individual can obtain a letter from the City Council indicating that title will be released upon obtaining building society funding. However, in the case of some municipalities and smaller Councils, land belongs to the state and title can only be obtained by applying to MLGRUD through the Council. The MLGRUD would lease the stand to the developer with an option to purchase once specified lease conditions ie., development of the stand to a certain level, have been met. In order to facilitate lending by building societies, MLGRUD can now issue early title, but the system still needs to be rationalised.

b. The Government has a housing loan guarantee system for 25% of the

bond available. The system offers a facility of a guarantee down to 70% of the value of a building mortgage loan by a building society to any person up to a maximum bond value of $100 000. This means that societies can lend for low income housing i.e. $35 000 and below, up to 95% of the unit cost and the individual is then required to put a deposit of 5%. In this case, the societies risk would be 70% of the bond value and Government's risk would be 25%. For cases where an employer's guarantee is available, building societies would take it in lieu of the deposit and therefore finance the cost of a house 100%.

c. The Building Society Act limits the repayment period to 35 years but societies generally limit repayments to 25 years. Extending repayments to 35 years is not recommended by building societies as this reduces building societies cash flows and results in more interest payment by the mortgagor. On average the loan must be repaid by the time the mortgagor reaches the age of 70 years. Thus an applicant aged 55 years would be limited to a 15 year bond. However, societies are generally flexible on this matter as long as there is adequate security. Repayments usually commence 6 months after first draw down on the assumption that it takes 3 months to complete a low cost house. With the current shortage of building materials, it can take up to 9 months to complete a house. This means a developer could start repayments on the full bond value before the house is completed.

d. In determining bond size, the building societies take into account joint (in the case of a married couple) regular income and annual bonuses, allowances, and income from investments, alimony, or any other capital income eg., rent from lodgers. In the case of self employed applicants, balance sheets for last 2 years are required. Bank reports and income tax assessments are of assistance in this regard to prove capability to service the loan.

e. Monthly repayment should generally not exceed 25% of either a single income earner or that of joint incomes. Societies can go up to 30% of income if this is supported by an employer. This aspect is discussed later under the section on Affordability.

f. Although there has been in the past year a move by Government to liberalise interest rates under the ERP, there are still ceilings on building societies deposit rates and mortgage rates. In this regard mortgage rates for homes are still negative in real terms. The low cost mortgage rate is currently 15% as from September 1991 from 13,5% while that for middle and higher income is currently 17%. The mortgage rates are unlikely to change for at least the next 2 years due to social/political reasons during ERP. The situation has also been exacerbated by the drought, which is likely to prolong the structural adjustment transition. Building society mortgage rates and consequently deposit rates are therefore forecast to be out of line with money market rates up to 1995. This aspect is discussed in detail in the Financial and Systems Analysis chapter in terms of implications on Societies ability to mobilise funds and therefore capacity to lend.

3. EMPLOYER ASSISTED HOUSING SCHEMES

There are three options under the employer assisted housing schemes.

a. Employers are allocated serviced stands by local authorities and construct houses for their employees. Under this option, building societies would not be involved. This scheme has been constrained by the inability of local authorities to cope with the high demand for serviced stands.

b. Employers are allocated land to service and construct houses for their employees. This option was designed to ease the shortage of serviced stands, and let those employees who can service the land to benefit whilst stands serviced by the Councils would cater for those on the waiting list.

c. Employers can deposit funds with building societies for the specific purpose of benefiting their employees obtain finance for housing. This option was introduced as recent as February 1992 to overcome liquidity problems in building societies. Under this option, the employer would negotiate a deposit rate with a building society and

the building society would on-lend the funds to employees at say a 2% margin. The funds would be used to service stands and construct houses, and the individual loans administered by the society.

4. BENEFICIARIES OWN RESOURCES

Some people are able to finance themselves either through own savings (aided self-help) or co-operatives. Under this option, there has been a lot of development through own savings finance for low income housing in particular, by households in self employment, whose income cannot be easily quantified for borrowing purposes.

5. CONSTRAINTS

The whole process of shelter delivery from land acquisition to the construction of superstructures is fraught with constraints. The major constraints from an individual's point are discussed below. These can be summarised as the inability of local authorities to provide serviced stands which are title surveyed. Where the stands are title surveyed, the cost of a stand and putting up the required minimum development on it is becoming out of reach of people earning below median income. Currently, because of the shortage of funds in building societies, mortgage finance has become difficult to get, while building costs continue to rise. Other constraints of less significance include front-end fees necessary to obtain mortgage finance and the recurrent costs associated with owning a house.

a. SURVEYED STANDS

Unavailability of title surveyed stands particularly in Councils below City size, means that an individual cannot get housing finance from societies as the title is required as security by building societies. In cases where stands are not title surveyed, individuals have had to rely on financing the cost of buying the stand and developing it either from own saving or employer assistance. This constraint can be overcome by allowing local authorities below city status to acquire state land and then sell it to individual home developers. The shortage of qualified and experienced personnel in the Surveyor General's office has been cited as one of the major

reasons for this constraint. Recommendations in this regard include the need for technical assistance and training, easier access to vehicles and more travelling and subsistence allocation, and amendments to the survey fee structure.

b. PURCHASING POWER

Median Income Projections are shown as Appendix III and Shelter Affordability Projections as Appendix IV (A). Where title to land is available, purchasing power could be a constraint. Shelter affordability analysis indicate that an income of $800 per month qualifies for a maximum bond of $15 050 at 15% over 25 years allowing for repayments at 25% of income. Including a 5% deposit, this enables one to afford a unit cost of $15 842. This compares to the current cost of constructing a 4 roomed house, excluding the cost of a serviced stand, of $31 000. A four roomed house is therefore currently out of the reach of people earning below the median income. This calls for a rationalisation of the building standards in order to reduce costs such as reducing stand sizes, type of roads, sewer sizes, increasing capacity in the building materials supply industries, and permitting a reduction in minimum development requirements to a wet block and one room slab on a serviced plot.

Currently, the purchasing power constraint is aggravated by the tight liquidity situation in building societies where there is a backlog in excess of $200 million of mortgage applications. This will need to be cleared before the societies can consider any further new applications. Building costs in the meantime continue to rise.

c. INITIAL FRONT-END FEES

Societies reported incidences where they have withheld disbursement of funds after home developers have failed to raise the front-end fees. These are, where applicable, as follows :-

- Valuation fees of approximately 0,5% of assessed value due to the societies. However, the societies built this into the bond value.

- Bond registration fee usually 2% of bond value paid by the mortgagor to the society's lawyers.

- Transfer fees due to the council lawyers amounting to about 3,5% of the property being transferred and paid by the beneficiary. On average this amounts to $180 for a stand only.

- Stamp duties on value of property transferred based on the following rates:-

  0,6% up to $5 000;
  2,5% from $5 001 to $15 000; and
  5% for over $15 000.

  A range of front-end fees is detailed as per Appendix V. On a bond for a 200m^2 plot costing $5 152 and wet block plus 1 room slab costing $6 165, the fees would come to approximately $535. On a total unit cost of $11 317 a 5% deposit of $566 would also be required bringing the total front-end amount to $1 101. Like in the case of valuation fees, building societies have indicated their willingness to meet the bond and transfer fees and stamp duties and build them in the value of the bond.

  In addition to the above, a developer of a serviced stand is required to build on the stand according to an approved plan by council. This involves engaging an architect at a cost. In the case of Harare, they have on offer at a $2 fee, 17 plans that an individual can choose from. Where such plans are not on offer, it could cost up to $200 to have a plan made depending on the architect.

d. <u>OTHER COSTS</u>

Each local authority charges homeowners for water, sewage, supplementary charges at varying rates. For Harare, probably the

most expensive, the following charges currently apply on a monthly basis :-

	$
Minimum water charges	5,50
Waste management	3,80
Sewage	7,85
Supplementary charges	21,00
	38,15

Electricity charges by ZESA are currently as follows :-

5 AMP load limiter fixed charge	20,30	or
1 AMP load limiter fixed charge	8,69	or
Pay as used on unlimited load.		

The above charges could add up to $58,45 or $46,84 per month. Harare charges an additional 10% Health levy based on the total of the above charges. One could therefore end up paying as much as $64,30 per month for charges associated with owning a house.

Given a median total income of $800 per month, with a mortgage repayment of $200 for a $15 000 mortgage bond and other charges of $64,30, total fixed costs could be $264 per month or 33% of monthly income. A household would still be required to provide for food estimated at about 36% of income and be able to save to develop the house.

B. AFFORDABILITY

The Housing Guarantee guidelines specify that supported housing interventions should result in shelter which is affordable at or below the median income. This issue essentially involves the identification of the median income, cost of shelter, and therefore what cost is affordable by the median income. Detailed issues relating to cost of shelter are covered under the chapter on Land Issues and Building Standards. The purpose of this section is to determine the median income and what shelter it can afford in terms of mortgage financing by building societies, over the period 1992 to 1996, and to determine demand for housing given the likely impact of the ERP on compression of consumption.

1. INCOME PROJECTIONS

Data extracted from the latest Central Statistical Office (CSO) Household Survey of Income, Consumption and Expenditure give a median cash income for urban households of $490. The survey was conducted between July 1990 to June 1991, and the income data is summarised as Appendix I.

Wage increases for the low income employees in all sectors, except domestic services, have since 1990 been arrived at through collective bargaining and are effective from 1 July of each year. The majority of increases in 1991 were settled at 17.5% according to Employers Confederation of Zimbabwe (EMCOZ). Applied to the $490 median income at end of June 1991, median income after the July 1991 wage increases is assumed to be $576.

According to EMCOZ, collective bargaining for the July 1992 increases is going to be difficult for both the employers and employees given the likely negative effects of the drought and short-term ERP effects. The aim is to avoid wage increases out of line with productivity that could result in retrenchment. As a general guideline EMCOZ has advised on increases of 50% of prevailing inflation. However, in practice, inflation is not the major determining factor but individual firm's viability and ability to pay.

According to the World Bank, inflation is forecast to come down from 28% in 1991 to about 25% by the end of 1992. This is higher than the 14% forecast

in the ERP now that the structural adjustment transition is anticipated to be longer than previously expected due to the current drought. However, there are still a lot of unknowns on the effect of the current drought situation and how the food programme will be financed. The assumption is that the supply side during the drought period is likely to increase inflation depending on the level of donor assistance, whilst reduced demand should assist inflation not to be hyper. The supply side, according to World Bank, is likely to dominate and therefore exert pressures on inflation.

Assuming inflation of 25% for 1992 and wage increases in the range of 12,5% to 20,0%. Median income could increase from $576 to a range of $648 to $691. Inflation projections and scenarios on median income projects are as per Appendix III.

There has been a growing tendency particularly by urban low income households to supplement cash income through "informal" income generating activities such as buying and selling of goods from neighbouring countries, and vegetable vending. Basing current trend on the 1984/85 Income, Consumption and Expenditure survey which put such imputed income at 1% of total urban household cash income, it could be assumed that such income has increased its role to an average 5% of household income. For 1991, this would mean that the median primary income of $576 was equal to 95% of total cash income and therefore total cash income would have been $606 inclusive of imputed income from "informal" activities. As the economy opens up and more items are put on OGIL the significance of this type of income may not increase. It is therefore suggested to maintain an amount of $30 per year throughout the forecast period to 1996.

With the growing shortage of low cost housing, the majority of low income households with houses in urban areas are increasingly taking in lodgers. This is proving to be a steady source of supplementary income to an extent that building societies are recognising imputed lodger rent in the calculation of mortgage loans in high density areas. On average an acceptable imputed lodger rent to building societies is $100. However, the lodger rent varies from area to area even within the same local authority depending on facilities offered by the landlord. It is assumed that such rent will increase by about 10% per year up to 1994 and then increase by 5%

per year when more housing is expected onto the market from 1995 onwards.

2. GUIDE TO BORROWING LEVELS

A guide on maximum bond available based on income is as per Appendix IV (A). An income of $778 would qualify for a bond of $14 670 or a housing unit cost of $15 442 after adding a 5% deposit. Currently this would more than cover the cost of a stand, a wet block and 1 room slab which is proposed as the minimum. Assuming a 15% saving on sewage cost and a reduction in stand size to 150m^2, a bond of $14 670 plus a 5% deposit would cover the cost of a stand plus a 4 roomed slab. This is assuming the external walls are reduced to 115mm from the present stipulated 200mm thick. Given assumptions on building costs and wage increases, after 1993 only those people at median income level who will have been able to maintain wage increases above half the inflation rate will afford the minimum cost of a stand plus a wet block with a one room slab.

Various affordability scenarios are as per Appendices IV (B) to (C). Appendices IV (B) and (C) show a comparison of shelter cost projections based on present standards and reduced standards on roads and sewage costs and plot sizes, and a range of superstructure costs. As per Appendix IV (B) a median income earner could in 1992 afford the cost of a stand, a wet block and 4 roomed slab on all plot sizes. On a 150m^2 plot, shelter could be affordable up to wet block and kitchen (3m X 2m). However, as building costs are assumed to be increasing at a rate faster than wage increases, affordable superstructure reduces to a level where the minimum suggested wet block and 1 room slab would in 1986 only be affordable if plot sizes are reduced to 200m^2 and below without necessarily changing any other present standards. Appendix IV (C) assumes lower wage increases than in Appendix IV (B) with annual real wage percentage changes down to -40% from -30%. In 1996, the minimum superstructure development would under this scenario be affordable only on 150m^2 plots and requiring a change in roads and sewage standards. Appendices IV (D) and (E) show the position which assumes a reduction in school sizes and therefore more plots resulting in total unit cost saving per plot in excess of $1000.

A 200m^2 plot which currently costs $5520 would come down to $5152 with road and sewage reductions, and further down to $4146 with reduction in school sizes.

Indications are that total income for the median income group would in 1996 be in the range $1 045 to $1 394. It should be noted in this regard that MPCNH has recommended to local authorities that the cut-off point to qualify for a high density house be $1 200. If shelter is to be made affordable to those earning below the median income, it is imperative that a lot of effort be spent on reducing plot costs and building costs, and at the same time educating the consumer and convincing the relevant authorities of the type of shelter that is affordable.

3. REAL EFFECTIVE DEMAND

There are no official national figures on low income demand for housing. However, a telephone survey of urban councils recently conducted by MPCNH came up with a waiting list of 500 000 urban housing units. Included in this figure is 10% to take into account households who although they need shelter, have not bothered to register. Harare alone had a waiting list of 72 000 in January 1992, of which 70% was low cost housing, and growing at 1 200 per month. Conservatively assuming that 70% of the 500 000 on the urban councils' waiting lists represents demand for low income housing, at an average household size of 6,5 persons per household, over 2 million people are in need of shelter in the urban high density areas. The proposed World Bank Urban II programme aimed at housing 500 000 people or 80 000 households over the next 5 years, combined with USAID efforts, will only satisfy a small proportion of the demand for urban low income housing.

Not all people on the high density housing lists of urban authorities can afford a housing mortgage. From discussions held with building societies, some of the people, by the time they are allocated a stand, fail to raise the front-end fees to enable a society to release the funds for the construction. This is supported by a recent study by Plan Inc which came up with the following:-

Majority of would be houseowners are currently lodging. Approximately 48% of lodgers interviewed stated that they would like to own their own homes.

The 52% that did not want to own a house cited:-

- financial problems (85%)
- long waiting list (15%).

The 48% who wanted to own a home cited:-

- cost of doing so had prevented them (70%)
- waiting list as an impediment (30%).

Nonetheless 51% of lodgers did believe that they would one day own their own house.

The current real effective demand for housing in terms of affordability is therefore less than what is portrayed by the waiting lists with urban councils and could, based on the above study, be put at 51%. However, the long waiting lists have acted as a disincentive for people to think they will get a house. If the housing delivery situation improves, expectations will increase and real demand will increase to probably unprecedented levels. This largely depends on rationalisation of building standards, expansion of the building material sector, and availability of affordable housing finance.

C. CONCLUSION

Current access to housing finance sector by the low income households is constrained by the inability of local authorities to provide stands which are title surveyed. Where the stands are title surveyed, people at or below the median income are experiencing an erosion of their purchasing power and cannot afford to raise finance for the stand and the minimum level of building structures. Estimated median total income in 1992 of $800 can afford to borrow $15 000 or a unit cost of $15 800 which is less than the cost of a 300m^2 stand, wet block and four roomed slab. Solution to make shelter affordable for the below median income earners requires improvements on the land delivery system, rationalisation of plot sizes and minimum building requirements, improving the liquidity situation in building societies.

TOTAL MONTHLY HOUSEHOLD CASH INCOME DISTRIBUTION PER HOUSEHOLD (URBAN)

INCOME GROUP (Z$)	NUMBER OF HOUSEHOLDS IN SAMPLE		ESTIMATED NO. OF HOUSEHOLDS	CUMMULATIVE HOUSEHOLDS
	NUMBER	%		
<50	375	7,90	45642	
50 - 99	92	1,94	11197	56939
100 - 149	131	2,76	15944	72787
150 - 249	605	12,75	73635	146418
250 - 299	281	5,92	34201	180619
300 - 349	306	6,49	37487	218106
350 - 399	227	4,70	27142	245249
400 - 449	194	4,09	23612	268860
450 - 499	210	4,42	25559	294419
500 - 549	179	3,77	21786	316205
550 - 599	122	2,57	14849	331054
600 - 649	146	3,08	17770	348824
650 - 699	124	2,61	15092	363916
700 - 749	120	2,53	14605	378521
750 - 799	86	1,81	10467	388988
800 - 849	93	1,96	11319	400307
850 - 899	55	1,16	6694	407001
900 - 949	68	1,43	8276	415277
950 - 999	67	1,41	8155	423432
1000 - 1099	106	2,23	12901	436333
1100 - 1199	87	1,83	10589	446922
1200 - 1299	90	1,90	10954	457876
1300 - 1399	56	1,18	6816	464892
1400 - 1499	73	1,54	8885	473577
1500 - 1599	49	1,03	5964	479541
1600 - 1699	60	1,26	7059	486600
1700 - 1799	44	0,93	5355	491955
1800 - 1899	34	0,72	4135	496090
1900 - 1999	40	0,84	4868	500958
2000 & -	[illegible]	13,27	[illegible]	[illegible]
TOTAL	[illegible]	100,00	[illegible]	

NOTE:

1. Urban areas are towns places with 2500 or more inhabitants.

2. Median income is $490 per month.

SOURCE: Central Statistical Office (Preliminary 1990/91 Household Survey)

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APPENDI

MORTGAGE ADVANCES BY BUILDING SOCIETIES

		1991		1990		1989		1988		1987
		UNITS	$M	UNITS	$M	UNITS	$M	UNITS	$M	UNITS
CABS	High Density	[illegible]	[illegible]	[illegible]	39,[illegible]	2 950	28,9	2 600	20,9	2 281
	Total Mortgages	[illegible]	[illegible]	6 565	252,7	5 610	163,7	4 716	100,9	4 591
	Percentage	[illegible]	11,[illegible]	45,7	15,6	52,7	17,7	55,1	20,7	49,7
BEVERLEY	High Density	[illegible]	[illegible]	1 424	[illegible]	2 392	22,2	2 000	14,0	500
	Total Mortgages	[illegible]	211,7	[illegible]	195,[illegible]	4 324	94,9	3 550	58,6	2 659
	Percentage	[illegible]	[illegible]	37,0	[illegible]	55,3	[illegible]	56,3	23,9	18,8
FOUNDERS	High Density	[illegible]	[illegible]	[illegible]	17,[illegible]	227	3,5	172	1,5	364
	Total Mortgages	[illegible]	[illegible]	2 547	[illegible]	1 677	53,2	1 109	23,1	1 434
	Percentage	[illegible],1	[illegible]	43,5	19,1	13,5	6,6	15,5	6,5	25,4
TOTAL	High Density	[illegible]	[illegible]	5 559	75,4	5 579	54,6	4 722	36,4	3 145
	Total Mortgages	[illegible]	[illegible]	12 766	541,4	11 620	310,9	9 375	182,6	8 684
	Percentage	[illegible]	[illegible]	44,5	[illegible]	48,0	17,6	50,4	19,9	36,2
	Cumulative High Density Units	[illegible]		19 004		13 445		7 867		3 145

Percentage = High density as a proportion of total mortgages

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MEDIAN INCOME PROJECTIONS (7% PER MONTH)

YEAR	AVERAGE INFLATION (%)	WAGE INCREASES (%)	CASH WAGES	IMPUTED INCOME	TOTAL CASH AND IMPUTED	RENT INCOME	TOTAL RENT AND CASH	TOTAL C IMPUTED
1991	[illegible]		576					
1992	[illegible]	[illegible]	649	30	679	100	748	
		[illegible]	662	30	692	100	762	
		[illegible]	677	30	707	100	777	
		[illegible]	691	30	721	100	791	
1993	[illegible]	[illegible]	713	30	743	110	823	
		[illegible]	745	30	775	110	855	
		[illegible]	778	30	808	110	888	
		[illegible]	812	30	842	110	922	
1994	[illegible]	[illegible]	777	30	807	121	898	
		11.[illegible]	831	30	861	121	952	
		[illegible]	887	30	917	121	1 008	
		[illegible]	946	30	976	121	1 067	
1995	[illegible]	[illegible]	832	30	862	128	960	
		[illegible]	910	30	940	128	1 038	
		[illegible]	994	30	1024	128	1 122	
		[illegible]	1083	30	1113	128	1 211	
1996	[illegible]	[illegible]	881	30	911	134	1 015	
		[illegible]	987	30	1017	134	1 121	
		[illegible]	1103	30	1133	134	1 237	
		[illegible]	1230	30	1260	134	1 364	

NOTES

1. Median Income June 1991 - [illegible]
2. Wages increases 1 July 1991 of 17.[illegible] raising median income to $576
3. Median Income at end December 1991 = $576. (same as at end of July 1991)
4. Imputed income excludes rent
5. Rental income increases by 1[illegible] in 1993 and 1994 and then by 5% in 1995 and 1996.

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SHELTER AFFORDABILITY PROJECTIONS (50TH PERCENTILE)

YEAR	MORTGAGE RATE (%)	TOTAL INCOME	25% OF INCOME	MORTGAGE AMOUNT	UNIT COST INCLUSIVE OF 5% DEPOSIT		TYPE OF AFFORDABLE SHELTER 150M²	200M²	300M²
1992	15	[illegible]	125	14 [illegible]	15 442	P	11 114	11 685	12 591
		[illegible]	138	14 [illegible]	15 [illegible]	M_1	10 813	11 317	12 138
		[illegible]	202	15 210	16 010	M_2	9 530	10 311	11 180
		[illegible]	205	15 440	16 255				
1993	15	[illegible]	[illegible]	16 [illegible]	16 905	P	15 560	16 359	17 627
		[illegible]	[illegible]	16 [illegible]	17 632	M_1	15 138	15 844	16 993
		[illegible]	[illegible]	17 [illegible]	18 384	M_2	13 342	14 435	15 652
		[illegible]	[illegible]	17 [illegible]	18 [illegible]				
1994	15	[illegible]	[illegible]	17 [illegible]	18 526	P	19 450	20 449	22 034
		[illegible]	[illegible]	18 [illegible]	19 502	M_1	18 922	19 805	24 428
		1 [illegible]	[illegible]	19 [illegible]	20 316	M_2	16 678	18 044	19 565
		1 [illegible]	[illegible]	20 [illegible]	21 621				
1995	13.5	[illegible]	[illegible]	19 [illegible]	20 884	P	22 367	23 516	25 339
		1 [illegible]	[illegible]	21 [illegible]	22 484	M_1	21 761	22 775	24 428
		1 [illegible]	[illegible]	23 040	24 253	M_2	19 179	20 751	22 500
		1 [illegible]	310	25 [illegible]	27 193				
1996	13.5	1 [illegible]	[illegible]	20 [illegible]	21 979	P	24 604	25 868	27 873
		1 151	[illegible]	23 040	24 253	M_1	23 937	25 053	26 870
		1 [illegible]	[illegible]	25 [illegible]	26 695	M_2	21 097	22 826	24 750
		1 [illegible]	[illegible]	27 [illegible]	29 [illegible]				

NOTE:

1. Type of affordable shelter is based on cost of servicing a stand, unit block and one room slab (excluding electricity reticulation).

2. Building costs are assumed to go up as follows:
   1993 : 40%
   1994 : 25%
   1995 : 15%
   1996 : 10%.

3. Mortgage rates are assumed to decline from 1995.

4. P shows no changes in present standards; M_1 shows changes in roads and sewers only; and M_2 shows reduced standards as in M_1 plus school sites.

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Annual Real Wage Percentage Change -30%
No Change In School Sizes

1992	Median Income:	$809	Max. Affordable Structure:	$16,135
	Minimum Wage Inc.	17.5%	Cost Increase	0.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs A	B	C	D	E	F
		$5,030	$6,165	$7,300	$8,435	$9,570	$11,360
300-P	$6,426	$11,456	$12,591	$13,726	$14,861	$15,996	$17,786
300-M	$5,973	$11,003	$12,138	$13,273	$14,408	$15,543	$17,333
200-P	$5,520	$10,550	$11,685	$12,820	$13,955	$15,090	$16,880
200-M	$5,152	$10,182	$11,317	$12,452	$13,587	$14,722	$16,512
150-P	$4,949	$9,979	$11,114	$12,249	$13,384	$14,519	$16,309
150-M	$4,648	$9,678	$10,813	$11,948	$13,083	$14,218	$16,008

1993	Median Income:	$923	Max. Affordable Unit:	$18,395
	Minimum Wage Inc.	14.0%	Cost Increase:	42.6%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$7,173	$8,791	$10,410	$12,028	$13,647	$16,199
300-P	$9,163	$16,336	$17,955	$19,573	$21,192	$22,810	$25,363
300-M	$8,517	$15,690	$17,309	$18,927	$20,546	$22,164	$24,717
200-P	$7,872	$15,044	$16,663	$18,281	$19,900	$21,518	$24,071
200-M	$7,347	$14,520	$16,138	$17,757	$19,375	$20,994	$23,546
150-P	$7,057	$14,230	$15,849	$17,467	$19,086	$20,704	$23,257
150-M	$6,628	$13,801	$15,419	$17,038	$18,656	$20,275	$22,827

1994	Median Income:	$1,039	Max. Affordable Unit:	$20,707
	Minimum Wage Inc.	12.6%	Cost Increase:	25.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$8,966	$10,989	$13,012	$15,035	$17,059	$20,249
300-P	$11,454	$20,420	$22,443	$24,467	$26,490	$28,513	$31,704
300-M	$10,647	$19,613	$21,636	$23,659	$25,682	$27,705	$30,896
200-P	$9,839	$18,805	$20,829	$22,852	$24,875	$26,898	$30,089
200-M	$9,183	$18,149	$20,173	$22,196	$24,219	$26,242	$29,433
150-P	$8,822	$17,788	$19,811	$21,834	$23,857	$25,880	$29,071
150-M	$8,285	$17,251	$19,274	$21,297	$23,320	$25,344	$28,534

Annual Real Wage Percentage Change -30%
No Change In School Sizes (continued)

1995	Median Income:	$1,141	Max. Affordable Unit:	$24,988
	Minimum Wage Inc.	9.8%	Cost Increase:	15.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $10,311	$12,637	$14,964	$17,291	$19,617	$23,287
300-P	$13,172	$23,483	$25,810	$28,137	$30,463	$32,790	$36,459
300-M	$12,244	$22,555	$24,881	$27,208	$29,535	$31,861	$35,530
200-P	$11,315	$21,626	$23,953	$26,279	$28,606	$30,933	$34,602
200-M	$10,561	$20,872	$23,198	$25,525	$27,852	$30,178	$33,848
150-P	$10,145	$20,456	$22,782	$25,109	$27,436	$29,762	$33,431
150-M	$9,528	$19,839	$22,165	$24,492	$26,819	$29,145	$32,814

1996	Median Income:	$1,236	Max. Affordable Unit:	$27,084
	Minimum Wage Inc.	8.4%	Cost Increase:	10.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $11,342	$13,901	$16,460	$19,020	$21,579	$25,615
300-P	$14,490	$25,832	$28,391	$30,950	$33,510	$36,069	$40,105
300-M	$13,468	$24,810	$27,370	$29,929	$32,488	$35,047	$39,084
200-P	$12,447	$23,789	$26,348	$28,907	$31,467	$34,026	$38,062
200-M	$11,617	$22,959	$25,518	$28,078	$30,637	$33,196	$37,232
150-P	$11,159	$22,501	$25,061	$27,620	$30,179	$32,738	$36,775
150-M	$10,481	$21,823	$24,382	$26,941	$29,500	$32,060	$36,096

NOTE : SUPERSTRUCTURE COSTS

(a) Wet block (2m x 1m, toilet/shower)
(b) Wet block and 1 room slab (3m x 3m)
(c) Wet block and 2 roomed slab
(d) Wet block and 3 roomed slab
(e) Wet block and 4 roomed slab
(f) Wet block and kitchen (3m x 2m)

Annual Real Wage Percentage Change -40%
No Change In School Sizes

1992	Median Income:	$792	Max. Affordable Structure:	$15,790
	Minimum Wage Inc.	15.0%	Cost Increase	0.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs A $5,030	B $6,165	C $7,300	D $8,435	E $9,570	F $11,360
300-P	$6,426	$11,456	$12,591	$13,726	$14,861	$15,996	$17,786
300-M	$5,973	$11,003	$12,138	$13,273	$14,408	$15,543	$17,333
200-P	$5,520	$10,550	$11,685	$12,820	$13,955	$15,090	$16,880
200-M	$5,152	$10,182	$11,317	$12,452	$13,587	$14,722	$16,512
150-P	$4,949	$9,979	$11,114	$12,249	$13,384	$14,519	$16,309
150-M	$4,648	$9,678	$10,813	$11,948	$13,083	$14,218	$16,008

1993	Median Income:	$887	Max. Affordable Unit:	$17,683
	Minimum Wage Inc.	12.0%	Cost Increase:	42.6%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $7,173	$8,791	$10,410	$12,028	$13,647	$16,199
300-P	$9,163	$16,336	$17,955	$19,573	$21,192	$22,810	$25,363
300-M	$8,517	$15,690	$17,309	$18,927	$20,546	$22,164	$24,717
200-P	$7,872	$15,044	$16,663	$18,281	$19,900	$21,518	$24,071
200-M	$7,347	$14,520	$16,138	$17,757	$19,375	$20,994	$23,546
150-P	$7,057	$14,230	$15,849	$17,467	$19,086	$20,704	$23,257
150-M	$6,628	$13,801	$15,419	$17,038	$18,656	$20,275	$22,827

1994	Median Income:	$983	Max. Affordable Unit:	$19,597
	Minimum Wage Inc.	10.8%	Cost Increase:	25.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $8,966	$10,989	$13,012	$15,035	$17,059	$20,249
300-P	$11,454	$20,420	$22,443	$24,467	$26,490	$28,513	$31,704
300-M	$10,647	$19,613	$21,636	$23,659	$25,682	$27,705	$30,896
200-P	$9,839	$18,805	$20,829	$22,852	$24,875	$26,898	$30,089
200-M	$9,183	$18,149	$20,173	$22,196	$24,219	$26,242	$29,433
150-P	$8,822	$17,788	$19,811	$21,834	$23,857	$25,880	$29,071
150-M	$8,285	$17,251	$19,274	$21,297	$23,320	$25,344	$28,534

Annual Real Wage Percentage Change -40%
No Change in School Sizes (continued)

1995	Median Income:	$1,065	Max. Affordable Unit:	$23,338
	Minimum Wage Inc.	8.4%	Cost Increase:	15.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $10,311	$12,637	$14,964	$17,291	$19,617	$23,287
300-P	$13,172	$23,483	$25,810	$28,137	$30,463	$32,790	$36,459
300-M	$12,244	$22,555	$24,881	$27,208	$29,535	$31,861	$35,530
200-P	$11,315	$21,626	$23,953	$26,279	$28,606	$30,933	$34,602
200-M	$10,561	$20,872	$23,198	$25,525	$27,852	$30,178	$33,848
150-P	$10,145	$20,456	$22,782	$25,109	$27,436	$29,762	$33,431
150-M	$9,528	$19,839	$22,165	$24,492	$26,819	$29,145	$32,814

1996	Median Income:	$1,142	Max. Affordable Unit:	$25,017
	Minimum Wage Inc.	7.2%	Cost Increase:	10.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $11,342	$13,901	$16,460	$19,020	$21,579	$25,615
300-P	$14,490	$25,832	$28,391	$30,950	$33,510	$36,069	$40,105
300-M	$13,468	$24,810	$27,370	$29,929	$32,488	$35,047	$39,084
200-P	$12,447	$23,789	$26,348	$28,907	$31,467	$34,026	$38,062
200-M	$11,617	$22,959	$25,518	$28,078	$30,637	$33,196	$37,232
150-P	$11,159	$22,501	$25,061	$27,620	$30,179	$32,738	$36,775
150-M	$10,481	$21,823	$24,382	$26,941	$29,500	$32,060	$36,096

NOTE : SUPERSTRUCTURE COSTS

(a) Wet block (2m x 1m, toilet/shower)
(b) Wet block and 1 room slab (3m x 3m)
(c) Wet block and 2 roomed slab
(d) Wet block and 3 roomed slab
(e) Wet block and 4 roomed slab
(f) Wet block and kitchen (3m x 2m)

Annual Real Wage Percentage Change -30%
Reduction In School Sizes

1992	Median Income:	$809	Max. Affordable Structure:	$16,135
	Minimum Wage Inc.	17.5%	Cost Increase	0.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs A	B	C	D	E	F
		$5,030	$6,165	$7,300	$8,435	$9,570	$11,360
300-P	$6,426	$11,456	$12,591	$13,726	$14,861	$15,996	$17,786
300-M	$5,015	$10,045	$11,180	$12,315	$13,450	$14,585	$16,375
200-P	$5,520	$10,550	$11,685	$12,820	$13,955	$15,090	$16,880
200-M	$4,146	$9,176	$10,311	$11,446	$12,581	$13,716	$15,506
150-P	$4,949	$9,979	$11,114	$12,249	$13,384	$14,519	$16,309
150-M	$3,365	$8,395	$9,530	$10,665	$11,800	$12,935	$14,725

1993	Median Income:	$923	Max. Affordable Unit:	$18,395
	Minimum Wage Inc.	14.0%	Cost Increase:	42.6%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$7,173	$8,791	$10,410	$12,028	$13,647	$16,199
300-P	$9,163	$16,336	$17,955	$19,573	$21,192	$22,810	$25,363
300-M	$7,151	$14,324	$15,943	$17,561	$19,180	$20,798	$23,351
200-P	$7,872	$15,044	$16,663	$18,281	$19,900	$21,518	$24,071
200-M	$5,912	$13,085	$14,703	$16,322	$17,941	$19,559	$22,112
150-P	$7,057	$14,230	$15,849	$17,467	$19,086	$20,704	$23,257
150-M	$4,798	$11,971	$13,590	$15,208	$16,827	$18,445	$20,998

1994	Median Income:	$1,039	Max. Affordable Unit:	$20,707
	Minimum Wage Inc.	12.6%	Cost Increase:	25.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$8,966	$10,989	$13,012	$15,035	$17,059	$20,249
300-P	$11,454	$20,420	$22,443	$24,467	$26,490	$28,513	$31,704
300-M	$8,939	$17,905	$19,928	$21,951	$23,975	$25,998	$29,188
200-P	$9,839	$18,805	$20,829	$22,852	$24,875	$26,898	$30,089
200-M	$7,390	$16,356	$18,379	$20,402	$22,426	$24,449	$27,639
150-P	$8,822	$17,788	$19,811	$21,834	$23,857	$25,880	$29,071
150-M	$5,998	$14,964	$16,987	$19,010	$21,034	$23,057	$26,247

Annual Real Wage Percentage Change -30%
Reduction in School Sizes (continued)

1995	Median Income:	$1,141	Max. Affordable Unit:	$24,988
	Minimum Wage Inc.	9.8%	Cost Increase:	15.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $10,311	$12,637	$14,964	$17,291	$19,617	$23,287
300-P	$13,172	$23,483	$25,810	$28,137	$30,463	$32,790	$36,459
300-M	$10,280	$20,591	$22,918	$25,244	$27,571	$29,897	$33,567
200-P	$11,315	$21,626	$23,953	$26,279	$28,606	$30,933	$34,602
200-M	$8,499	$18,810	$21,136	$23,463	$25,789	$28,116	$31,785
150-P	$10,145	$20,456	$22,782	$25,109	$27,436	$29,762	$33,431
150-M	$6,898	$17,209	$19,535	$21,862	$24,189	$26,515	$30,184

1996	Median Income:	$1,236	Max. Affordable Unit:	$27,084
	Minimum Wage Inc.	8.4%	Cost Increase:	10.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs $11,342	$13,901	$16,460	$19,020	$21,579	$25,615
300-P	$14,490	$25,832	$28,391	$30,950	$33,510	$36,069	$40,105
300-M	$11,308	$22,650	$25,209	$27,769	$30,328	$32,887	$36,923
200-P	$12,447	$23,789	$26,348	$28,907	$31,467	$34,026	$38,062
200-M	$9,349	$20,691	$23,250	$25,809	$28,368	$30,928	$34,964
150-P	$11,159	$22,501	$25,061	$27,620	$30,179	$32,738	$36,775
150-M	$7,588	$18,930	$21,489	$24,048	$26,607	$29,167	$33,203

NOTE : SUPERSTRUCTURE COSTS

(a) Wet block (2m x 1m, toilet/shower)
(b) Wet block and 1 room slab (3m x 3m)
(c) Wet block and 2 roomed slab
(d) Wet block and 3 roomed slab
(e) Wet block and 4 roomed slab
(f) Wet block and kitchen (3m x 2m)

Annual Real Wage Percentage Change -40%
Reduction In School Sizes

1992	Median Income:	$792	Max. Affordable Structure:	$15,790
	Minimum Wage Inc.	15.0%	Cost Increase	0.0%

PLOT SIZE	PLOT COSTS	A	B	C	D	E	F
					SuperStructure Costs		
		$5,030	$6,165	$7,300	$8,435	$9,570	$11,360
300-P	$6,426	$11,456	$12,591	$13,726	$14,861	$15,996	$17,786
300-M	$5,015	$10,045	$11,180	$12,315	$13,450	$14,585	$16,375
200-P	$5,520	$10,550	$11,685	$12,820	$13,955	$15,090	$16,880
200-M	$4,146	$9,176	$10,311	$11,446	$12,581	$13,716	$15,506
150-P	$4,949	$9,979	$11,114	$12,249	$13,384	$14,519	$16,309
150-M	$3,365	$8,395	$9,530	$10,665	$11,800	$12,935	$14,725

1993	Median Income:	$887	Max. Affordable Unit:	$17,683
	Minimum Wage Inc.	12.0%	Cost Increase:	42.6%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$7,173	$8,791	$10,410	$12,028	$13,647	$16,199
300-P	$9,163	$16,336	$17,955	$19,573	$21,192	$22,810	$25,363
300-M	$7,151	$14,324	$15,943	$17,561	$19,180	$20,798	$23,351
200-P	$7,872	$15,044	$16,663	$18,281	$19,900	$21,518	$24,071
200-M	$5,912	$13,085	$14,703	$16,322	$17,941	$19,559	$22,112
150-P	$7,057	$14,230	$15,849	$17,467	$19,086	$20,704	$23,257
150-M	$4,798	$11,971	$13,590	$15,208	$16,827	$18,445	$20,998

1994	Median Income:	$983	Max. Affordable Unit:	$19,597
	Minimum Wage Inc.	10.8%	Cost Increase:	25.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$8,966	$10,989	$13,012	$15,035	$17,059	$20,249
300-P	$11,454	$20,420	$22,443	$24,467	$26,490	$28,513	$31,704
300-M	$8,939	$17,905	$19,928	$21,951	$23,975	$25,998	$29,188
200-P	$9,839	$18,805	$20,829	$22,852	$24,875	$26,898	$30,089
200-M	$7,390	$16,356	$18,379	$20,402	$22,426	$24,449	$27,639
150-P	$8,822	$17,788	$19,811	$21,834	$23,857	$25,880	$29,071
150-M	$5,998	$14,964	$16,987	$19,010	$21,034	$23,057	$26,247

Annual Real Wage Percentage Change -40%
Reduction In School Sizes (continued)

1995	Median Income:	$1,065	Max. Affordable Unit:	$23,338
	Minimum Wage Inc.	8.4%	Cost Increase:	15.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$10,311	$12,637	$14,964	$17,291	$19,617	$23,287
300-P	$13,172	$23,483	$25,810	$28,137	$30,463	$32,790	$36,459
300-M	$10,280	$20,591	$22,918	$25,244	$27,571	$29,897	$33,567
200-P	$11,315	$21,626	$23,953	$26,279	$28,606	$30,933	$34,602
200-M	$8,499	$18,810	$21,136	$23,463	$25,789	$28,116	$31,785
150-P	$10,145	$20,456	$22,782	$25,109	$27,436	$29,762	$33,431
150-M	$6,898	$17,209	$19,535	$21,862	$24,189	$26,515	$30,184

1996	Median Income:	$1,142	Max. Affordable Unit:	$25,017
	Minimum Wage Inc.	7.2%	Cost Increase:	10.0%

PLOT SIZE	PLOT COSTS	SuperStructure Costs					
		$11,342	$13,901	$16,460	$19,020	$21,579	$25,615
300-P	$14,490	$25,832	$28,391	$30,950	$33,510	$36,069	$40,105
300-M	$11,308	$22,650	$25,209	$27,769	$30,328	$32,887	$36,923
200-P	$12,447	$23,789	$26,348	$28,907	$31,467	$34,026	$38,062
200-M	$9,349	$20,691	$23,250	$25,809	$28,368	$30,928	$34,964
150-P	$11,159	$22,501	$25,061	$27,620	$30,179	$32,738	$36,775
150-M	$7,588	$18,930	$21,489	$24,048	$26,607	$29,167	$33,203

NOTE : SUPERSTRUCTURE COSTS

(a) Wet block (2m x 1m, toilet/shower)
(b) Wet block and 1 room slab (3m x 3m)
(c) Wet block and 2 roomed slab
(d) Wet block and 3 roomed slab
(e) Wet block and 4 roomed slab
(f) Wet block and kitchen (3m x 2m)

FRONT-END COSTS ($)

F E E S A N D D U T I E S

BOND SIZE	2% BOND REGISTRATION	3,5% TRANSFER FEES	STAMP DUTIES	TOTAL	% OF BOND	5% DESPOIT
7 500	150	180	129	459	6,1	395
10 000	200	180	129	509	5,1	526
10 500	210	180	124	514	4,9	553
11 000	220	180	129	529	4,8	579
12 000	240	180	129	549	4,6	632
13 000	260	180	129	569	4,4	684
14 000	280	180	129	589	4,2	737
15 000	300	180	129	609	4,0	789
15 500	310	180	129	619	3,9	816
16 000	320	180	129	629	3,9	842
17 000	340	180	129	649	3,8	895
18 000	360	180	129	669	3,7	947
19 000	380	180	129	689	3,6	1000
20 000	400	180	129	709	3,5	1052
21 000	420	180	129	729	3,5	1105
22 000	440	180	129	749	3,4	1158

NOTE:

1. Bond registration is based on 2% of total price.

2. Transfer fees and stamp duties are based on the cost of a 27m² plot of $5 152.

3. 5% deposit is based on bond size being 95% of unit cost.

LM/tr/S5

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LIST OF PEOPLE CONTACTED

1. **FOUNDERS BUILDING SOCIETY**

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Mr P Phillips	Assistant General Manager

2. **BEVERLEY BUILDING SOCIETY**

Mr G Burmester	General Manager
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3. **CABS**

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4. **ZIMBABWE BUILDING SOCIETY**

Mr F Mseme

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Mr Mafangoshe	Under Secretary (Urban and Planning)
Mr Mhandi	Assistant Secretary

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Mr Mairiri	Deputy Director

7. **CITY OF HARARE**

Mr Masunda	Deputy Director Housing
Mr Dube	Assistant Director Housing
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Mr [illegible]	[illegible]

9. **NATIONAL PROPERTY ASSOCIATION**

Mr I Sanders	President

10. **CENTRAL STATISTICAL OFFICE**

Mr Nemahonde	Head of National Accounts Section
Mr Chichetu	Statistical Officer

11. **WORLD BANK**

Mr L McKay	Deputy Resident Representative.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
Office to Zimbabwe

ZIMBABWE PRIVATE SECTOR HOUSING PROGRAMME HOUSEHOLDS' INCOMES/EXPENDITURE SURVEY

REPORT OF FINDINGS

March, 1992

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403

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ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM

HOUSEHOLDS INCOMES/EXPENDITURE SURVEY
REPORT OF FINDINGS

(March 25,1992)

404

PREFACE

The study was commissioned by the United States Agency for International Development's Office to Zimbabwe with technical review provided by the Regional Housing and Urban Development Office for East and Southern Africa, USAID. The USAID/Zimbabwe's Private Sector Housing Program.

The report details and analyzes the findings of a households incomes/expenditure survey made of 859 households living in three high density, low income housing areas of Harare and Marondera. Design and overall co-ordination of the study was carried out by Colleen Butcher assisted by Clever Ndlovu of Plan Inc. Zimbabwe P/L. The household surveys were carried out by second and third year Rural and Urban Planning students at the University of Zimbabwe. The views expressed in this document are those of the authors alone and do not necessarily reflect those of either USAID/Zimbabwe or RHUDO/ESA.

The authors would like to express their appreciation for the information volunteered by the numerous respondents in the survey and in particular for the assistance and hospitality accorded the survey group by Mr. Makombe, Director of Housing and Community Services, and Mr. F. I. Banda, Nyameni Municipality.

March 25,1992.

ACRONYMS

CSO	:	Central Statistical Office
GOZ	:	Government of Zimbabwe
MPCNH	:	Ministry of Public Construction and National Housing
RHUDO/ESA	:	Regional Housing and Urban Development Office for East and Southern Africa, USAID
USAID	:	United States Agency for International Development
Currency	:	The unit of currency used throughout this report is the Zimbabwean dollar, US$1 = Z$5.1 at the time of writing.

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1. INTRODUCTION

1.1. Background to the Survey

The rate of urbanization in Zimbabwe is extremely rapid. By the year 2000, 40% of the population will be living in urban areas. At Independence in 1980, the urban population totalled only 17 percent. The Ministry of Public Construction and National Housing estimates that demand for urban low cost housing will exceed 400,000 units between 1988 and 2000. Despite the average annual production of 12,000 to 14,000 low cost units over the past five years, the Government of Zimbabwe estimates that only one third of urban housing demand is being met.

Three primary impediments to increased low cost housing production in Zimbabwe have been identified by USAID:

- Lack of foreign exchange for the construction sector which has resulted in a severe shortage of plant and equipment;

- A shortage in private sector housing finance due to inadequate incentives to attract financial resources to housing; and

- A series of regulatory obstacles which limit the servicing of urban land by the private sector and make shelver development unnecessarily expensive.

To alleviate the constraints identified, USAID is proposing a Zimbabwe Private Sector Housing Program. It will comprise a grant and loan guarantee to the Government of Zimbabwe to expand the private production and delivery of housing. Legislation governing the HG Program requires that the benefits be affordable to households earning at or below the median income level.

One of the inputs needed in the design of the HG Program is a review of urban incomes and household expenditures to confirm the urban median income level provided by the CSO. Social data concerning occupancy rates of existing housing stock and housing needs and preferences of potential program beneficiaries is also required.

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1.2. Survey Objectives

The survey was broken down into two discrete tasks defined in the consultant's Terms of Reference. The first task was to undertake a survey of not less than 200 households to determine:

(a) household structure

(b) employment

(c) average monthly or weekly expenditure

(d) housing preferences with respect to owning a residence

(e) incomes

The second task required the organization of focus group discussions with low income households to provide in-depth details on the data derived under the first task. The findings of the focus group discussions are presented in Annex 111.

2. SURVEY METHODOLOGY

2.1. Design of Household Questionnaires

The survey made use of pre-coded questionnaires administered by trained enumerators. The questionnaires were broken down into four areas of inquiry:

A. Basic socio-economic data on every household living on the plot. Questions related to:

- gender of head of household
- tenure status (owner, lodger, etc)
- ages of usual members of household and numbers of members living elsewhere
- number of rooms occupied by the household for living and sleeping
- number of members of each household who had been in either casual and/or full-time employment during the last seven days
- major economic sector in which the household was engaged and its major source of income
- an estimate of the household's total monthly income. The question was cross-checked on two separate later parts of the questionnaire.

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All definitions (e.g. "household") and categories for coding (e.g. "major economic activity of household") were used in accordance with guidelines laid down by the United Nations Development Program and International Labor Organization. Similar classifications are used by the Central Statistical Office and data can be cross-correlated with ease.

B. Part 1 of the section sought more in-depth socio-cultural information from the main (owner) household on every stand. Questions related to:

- area of origin
- age
- how long the household had lived in the present house and the previous place and tenure status of residence
- where the family home is located and how often the head of household visits it
- the number of children in school and other dependents (in town or at the rural home)

Owners of the plots were then asked what monthly mortgage payments are made, how it relates to the total cost of the house and how much a house such as their own could be rented out for elsewhere in the suburb. They were also asked who built the house, how they raised the money for the initial deposit and what problems they had had in initially acquiring the house.

One lodger household per plot was asked a number of questions related to whether or not it would like to own a house in town, reasons for the decision and if it believed that it would ever be able to own a house.

The survey then probed the willingness of lodgers to pay an equivalent or higher amount than they are currently paying as rent. The survey in Nyameni, Marondera was extended to include an inquiry into lodger households' willingness to trade lower levels of plot size and infrastructure services for additional floor space.

C. The third section of the questionnaire itemized all possible sources of income (both cash and in kind) of the owner households. Income information during the month of January 1992 was sought from the head of household, the spouse, and any other adult (over 10 years old) male or female member of the household.

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Broken down into different sources made it more difficult for household to withhold or fabricate income information. The total household income figure was cross-checked against the land question asked in Section "A" on household incomes. The rent received from lodgers was also cross-checked. Lodgers themselves were asked how much rent they were currently paying in Section "B".

The fourth and final part of the questionnaire inquired from owner households the amounts that had been spent by the head of household, spouse and all adult members (over 10 years old) on a range of items during January 1992. All households would have paid school fees during this month and the amount given was divided by four to represent a monthly amount. Inputs for agricultural activities are similarly not typical expenditures but tend to be paid seasonally. January is well after the start of the planting season and no unusually high expenditures were expected during this month.

Households were asked to provide information of weekly expenditures on foodstuffs, household stores, drink and tobacco and similar. Expenditures such as these are not easily tracked by respondents over a full month.

2.2. Sample

The sampling frame was drawn from all formal housing stock in two owner built housing schemes in Harare and one in Marondera. Of the two areas in Harare, the first, Glen View, represents one of the biggest single home ownership schemes in the country. It comprises 8 000 units and was developed in the 1970's. Households bought a serviced stand with a toilet from the Municipality over 25 years and were expected to develop the house with no official assistance. Also of interest about this area is that it was laid out on 200m2 plot sizes; one third smaller than the current minimum.

The second area selected in Harare was Warren Park. The area comprises 3 500 high density plots and was developed from 1980 onwards as a site and service scheme.

Marondera is a secondary town and provincial capital. It is experiencing a fairly typical urbanization growth rate of around 6 percent per annum. Nyameni high density area comprises 1 000 plots. It has been developed from 1983 onwards as an assisted owner-built area (under the first USAID Housing Guaranty Program).

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The sample sizes selected were as follows:

(a)	Glen View	:	77 plots out of 8 000	=	1%
(b)	Warren Park	:	77 plots out of 3 500	=	2.2%
(c)	Nyameni	:	100 plots out of 1 000	=	10%

After discussions with district housing officials it was presumed that each of the three areas were relatively heterogeneous with respect to households. The sample was randomly selected within each area. In cases where the household head or responsible adult was not present, call-backs on the weekend or in the evenings were made. This was to ensure that households with all working adults were not inadvertently pushed out of the sample.

No reliable base information exists concerning the number and socio-economic profile of lodgers. All households on sampled plots were interviewed to ensure that tenure patterns in different neighborhoods were proportionally represented.

The final sample was 254 plots and 859 households enumerated.

2.3. Quality of Data

The survey was carried out by eight Rural and Urban Planning students from the University of Zimbabwe who had each completed a second or third year of study and who had had previous survey experience. The enumerators were trained for only one day prior to the survey commencing but questionnaires were scrutinized on a daily basis and feed-back provided on a continuous basis. The enumerators were supervised and guided by an urban and regional planner with a strong previous record of conducting household surveys. It meant that training was a continuous process and the quality of data recorded was sound.

Data on incomes is conventionally difficult to reliably investigate. The information sought was cross-checked from numerous different angles to provide reliability.

The methodology used to enquire as to lodger households' willingness to pay for a house of their own was based on a method developed by the World Bank in an international study of rural households' willingness to pay for water supplies. The impact on a household budget of paying large amounts on a regular basis for a house (as opposed to small water payments) may not have been fully perceived by all respondents. The results are presented as trends and general attitudes, rather than fixed percentages.

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Equally the lodgers' trade-off section would have been better investigated through the use of simulation games than a questionnaire. Time did not permit this and the results are presented as markets on household attitudes.

3. MAIN FINDINGS

3.1. Socio-Cultural Profile of Owner Households

Unless otherwise stated, the following analysis is with respect to data obtained on owner households only.

3.1.1. Gender of head of household

Male	91%
Female	9%

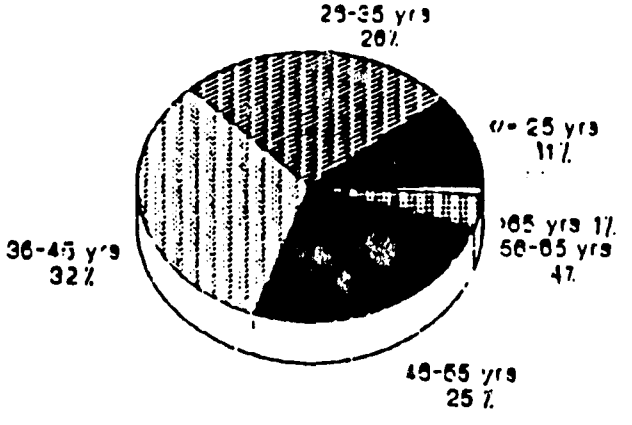
This is a fairly typical gender distribution for urban heads of households in Zimbabwe. The gender distribution for lodger households shows a slightly higher percentage of women headed households. It reflects the age old constraints of women headed households having lower education and employment opportunities and lower incomes to afford housing.

Gender of head of lodger households on stand

Male	89%
Female	11%

3.1.2. AGE OF HEAD OF HOUSEHOLD

(Owner Households)



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3.1.4. Area of origin of household

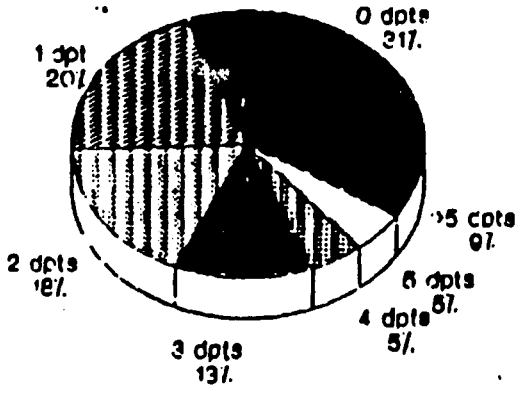
Harare/Marondera high density	34%
Harare/Marondera low density	3%
Other urban area	3%
Communal area	55%
Commercial farms	1%
Resettlement area	0%
Other country	5%

37% of households claimed that their area of origin was the town in which they were living. It reveals a fairly high level of second generation urban born residents with few financial ties either way with rural homes.

A 1980 Incomes/Expenditure Survey conducted by the Riddell Commission found that 88% of low income households in Harare maintained strong links with rural homes. 17% of the 1992 Harare/Marondera respondents stated that they never visit a rural home. 21% only visit it once or twice a year. A further third (31%) visit between three to six times per annum and 30% visit seven or more times. To some extent the data reflects a declining bond between urban dwellers and rural ties and obligations.

Further evidence of this is the number of dependents of a household living elsewhere.

NO. OF OTHER DEPENDENTS
(Owner Households)



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31% of households have no dependents elsewhere and 20% have only one.

3.1.5. The average size of owner households was 6 people. The numbers of children of school going age either living on the stand or elsewhere was reported as:

0 children	14%
1 child	15%
2 children	18%
3 children	23%
4 children	19%
5 children	7%
>5 children	4%

62% of households had previously reported that they had no family members living elsewhere and 14% only had 1 family member living elsewhere. The majority of children can therefore be assumed to be living in town in the house. This may change in the next year with the recent introduction of higher school fees in urban areas than rural.

The impact of the new policy on the size of urban families seeking shelter is as yet difficult to predict.

3.2. Existing Housing Conditions of Households

3.2.1. The average occupancy rate of plots in all areas is 3.4. households. However in Nyameni the occupancy rate is lower at 1.6 households per plot. Across all areas the occupancy rate indicates that on average 2.4 rooms are rented out to lodgers (although only 0.6 in Nyameni). However the average lodger household only rents and lives in one single room. The average owner household enjoys the use of four rooms. The data indicates that owners have built large houses (on average 7 rooms) and are renting out 49% of the space to lodgers.

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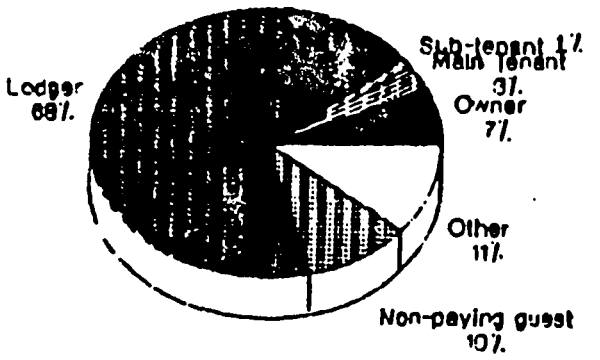
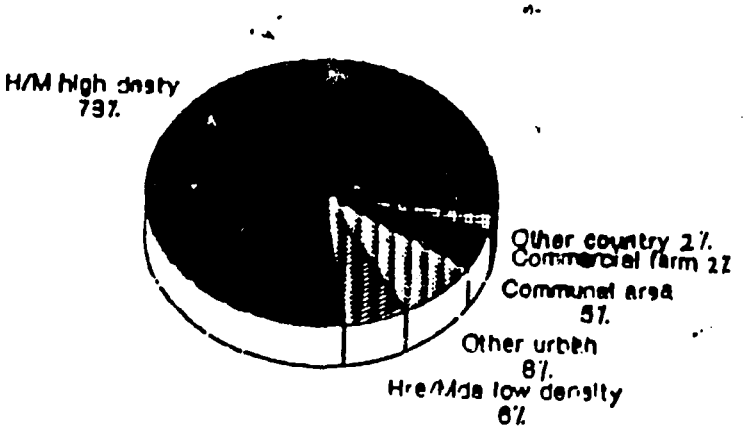
3.2.2.

PREVIOUS TENURE STATUS
(Owner Households)



PREVIOUS PLACE OF RESIDENCE
(Owner Households)



Interestingly 78% of owners had previously lived in a high density suburb and 68% had been lodgers. In order to be allocated a stand, households have to be resident and employed in the town of the waiting list.

The resale market forces of housing also favor existing households in the area who would hear of houses for sale by word of mouth.

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3.3. Household Incomes and Expenditures

3.3.1. The monthly median income of owner households was found to be Z$720. The head of household median wage or income from self-employment is Z$550 p.m. The median income of a spouse is Z$0 p.m. However the median was obscured by large numbers of spouses who claimed to have no income whatsoever. The spouse arithmetic mean income is Z$72 p.m. indicating earnings from other household enterprises. The median income from other sources, predominantly lodgers is Z$170 per month. The income from lodgers confirms previous findings that an average of 2.4 rooms per plot are let out to lodgers. The average rental being charged is Z$71 per month per room.

3.3.2. Average expenditures made by the owner household during the month of January 1992:

Food and household stores	Z$ 266
School fees (every month)	Z$ 67
Transport	Z$ 65
Mortgage for house	Z$ 63
Building and maintenance costs	Z$ 61
Water, sewerage, electricity	Z$ 45
Agricultural inputs	Z$ 39
Doctor, clinic	Z$ 27
Furniture	Z$ 21
Interest on loans other than house	Z$ 21
Other	Z$ 19
Gifts, remittances	Z$ 16
Fuel (wood, paraffin)	Z$ 10
Wages	Z$ 10
Other household enterprises inputs	Z$ 6
Rent for business purposes	Z$ 3
Membership (party, etc.)	Z$ 3
Business Licenses	Z$ 2
Rent for garden allotment	Z$ 0
TOTAL	Z$ 744

The total average household monthly expenditures (Z$744) slightly exceed the median household income level (Z$720). The correlation between an average and median figures throws up a slight discrepancy. Nonetheless the general conclusion that may be drawn is that low income households spend all or even slightly more than they earn with no savings.

Food and other household stores (including drink and tobacco) has the biggest share of the household budget - 36%.

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Somewhat surprisingly mortgage payments on the house represent a low 8% of the household budget. However building and maintenance costs represent a similar share. The indication is that as well as paying back a monthly mortgage for the plot and core building, the average household is also actively extending the house with personal savings. Total shelter costs then amount to 16% of the budget with an additional 6% spent on water, sewerage and electricity consumption charges.

A further 9% of the budget is spent on school fees and 8% on transport.

The remaining 25% of the average household budget is then split into expenditures on numerous minor items (agricultural inputs 5%, health care 4% and others).

3.4. Household Expenditures on Shelter and Willingness to pay for Alternative Options

3.4.1. Monthly household expenditures were cross-checked in two sections of the questionnaire and a strong correlation was found between the replies given. The average household mortgage payment made during January 1992 was Z$63.

Warren Park is the most expensive area with average mortgages of Z$72 per month, Nyameni at Z$69 per month and Glen View at Z$51 per month.

In comparison, the average rent paid by lodger households each month is Z$83. As was noted in Section 3.3.1. the average rental charge per room is Z$71 p.m. indicating that each lodger household, no matter its size, makes use of only slightly more than one room for all living and sleeping requirements.

3.4.2. Owner households were asked who had built their house. The majority (71%) stated that it had been built by local building contractors. When asked what problems they had faced in acquiring the house 36% claimed they had had no problems but 98% cited financial problems. 64% also stated that the shortage of stands and the waiting list were an impediment and 54% had faced difficulties in acquiring materials.

3.4.3. A full 61% of owners had raised the necessary deposit on the house from their own savings. Only 5% had received a loan from a bank or an employer. (There was a high 24% nil response rate on this question).

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3.4.4. Finally owners were asked what they believed they would have to pay for their house if they were to rent it on the open market. The perceived value of the house was 3 to 10 times in excess to the current mortgage payments being made.

Glen View	Z$483
Warren Park	Z$402
Nyameni	Z$211

The Nyameni perceived values reflect the lower occupancy rate of the houses. The Harare values show a marked correlation with the total number of rooms in the house multiplied by the going rents paid by lodgers.

3.4.5. One lodger household per stand was asked a series of shelter related questions. 48% stated that they would like to own their own houses. The 52% that did not wanted to own their own houses cited financial problems (85%) and to a lesser extent (15%) the long waiting lists as their reasons.

The 48% who did want to own a house were asked why they did not do so. 30% cited the housing waiting list as a major impediment but 74% said that the cost of doing so had prevented them. Nonetheless 51% of lodgers households did believe that they would one day own their own house.

3.4.6. An iteration of questions related to willingness to pay for shelter was then put to lodger households. The results were as follows:

Same amount as current paying on rent	99%
+ 10%	99%
+ 20%	97%
+ 30%	100%
+ 40%	95%
+ 50%	94%
+ 80%	87%
+ 90%	86%
Double	72%

A caveat should be placed on the interpretation of the data. The iterative process used attempted to obscure the incremental increases being asked of households - they were asked to respond to higher, lower higher, medium, etc. amounts. However the reality of paying, for example, double current rentals may not have been fully perceived by all respondents. Nonetheless the trend that emerges is an extremely high propensity to own a house and willingness to find the money, from whatever source, to do so.

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3.4.7. Finally, 100 lodger households in Nyameni were asked to respond to a series of questions that prob ed willingness to trade off different plot sizes and levels of service provision against a larger house. The sample was not statistically significant. Furthermore a questionnaire approach was too stilted to reliably probe attitudes and preferences. The data is presented to illustrate general responses only. Focus group discussions still to be held with households will discuss trade off options in more depth.

About one third of households are willing to have either a reduced plot size (31%) or a gravel road (29%) in order to gain extra floor space (a room built up to window level) in the house. 25% would opt for a smaller plot size and gravel road in order to gain a full extra room.

Blair VIP toilets and communal taps were acceptable to only 15% of households in exchange for an extra room. In spite of technical efficiency, Blair toilets are generally considered as part of the rural tradition and not in keeping with higher standards of living found in cities.

Despite the generally low willingness to trade reduced service levels for extra floor space, a high 87% of respondents would prefer to own their own undeveloped serviced plot rather than share a large four roomed house with another family. Similarly in 1991, 1 200 members of the Cone Textile Workers' Housing Co-operative agreed that the Co-operative should assist members to individually own a serviced plot with wet block and one room rather than have two member families share a four roomed house for the same monthly cost.

4. CONCLUSIONS

4.1. On average Owner households are currently enjoying the use of four rooms for living and sleeping in. The cost of doing so requires that houses and infrastructure designed for single family dwelling units are supporting 3.4 households on each unit. Nationally, occupancy rates range from 9 to 11 people per plot in Bulawayo and Harare to 23 people per plot in Chitungwiza. Severe overcrowding not only produces social tensions and domestic stress but also overloads urban service networks.

4.2. In spite of national minimum standards calling for a four roomed core house, the majority of urban residents are lodgers. Lodger families, whatever their size, age of children, etc. have to make do with an average of only one room for living and sleeping in. They pay more rent per month for this one room than the whole house mortgage payments paid by the owner.

4.3. The median household income from salaries or self-employment in January 1992 was found to be Z$550. Despite the small size of our sample this fits well between the CSO September 1990 figure of Z$453 and the AID estimate for June 1992 of Z$600. An important regular additional income is rent from lodgers. The 1992 survey found the median monthly rent from lodgers and other sources to be Z$170. This gives a monthly median income of Z$720.

In older housing areas of the country (e.g. Sakubva, Mutare) where the main house cannot be extended, lodgers are accommodated in backyard "cottages". Even if a household were only to receive a Building Society mortgage to construct an initial one roomed house, the chances are high that the household would either extend the main house or put up backyard "cottages" from personal savings to increase its income from lodgers. Local authorities have been unable to halt this trend.

4.4. Average household budgets are very close to and even slightly exceed median income levels.

Any increases in mortgage repayments would have to be met by households cutting into the minor budget items or, more likely, food[1]. Increases in interest rates and building costs will certainly have a severe impact on already fully stretched household budgets. The only way to offset the increases is a reduction in plot sizes and building standards and more efficient infrastructure design. There is a degree of willingness on the part of households to accept this.

4.5. De facto the majority of the urban population is already living in overcrowded conditions. The desire to own one's own home is strong. There appears to be an unlimited willingness to pay more for accommodation of one's own. There is a high degree of willingness to accept smaller plot sizes and gravel roads in exchange for eventual extra floor space. Finally, the majority of households would opt for an undeveloped stand rather than share a larger house with another family.

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[1] A study entitled "Urban Food Distribution Systems in Zimbabwe" carried out by D. Drakakis-Smith and P. Kivell in 1987 and covering Glen View as one of 3 areas surveyed in Harare noted that "[In] ... the lowest income group .... expenditure on food is curbed by essential outlays on fuel and housing" (P.24).

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ANNEX I: RELEVANT SECTIONS OF TERMS OF REFERENCE

ARTICLE I - TITLE

Work Phase I - Survey to determine the Urban Median Income Level in Zimbabwe.

ARTICLE II - BACKGROUND

A. BACKGROUND

In relation to the Zimbabwean Private Sector Housing Program, USAID/Zimbabwe is designing a low cost smaller program to assist in the private provision of shelter for households earning below the urban median income level. The program will resolve three critical constraints which have hampered the production of low cost shelter. Specifically the program will:

(1) secure foreign exchange for the construction and building materials industry so that they can increase their output;

(2) identify additional mechanisms to attract private investment into the Building Societies so that housing finance is made available to people with low income; and

(3) eliminate constraints which prohibit the private sector from developing low cost shelter and removing excessive building and development standards which increase the cost of shelter.

The program funding will include US$50 million in Housing Guaranty (HG) funds and between US$10 to US$25 million in grant funds. The design of the program is set to commence in February 1992 and there are two critical elements where assistance will examine the affordability issue related to housing finance for low income households. Phase II will specifically look at the constraints and solutions to the land and infrastructure delivery system.

Phase I - Affordability Criteria

The first phase of assistance relates to the ability of households to afford shelter. Under the Economic Structural Adjustment Program (ESAP) interest rates have increased, the value of the Zimbabwe dollar has depreciated, and wages have remained generally static. Therefore, there is a need to review urban incomes and household expenditures to determine the urban median income level. Special data concerning the number of persons per residence, income and expenditure statistics, and housing preferences will also be required.

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ARTICLE III - OBJECTIVES AND SCOPE OF WORK

A. OBJECTIVES

Legislation governing the HG program required that the benefits be affordable to households earning at or below the median income level. In addition, a social analysis will need to be completed for the Project Paper/PAAD looking at not only affordability but the needs, desires and social conditions of the proposed beneficiaries. Therefore, the consultant will undertake a survey to determine the urban income distribution as well as shelter needs and preferences.

B. DETAILED SCOPE OF WORK

Phase I

1. The consultant will design a draft survey to identify household incomes and expenditures, household structures, employment data, and housing preferences. The survey questionnaire will be presented to USAID for review before the survey proceeds.

2. The consultant will employ the random stratification selection method to establish the interview sampling process. Before proceeding with the interviews, USAID will approve the location and number of interviews to be completed.

3. The work will be divided into two separate tasks. The first will be to undertake a survey with of not less than a total of 200 households.

4. Data required from the survey will include the following:

a) Household Structure
   1. Area of origin, sex, age, length of residence
   2. Previous residence
   3. Males/Females earning income and how much
   4. Number of children in school and other dependents.

b) Employment
   1. Type of employment by gender
   2. Salary/Frequency of Pay
   3. Other sources of income

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c) Expenditures/Monthly or Weekly, Average on
   1. Food
   2. Education
   3. Health
   4. Housing
   5. Transport
   6. Outstanding debts
   7. Savings
   8. Others

d) Housing Preferences
   1. Desire to own a residence
   2. Factors contributing to ability/inability to own

e) Income per Household

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ANNEX II: LIST OF STANDS ENUMERATED

A. Nyameni High Density Suburb, Marondera

Stand Nos:

025	041	044	056	066
081	108	120	132	141
159	168	171	186	189
192	195	196	203	2234
236	238	243	256	277
290	304	322	356	365
374	387	396	406	418
419	421	424	436	457
461	471	478	479	509
527	529	530	540	547
552	568	586	590	621
623	646	652	659	671
709	710	715	720	724
749	767	785	790	799
807	817	835	843	847
859	864	869	873	880
888	889	893	903	905
912	936	955	959	961
969	970	973	975	980
983	992	998	1002	

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B. Glen View High Density Suburb, Harare

Stand Nos:

1009	1025	1032	1058	1094
1139	1149	1168	1178	1185
1192	1205	1219	1229	1236
1261	1335	1371	1424	1568
2061	2999	2461	2507	2509
2526	2529	2537	2590	2625
2631	2637	2683	2701	2714
2723	2759	2825	2842	2881
5058	5094	5139	5149	5168
5396	5421	5454	5473	5594
5618	5236	5261	5335	5371
5387	5923	5936	5984	5992
6461	6507	6509	6526	6529
6537	6590	6625	6631	6637
6683	6701	6714	6723	6759
6761	6785	6825	6981	6987

C. Warren Park High Density Suburb, Harare

Stand Nos:

03	21	24	51	68
74	107	174	211	234
305	423	459	520	541
601	747	757	793	819
1003	1023	1024	1050	1070
1074	1107	1174	1211	1234
1305	1424	1457	1520	1541
1601	1417	1746	1757	1793
1819	2105	2129	2140	2173
2187	2211	2437	2507	2539
2567	2582	2628	2659	2749
2761	2811	2856	1915	2942
2974	3105	3129	3140	3173
3187	3213	3437	3508	4201
4226	4149	4133	4105	4114
4241	5447	5459	3942	3975

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Zimbabwe Private Sector Housing Program Development

Program/Economic Analysis

Prepared for:

U.S.A.I.D (HARARE)

Standard Chartered Bank Consultancy Services

25 March 1992

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3. 90 day NCDs; Daily quotes; August 1991 to March 1992.
4. Loans and deposits of commercial banks; year on year percent change.
5. Broad money (M2); In percent of opening M2; 1988-92.
6. Interest rates versus inflation; 1989-95.
7. Non-farm employment; number of jobs created or destroyed; 1980-95.
8. Real wages versus productivity; total employment except agriculture; 1975 - 95.
9. Debt service ratio; debt service as a percent of exports; 1985-98.
10. External debt outstanding; total debt as a percent of G.D.P.; 1985-98.
11. Debt service on HIG loan; US$ millions; 1992-2026.

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Executive Summary

1. Background

By Sub-Saharan standards Zimbabwe has a highly diversified economy, a well-developed business sector, a sophisticated financial system, skilled human resources and a sound infrastructure. In addition, it also has a substantial natural resource base.

Following the publication in January 1991 of a document entitled "Zimbabwe: A Framework for Economic Reform (1991-95)", the government began implementing a comprehensive program of structural adjustment aimed at increasing investment, growth and employment. The central components of the Economic Reform Program (ERP) are: (i) trade liberalization, (ii) fiscal deficit reduction coupled with a more restrictive monetary policy, (iii) domestic deregulation, and (iv) measures to alleviate the transitional impact of reforms on vulnerable groups by implementing a Social Dimensions of Adjustment (SDA) program.

The central government deficit (excluding grants) is targeted to be reduced from 10.7 percent of GDP in FY90/91 to no more than 5 percent by FY93/94, with the reduction to be front-loaded in 1991/92. More specifically, it will be achieved by reducing parastatal deficits and rationalizing public sector employment. Subsidies and transfers to the Public Enterprise (PE) sector, which amounted to 3.8 percent of GDP in FY90/91 will be virtually eliminated by FY93/94.

Consistent with the fiscal and balance of payments targets, monetary and credit policy will aim at containing overall demand and reduce the rate of inflation to about 9 percent by 1994. The existing methods used to control credit and money supply are (under the ERP) to become more indirect and market driven.

The GOZ is committed to a phased program of trade liberalization, moving away from the administered foreign exchange allocation system to a market based system by 1995 at the latest. With the exception of a few goods, to be excluded only on the grounds of defense or overwhelming public interest, all items will be importable through the OGIL system by 1995.

The government recognizes that the full benefits of trade liberalization and fiscal and monetary reform cannot be realized in an economic environment encumbered with excessive controls. The ERP therefore includes the gradual removal of investment approvals, price and distribution controls, labor and wage regulations, and other rules and guidelines which tend to inhibit growth, particularly of small-scale and informal sector activities.

While the ERP's objective is to raise the overall standard of living it is also recognized that during a transitional period, certain population groups will be adversely affected by the reforms. To shield the poor and vulnerable groups from these transitional hardships associated with the ERP, the Government has released a white paper outlining plans to shield poor and vulnerable groups.

A Social Development Fund (SDF) has been established to support social welfare measures and employment promotion. This fund is to be financed from a variety of sources, including contributions from donors. Support will be provided to labor intensive public works, the non-formal and small-scale enterprise sectors, and rural resettlement programs. The SDF will also be used to finance a variety of training activities.

2. Progress with the Economic Reform Program (ERP)

By the end of 1991, Zimbabwe was well ahead of schedule in the implementation of several key aspects of its structural adjustment program. The program was speeded up during 1991 following a widening of the current account deficit on the balance of payments, from 4.3 percent of GDP in 1990 to nearly 12 percent of GDP in 1991. This was due almost entirely to the faster than expected growth in imports during the first year of the program's implementation. Fiscal deficit reduction, exchange rate depreciation, trade liberalization and tariff reform all proceeded more quickly than was anticipated when the program was presented to the donor Consultative Group meeting in March 1991.

ıe Government accelerated its program of budget deficit reduction (and also tightened monetary) during the second half of 1991. The 1991/92 budget presented to Parliament in July 1991, provided eduction in the overall deficit (excluding foreign aid grants) from 10.7 percent of GDP to 8.2 percent)P. By providing for a 2.5 percentage point reduction in the deficit as a percent of GDP, the budget led the ERP requirement of a 0.9 percentage point cut in the fiscal deficit.

tighten the fiscal stance further, the Government: (a) raised the minimum tariff rate to 10 percent; ıposed an additional 10 percent import tariff on those items included in the Open General Import ie (OGIL) list at that time; and (c) withdrew the rebate of import duties for manufacturers for ıtic production. With the additional revenue expected from these measures, which became effective tober 1, 1991, the projection for the overall central government deficit was further revised downward percent of GDP in FY91/92.

ɔvernment has begun a far reaching program of Public Enterprise reform to virtually eliminate the ı of PEs on public finances by FY94/95. Direct subsidies and transfers will be reduced from ZS 640 ı in FY 90/91 to about ZS 40 million by FY94/95. The GOZ started clearing the backlog of unfunded ies in FY90/91 and this was completed in the FY91/92 budget for all losses up to June 30, 1991. g targets for PE losses have been set for the period up to 1994.

veral reforms were introduced during 1991 in the area of agricultural marketing, including the ɔn of independent Boards of Directors in the agricultural marketing boards and the abolition of movement restrictions between natural regions IV and V and between contiguous and non-uous communal areas. Government has stated that it will, by June 19 /2, begin implementing further ıs including (a) the separation of the commercial and social roles of the Grain Marketing Board (b) mination of pan territorial and pan seasonal agricultural commodity pricing and (c) the removal of and other crop marketing restrictions.

al central government expenditure is projected under the ERP to decline from 48 percent of GDP)0/91 to 44 percent in FY91/92, with approximately two thirds of this reduction to come from a cut ent spending. This objective is to be achieved by limiting general wage increases to about 10 percent the deletion of some 5000 authorized civil service positions by June 1992.

the past, interest rates have not been used actively as an instrument of monetary policy. As a result, s in interest rates have reflected fluctuations in inflation and real interest rates have generally been ve. A more active interest rate policy is a key component of the economic reform program currently mplemented. Monetary policy was tightened considerably following the start of discussions in the half of 1991 for an IMF supported program.

During 1991, the first year of the ERP, progress towards the complete elimination of administered t rates was much more rapid than expected. The Framework for Economic Reform, published in ry 1991, stated that the Base Lending Rate would be abolished by the end of 1993. In fact, both the stered Base Lending Rate and the "cap" on lending to the productive sectors (also scheduled under R to be abolished by the end of 1993) were abolished with effect from December 20, 1991.

Following the very much greater than expected increase in imports (due to the expansion of the , the authorities staged a sharp step depreciation of about 38 percent in the third quarter of 1991. ɔve was designed to (a) tighten demand management; (b) protect against any reversal of progress made in trade liberalization and (c) open the door for negotiations to begin with the IMF for a rm facility. Subsequently there has been little movement in the nominal exchange rate, with the ities having indicated that they intend to maintain the exchange rate relatively stable in nominal while safeguarding external competitiveness in real terms by maintaining tight fiscal and monetary s.

ı unrestricted OGIL system was introduced in July 1991. The OGIL system does not require an er's license, in effect allowing anyone to import the goods included in the OGIL list. The initial list covered raw materials, intermediate goods, and finished products. The unrestricted OGIL l 14 percent of imports (based on the value of imports) at end-1991. The export retention scheme

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The aggressive downward management of the exchange rate during 1991 translated into a fall in Zimbabwe's per capita income, from US$ 650 in 1989 to US$ 560 in 1991. The latter figure is based on the average exchange rate for 1991. However, if the current exchange rate is employed the per capita income level turns out at closer to US$ 400 per annum.

Zimbabwe's external competitiveness has improved in recent years as the currency has been managed downwards aggressively enough to achieve a substantial fall in the exchange rate in real terms. As of the end of 1991, the specific macroeconomic objectives agreed between the GOZ and the IMF/IBRD for 1992 were: 1) increase the real GDP growth rate to 4 percent; 2) limit the rate of inflation to 15 percent by the end of the year; 3) keep the external current account deficit unchanged at 12 percent of GDP; and 4) achieve a level of gross foreign reserves equivalent to 2.5 months of imports.

Following the advent of the worst drought this century, however, none of the above targets remain within reach and the consensus forecast for real GDP growth has been further lowered to minus 4 percent, with agricultural output projected to fall by about 40 percent. The IMF is expected to adjust its 1992 performance criteria and re-appraise the medium term adjustment framework for the ERP in the light of the drought. Following a GOZ invitation expected to be issued soon, an IMF team is likely to begin work on this in May/June.

There is an early consensus however, that assuming a return to normal rainfall patterns in the 1992/93 agricultural growing season, it is reasonable to expect GDP growth of about 6 percent in 1993 and 4-5 percent growth thereafter (ie. through 1995). This revised medium term scenario is likely to be adopted because (i) the indirect and spread effects of the drought beyond 1992 are not yet known and (ii) because there is a history of agriculture (and the economy in general) rebounding fairly strongly following previous droughts, when weather patterns return to normal.

The target for budget deficit reduction for the 1991/92 fiscal year was revised to 3.6 percentage points of GDP (ie from 10.7% to 7.1%), following the increase in customs revenue introduced in October 1991 referred to above. However, the additional expenditure demands in terms of food imports, supplementary feeding programs and food for work programs means that this latter target is no longer achievable. At best, the 1991/92 budget deficit (excluding grants) is now be expected to turn out at 9.1 percent of GDP.

Under the IMF supported program for 1992, inflation was targeted to fall to 15 percent by end-1992. This projection was overly optimistic even at the time it was produced. However, in the light of the drought -- which will restrain both aggregate demand and supply -- the current consensus is that consumer price inflation will average about 27 percent during 1992 and end the year at about 25 percent on a twelve month basis.

Before the drought, it was anticipated that the large external imbalance which had emerged during 1991 would be contained during 1992, with a current account deficit of US$ 590 million (or 11.8 percent of GDP) being projected. However, the balance of payments outlook has since worsened considerably. Negative GDP growth this year and a possible further depreciation of the exchange rate translates into a projected current account deficit of about 20 percent of GDP in 1992.

4. Impact on the housing program.

As a result of the drought, it will take three years for the estimated 6.8 percent fall in per capita incomes in 1991 to be recovered. However, a component analysis of demand and expenditure in GDP indicates that after falling by 4 percent in 1992, private consumption is likely to rise in real terms by an annual average of 6.7 percent over the three year period 1993-95. This should be made possible by the reduction in the share of government expenditure in GDP, as anticipated under the ERP.

In 1991 real wages in the urban economy fell by 4.5 percent. An even steeper fall can be expected in 1992 as inflation remains high and the economy contracts. Thereafter, however, this trend is likely to be reversed as (i) a return to more normal rainfall patterns and an improvement in investor confidence lead to positive growth in per capita incomes and (ii) inflation subsides due to appropriately restrictive demand policies.

Interest rates, except for a limited number of categories, are now determined by competitive and market related considerations. Since the beginning of March 1992, some monetary banks have been offering interest rates of 35 percent per annum on call deposits in an effort to attract resources. Interest rate controls still remain for: (i) savings and demand deposits and for consumption related and personal lending, but these are floors which have not yet technically been abolished and are currently well below prevailing rates and (ii) for building society deposit and mortgage rates.

The rapid increase in private sector lending during 1991 means that lending has grown faster than deposits and bank lending ratios have thus risen from 55 percent of deposits to about 80 percent of deposits. With the restrictive monetary policy translating into very low growth in the bank's deposit base, there is little room left (if any) for further growth in bank lending. Furthermore, the commercial banks are anticipating a further increase in the demand for credit. As a result liquidity will remain tight and interest rates (ie 90 day NCDs) are expected to remain high -- and positive -- fluctuating around 30 percent at least until the middle of 1992.

The view that the current difficulties facing the building societies are essentially of a short-term nature is a consensus one. The IMF/IBRD supported ERP is designed to achieve a rapid reduction in inflation. The medium-term macro scenario developed in this report suggests that interest rates, while remaining positive, will fall together with inflation as the ERP is implemented. Short term interest rates are projected to fall below 15 percent early in 1995; while inflation is projected to fall to an annualized average of 10 percent in 1995.

Projections made for the external debt and debt service through 1998 assume that half of the US$ 400 million impact of the drought on the balance of payments will be provided for by grants and the other half by long term concessional financing with similar terms to that of the HIG loan. Based on these assumptions, it is expected that the cost of the drought will be reflected in the debt service ratio through 1998. The HIG loan component of the debt service ratio will not exceed 0.13 percent through 1998.

The implementation of the initial measures of the program suggest that the process of structural change in Zimbabwe is irreversible, thereby diminishing these risks to some degree. The future of the ERP depends importantly on the further rapid tightening of fiscal policy. The originally planned reduction of the budget deficit in FY91/92 has been recognized as a major and credible step toward this end. The government has committed itself (in letters of development policies to the IBRD and the IMF) to contain the wage bill through reduced civil service employment and prudent wage policies; to reduce subsidies to public enterprises through the introduction of more realistic pricing and greater operational efficiency; to reduce the budgetary burden of education and health care through increased cost recovery and to reduce military spending when the regional tension eases.

The success of the PSHLP is less tied to the achievement of specific and time-bound benchmarks than it is to the GOZ's overall commitment to move in the direction as set out in the ERP. The proposed PSHLP is sufficiently flexible in its design to be able to withstand a range of possible adverse scenarios. Government's commitment to the implementation of the proposed Private Sector Housing Loan Program can be viewed as a function of its commitment to the overall ERP. Fortunately, the implementation of the PSHLP is far less politically contentious than the implementation of the ERP, where vulnerable groups are clearly at risk. In fact the implementation of the PSHLP would help protect vulnerable urban groups by providing a safety net in the form of low income housing which would remain affordable to families below the median income. By providing a targeted safety net, the PSHLP complements the GOZ's Social Dimensions Program to a significant extent.

Furthermore, the overall ERP would be strongly supported by the positive impact that the PSHLP would have on the supply side of the economy. The private enterprise sector could be expected to benefit markedly from the broadening and deepening effect that the program would have on the real economy and on the monetary sector.

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I. Background

Zimbabwe is clearly distinguishable from the other majority ruled nations of Sub-Saharan Africa. Relative to the others, it has a highly diversified economy, a well-developed business sector, a sophisticated financial system, skilled human resources and a sound infrastructure. In addition, it also has a substantial natural resource base.

Since independence in 1980, government policy has been directed towards redressing the socioeconomic inequalities which existed at the time. Much has been achieved in this area -- particularly in education, health, family planning and small holder agriculture. Primary school enrollments rose from 1.2 million in 1980 to 2.2 million in 1989, and secondary school enrollments rose from 74 000 to 671 000. The percentage of children fully immunized has more than tripled from 25 percent to 86 percent; infant mortality has declined from 86 to 61 per 1 000 live births; life expectancy has increased from 55 to 59 years; and the population growth rate has fallen to an estimated 2.8 percent per annum in 1989. The small farmers' share of marketed maize and cotton output has risen from near zero in 1980 to over 60 percent in 1989.

This progress has been achieved via budgetary policies, as well as by the active use of extensive direct controls (which were originally developed in response to international sanctions during UDI). However, the economic policy strategy -- combined with adverse exogenous factors, including unfavourable weather conditions, declines in the terms of trade in some years, and the geopolitical situation -- has restrained economic performance and led to considerable volatility over the period.

Zimbabwe's unemployment problem has traditionally received much publicity. There are about 200 000 school leavers entering the labour market each year, but only about 80 000 formal sector job openings - 40 000 from new jobs being created and about 40 000 from existing employees leaving formal sector employment. The excess is accounted for by the urban informal sector, the peasant farming sector and open unemployment.

Although economic growth has comfortably exceeded population growth since 1980, there have been three distinct phases which characterize Zimbabwe's economic performance:

1) The 1980/81 post sanctions boom when GDP rose by more than 10 percent a year. Favourable weather combined with the taking up of excess capacity, resulted in cumulative growth over the two year period of 25 percent in manufacturing and 16 percent in agriculture. The rapid expansion of the public services sector helped fuel aggregate demand during the period.

2) The six year period between 1982 and 1987, when the economy recorded average growth of only 1.4 percent -- well below the population growth rate of about 3 percent. Recurring drought, combined with restrictive price and import controls led to declining private sector confidence and falling investment. Gross fixed capital formation declined as a percent of GDP from 20 percent to 16 percent, while private investment fell from 13 to 6 percent of GDP.

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3) The economy turned around during the four years 1988 to 1991, when an average growth rate of 4.4 percent was recorded. Favourable weather patterns and improved terms of trade were the main factors accounting for the 7.3 percent growth rate recorded in 1988. Thereafter, the sustained upturn is accounted for by a series of government policy announcements -- beginning early in 1989 -- stating the GOZ's intention to restructure the economy. The beginnings of this process, which included the introduction of a range of export incentives and resulted in increased imports and greater flexibility in price and wage determination over the period, had the effect of raising private sector confidence and investment. Notably, almost all of the growth in output and employment during the past four years has been generated by the private sector. Following growth of 7.3 percent in 1988, GDP grew by 4.5%, 2.1% and 3.5% in 1989-91 respectively.

A cautious approach to external debt management from 1982 onwards, enabled the country to remain current on all external debt obligations, while at the same time effecting a major adjustment on the external accounts. This was achieved through import compression via direct controls on the allocation of foreign exchange. By reducing the volume of imports by one third, the government effected a shift in the current account from a deficit (excluding official transfers) of more than 11 percent of GDP in 1982 to approximate balance by 1987. Total debt outstanding declined from 56 percent of GDP in 1985 to 46 percent in 1990.

In spite of an ongoing fiscal imbalance of almost 10 percent of GDP during the 1980s, the authorities managed to keep inflation at manageable levels. Inflation averaged around 15 percent while nominal interest rates averaged 12 percent. Despite the existence of negative interest rates during much of the 1980s, the limited availability of consumer goods due to import compression helped to maintain a savings rate of about 20 percent of GDP and restore external balance.

Nonetheless, substantially reduced import volumes, strong anti-export bias, falling investment ratios, low capacity utilization and severe bottlenecks in several sectors (particularly transport) were all side effects of the policy orientation during the 1980's. The fact that much of the growth in the early 1980's originated in the public services sector rather than in the material production sectors -- and Zimbabwe's mixed economic performance thereafter -- finally led to a recognition of the need to dismantle the extensive system of controls and make the economy more responsive to market forces. The GOZ has demonstrated its commitment to a broad-based policy reform, aimed at addressing the key policy constraints that have hampered Zimbabwe's progress to date.

II. Zimbabwe's Economic Reform Program (ERP)

Following the publication in January 1991 of a document entitled " Zimbabwe: A Framework for Economic Reform (1991-95)", the government began implementing a comprehensive program of structural adjustment aimed at increasing investment, growth and employment. The central components of the Economic Reform Program (ERP) are: (i) trade liberalization, (ii) fiscal deficit reduction coupled with a more restrictive monetary policy, (iii) domestic deregulation, and (iv) measures to alleviate the transitional impact of reforms on vulnerable groups.

The ERP amounts to a comprehensive blend of both structural reforms and stabilization measures. While at the same time transforming the economy so that it becomes more productive and competitive, the GOZ is taking steps to alleviate transitional social hardships by concurrently implementing a Social Dimensions of Adjustment (SDA) program.

1. Fiscal Policy

The central government deficit (excluding grants) is targeted to be reduced from 10.7 percent of GDP in FY90/91 to no more than 5 percent by FY93/94, with the reduction to be front-loaded in 1991/92. Given Zimbabwe's already high tax ratio (37.3% of GDP in FY90/91) and the need for ongoing infrastructure investment, this deficit target will be achieved by a reduction in recurrent expenditure, which is projected to fall from 39.4 percent of GDP to 37 percent in 1991/92. More specifically, it will be achieved by reducing parastatal deficits and rationalizing public sector employment. Subsidies and transfers to the Public Enterprise (PE) sector, which amounted to 3.8 percent of GDP in FY90/91 will be virtually eliminated by FY93/94.

a. Public Enterprise (PE) Reform

The financial problems of the PE's in recent years have stemmed to a large extent from the Government's policy of pursuing a number of social goals through these enterprises. This policy has resulted in: (i) the establishment of administered output prices which have not been sufficiently high to allow enterprises to break even; (ii) the requirements that PE's take on loss-making activities and (iii) the withholding of autonomy from these enterprises in the areas of pricing, procurement, labor and investment decisions.

Direct subsidies to parastatals are projected to fall under the ERP as a result of (i) comprehensive programs to improve parastatal efficiency; (ii) improvements in pricing policy; and (iii) actions to reduce the size of the parastatal sector. The efficiency improvement programs will involve both operational and structural components and will also require that pricing reforms be carried out. Pricing reforms are envisaged to include the replacement of administered prices by market determined prices for PE's operating in a competitive environment and the introduction of appropriate tariff policies allowing a degree of automaticity and management autonomy for public utilities.

b. Civil Service Reform

The reduction in the civil service wage bill will be achieved through a combination of the retrenchment of 25 percent of the number of civil servants (excluding teachers and health workers) over the next four years, and a change in public wage policy. This reform is designed to reduce the excessive share of civil service wage costs in GDP; while at the same time aligning salaries for professional and managerial grades with those found in the private sector, in order to slow the movement of skilled personnel out of the civil service. About 22 000 posts will be abolished over the 1992-94 period. The government wage bill will in this way be reduced from 17 percent of GDP in FY90/91 to 13 percent of GDP in FY94/95.

2. Monetary Policy

Consistent with the fiscal and balance of payments targets, monetary and credit policy will aim at containing overall demand and reduce the rate of inflation to about 9 percent by 1994. The existing methods used to control credit and money supply are (under the ERP) are to become more indirect and market driven. As the budget deficit is brought under control, the government is committed to eliminate, by 1995 at the latest, the present system of administered interest rates. During the transition, government will enforce monetary restraint through greater recourse to reserve requirements and the increased use of open market operations.

A gradual approach will be adopted to the entry of new banks, both domestic and foreign. The focus up to 1993 will be on increasing domestic competition between financial institutions and the introduction of a limited number of new entrants. As experience is gained and after a supervisory mechanism is installed, an open entry policy will be introduced.

3. Trade Reform

The GOZ is committed to a phased program of trade liberalization, moving away from the administered foreign exchange allocation system to a market based system by 1995 at the latest. With the exception of a few goods, to be excluded only on the grounds of defense or overwhelming public interest, all items will be importable through the OGIL system by 1995.

The Framework for Economic Reform (FER) paper envisioned a gradual import liberalization over the 1991-95 period. The originally formulated strategy relied exclusively on a selective (commodity by commodity) expansion of the Open General Import License (OGIL) system. The expansion of the OGIL in the early years of the program would focus on raw materials and inputs, in the middle years on capital goods and in the final years on consumer goods. The sequencing of OGIL for individual sectors was designed to help ensure that the export sectors' requirements in terms of imported inputs would be met.

The expansion of the OGIL to include inputs for individual sectors at an earlier stage than their outputs would tend to increase effective protection rates for the targeted industries in the initial years of the adjustment program. To avoid investments based on temporarily distorted price signals, which might not be viable after the full liberalization, some competing final goods (particularly for sectors with high domestic market concentration) were to be moved to OGIL in the first years of the FER. For the same reason, and as a signal of authorities' intention, the entire trade reform program was to be pre-announced.

This gradual approach was adopted because of concerns about (i) the balance of payments impact of import liberalization and (ii) the related objective of assuring that foreign exchange be channelled to export industries in order that they be given time to modernize and re-equip before facing competition from imports. Capital goods were to be initially made available through special lines of credit managed by the Zimbabwe

Investment Centre (a one-stop window for investment applications and approval that was established in 1989).

To supplement the import liberalization process, the ERP provides for import tax reforms aimed at reducing the average import tax and limiting the degree of dispersion through the harmonization of tariff rates and a phased removal of the domestic surtax. The share of tariff rates in the 10-30 percent range would increase from 28 percent in 1990 to 38 percent in 1995, with virtually all imports taxed at less than 30 percent at the end of the reform process. The domestic surtax would be reduced from the present level of 20 percent to 10 percent by 1993/94 and would be eliminated by 1994/95.

An Export Retention Scheme (ERS) was introduced in October 1990 (but made effective for exports taking place after July 1990), allowing exporters in the manufacturing, tourism, construction, road transport, and horticulture sectors to retain 7.5 percent of their export earnings and exporters in the mining and agriculture sectors to retain 5 percent. The utilization of retained foreign exchange was limited to the importation of raw materials and capital goods for the exporters' own operations; imported goods or retained foreign exchange could not be sold domestically. The allocations under the ERS were initially effected on a semi-annual basis, based on the exports of the preceding six month period. Exporters were required to apply for the utilization of the ERS for each import order; the first allocations took place in January 1991. The ERS was expanded and modified in late 1991, as discussed below.

Important advances have been made in the international trade arena since 1987. Imports have risen by 76% in US$ terms to US$ 2.5 billion, while exports have grown more modestly, by 26% to US$ 2.1 billion. During the same period Zimbabwe has become a vastly more open economy, with the share of imports in GDP rising from 25 percent to 42 percent, while exports have risen from 28 percent to 35 percent of GDP.

4. Domestic Deregulation

The government recognizes that the full benefits of trade liberalization and fiscal and monetary reform cannot be realized in an economic environment encumbered with excessive controls. The ERP therefore includes the gradual removal of investment approvals, price and distribution controls, labor and wage regulations, and other rules and guidelines which tend to inhibit growth, particularly of small-scale and informal sector activities.

Investment sanctioning by the Zimbabwe Investment Center (ZIC) is initially being streamlined and will subsequently be relaxed as capital goods are added to the OGIL. Eventually, the ZIC is to become an investment promotion agency. By 1995, all exchange control restrictions on profit and dividend remittances will be removed.

a. Price and Wage Reform

Price controls are being removed as and when products are placed on OGIL. By 1995, price controls will apply to very few basic commodities. The Government, however, intends to retain agricultural support prices to encourage production by reducing market risk. Agricultural marketing boards, which have been monopoly buyers of many major

commodities, will become residual buyers, and restrictions on the direct sale of grains will be relaxed.

Restrictive labor practices have generally been applied in Zimbabwe. Prior to December 1990, legislation which had been passed in 1985 defined the terms of employment. This legislation provided that unless parties were in mutual agreement, no employer could dismiss an employee without the approval of the Minister of Labor. The basic thrust of Government policy in this area has been to move away from direct intervention towards collective bargaining and to establish time-bound procedures for settlement of matters pertaining to job security and retrenchment.

5. The Social Dimensions of Adjustment (SDA)

While the ERP's objective is to raise the overall standard of living, the Government recognizes that during a transitional period, certain population groups will be adversely affected by the reforms. The ERP recognizes that adverse effects would likely fall into three general categories: (i) increased frictional unemployment; (ii) inflation and relative price increases; and (iii) social service cut-backs and increased cost recovery.

To shield the poor and vulnerable groups from these transitional hardships associated with the ERP, the Government has announced that it will carry out policy and investment measures in four main areas: (i) promoting employment and training of retrenched workers through the development of micro-enterprises and other income-generating activities; (ii) ameliorating the impact of increases in the prices of essential commodities, especially maize; (iii) avoiding unaffordable cost recovery measures and (iv) introducing measures to monitor and analyze the health and nutritional impact of the structural adjustment process.

Transitional unemployment is expected to occur in the public sector, including parastatals, as well as in the private sector. The GOZ plans to pay commuted pensions to civil servants who are made redundant compulsorily, in line with existing regulations and provisions and there will also be financial support for retraining. An amount equivalent to 35 percent of the wages and salaries saved by retrenchments will be set aside to be used to cover training costs. The GOZ has also developed guidelines for compensatory payments to private sector employees made redundant. Regarding retraining programs, the strategy is to strengthen the existing fiscal incentives to encourage more private sector training.

A Social Development Fund (SDF) has been established to support social welfare measures and employment promotion. This fund is to be financed from a variety of sources, including contributions from donors. Support will be provided to labor intensive public works, the non-formal and small-scale enterprise sectors, and rural resettlement programs. The SDF will also be used to finance a variety of training activities. Throughout the adjustment period, social sector gains achieved since Independence will be protected by maintaining the level of resources going to health and education.

III. Progress with the Economic Reform Program (ERP)

This section examines progress with the ERP up to the end of 1991 -- ie. before the impact of the drought is factored in.

By the end of 1991, Zimbabwe was well ahead of schedule in the implementation of several key aspects of its structural adjustment program. The program was speeded up during 1991 following a widening of the current account deficit on the balance of payments, from 4.3 percent of GDP in 1990 to nearly 12 percent of GDP in 1991. This was due almost entirely to the faster than expected growth in imports during the first year of the program's implementation. Fiscal deficit reduction, exchange rate depreciation, trade liberalization and tariff reform all proceeded more quickly than was anticipated when the program was presented to the donor Consultative Group meeting in March 1991.

1. Fiscal policy

To reduce public sector demands on the economy, contain overall demand and support the balance of payments, the Government accelerated its program of budget deficit reduction and also tightened monetary policy during the second half of 1991. The 1991/92 budget presented to Parliament in July 1991, provided for a reduction in the overall deficit (excluding foreign aid grants) from 10.7 percent of GDP to 8.2 percent of GDP. By providing for a 2.5 percentage point reduction in the deficit as a percent of GDP, the budget exceeded the ERP requirement of a 0.9 percentage point cut in the fiscal deficit. The budget introduced improvements in the structure of revenues (in conformity with the ERP targets, both corporation and personal tax rates were reduced) and in investment incentives.

To tighten the fiscal stance further, the Government: (a) raised the minimum tariff rate to 10 percent; (b) imposed an additional 10 percent import tariff on those items included in the Open General Import License (OGIL) list at that time; and (c) withdrew the rebate of import duties for manufacturers for domestic production. With the additional revenue expected from these measures, which became effective on October 1, 1991, the overall deficit was further revised downward to a projected 7.1 percent of GDP in FY91/92. As at the end of 1991, the budget deficit (excluding grants) was anticipated to fall to no more than 6 percent of GDP by 1992/93. Four expenditure categories -- civil service wages, other goods and services, public enterprise subsidies and capital expenses -- were each budgeted to fall relative to GDP.

a. Public Enterprise (PE) reform

Government has begun a far reaching program of Public Enterprise reform to virtually eliminate the burden of PEs on public finances by FY94/95. Direct subsidies and transfers will be reduced from Z$ 640 million in FY 90/91 to about Z$ 40 million by FY94/95. The GOZ started clearing the backlog of unfunded subsidies in FY90/91 and this was completed in the FY91/92 budget for all losses (with the exception of the Zimbabwe Iron and Steel Co.) up to June 30, 1991. Ceiling targets for PE losses have been set for the period up to 1994.

Following the launching of a reform program for the National Railways of Zimbabwe (NRZ), which has already achieved significant results, measures to strengthen the financial performance of other public enterprises were intensified the second half of 1991. These focused on reductions in losses through improved operating efficiency and cost based pricing and the elimination of subsidy arrears. A range of pricing procedures were liberalized and rationalization measures were introduced by some Pes.

Specifically, Air Zimbabwe was granted autonomy in the setting of international fares and approved procedures were simplified for the determination of domestic air fares. The Cotton Marketing Board (CMB) was permitted to negotiate producer prices directly with farmers. Prices were increased for electricity (38 percent), wheat (14 percent), milk (23 percent), and domestic air travel (20 percent). The Zimbabwe Iron and Steel Corporation (ZISCO) adopted import parity pricing for its output and raised its output price by 40-90 percent. Other rationalization measures taken included the closing of depots by the Grain Marketing Board and the Dairy Marketing Board and retrenchments in the case of the latter.

To improve monitoring, loss targets were set by the Central Government for the individual PEs, and each enterprise was required to submit action plans to meet these financial targets to the Ministry of Finance by April 1992. Most of the projected reduction in the budget deficit will come from decreases in subsidies to parastatals and a reduction in the civil service wage bill. The actual losses of parastatals are projected to fall from Z$ 634 million in 1990/91 to Z$ 370 million in 1991/92. Some 5 000 civil service posts are to be abolished before end-June 1992.

Several reforms were introduced during 1991 in the area of agricultural marketing, including the creation of independent Boards of Directors in the agricultural marketing boards and the abolition of maize movement restrictions between natural regions IV and V and between contiguous and non-contiguous communal areas. Government has stated that it will, by June 1992, begin implementing further reforms including (a) the separation of the commercial and social roles of the Grain Marketing Board (b) the elimination of pan territorial and pan seasonal agricultural commodity pricing and (c) the removal of maize and other crop marketing restrictions.

To contain PE losses at the targeted levels the GOZ is committed (in addition to the measures outlined above) to take to following measures during 1992. The GMB's selling price for maize and wheat will be increased to ensure achievement of the financial target and a system for more frequent price reviews will be established. Retail prices for maize will be raised correspondingly. For beef, the Cold Storage Commission will increase producer prices to the export parity level. For raw cotton, producer prices will also be set at the export parity level and access to the Export Retention Scheme will be extended to cotton growers. The Zimbabwe Iron and Steel Co will retrench almost 1000 workers and output prices will be raised further (with semi-annual revisions thereafter) to achieve export parity levels at the prevailing exchange rate. Air Zimbabwe will launch a comprehensive restructuring program and has already in 1992 raised domestic and international fares to reflect recent increases in costs. The Posts and Telecommunications Commission and the Zimbabwe Electricity Supply Authority will be permitted to pass on cost increases in agreed cost categories to consumers without applying to the Government for specific approvals. Prices for petroleum will be adjusted periodically and procurement

procedures streamlined to limit the losses of the National Oil Company of Zimbabwe to the targeted level of Z$ 10 million in FY91/92.

Other sector wide actions will be taken to improve the economic performance of parastatals. The legal framework within which parastatals operate, will be overhauled to ensure that boards of directors are given sufficient autonomy and responsibility to operate within their mandates. The respective roles of ministries, boards of directors and management will be clearly defined. Parastatal boards will be given more autonomy in the hiring and firing of labor, in setting pay scales and in procurement policy. All indirect subsidies, such as through customs duty exemption or access to borrowing at subsidized interest rates will be phased out by the end of 1993.

b. Civil Service Reform

Total central government expenditure is projected under the ERP to decline from 48 percent of GDP in FY90/91 to 44 percent in FY91/92, with approximately two thirds of this reduction to come from a cut in current spending. This objective is to be achieved by limiting general wage increases to about 10 percent and by the deletion of some 5000 authorized civil service positions by June 1992. A retention allowance equivalent to 0.5 percent of GDP (provided for in the FY91/92 budget) will be used to introduce differentiated pay raises based on merit to retain and attract engineering, managerial and other well-qualified staff. New measures will include better access to training programs and improvements of grading and promotion processes to facilitate quicker access to higher salaries and payment of retention allowances.

A Task Force, chaired by the Vice President, has been examining options for implementing the planned reduction in civil service employment. The Task Force has identified areas of overstaffing and duplication among government ministries as well as areas where civil service structures can be rationalized. Reviews of the first batch of (at least six) ministries have been completed and this work will be continued in preparation for further civil service retrenchment beyond FY91/92 in accordance with the ERP targets. It is anticipated that a sizeable proportion of the planned reduction in the civil service could result from natural attrition.

c. Public Sector Investment Program (PSIP)

In accordance with the structural adjustment program, the PSIP gives top priority to infrastructure needed to support private investment and the associated increase in production and exports. Of the total capital budget for FY91/92, almost 70 percent constitutes infrastructure in agriculture, energy and water, transport and communications and the housing and construction sector. Expenditure in these areas is primarily directed at the building of dams; the strengthening of the National Railways of Zimbabwe; the construction of roads and bridges; the digitalization program of the Posts and Telecommunications Corporation and the first phase of the Urban II housing program.

The PSIP for the period up to FY94/95 is integrated into the Second Five-Year National Development Plan, which has now been finalized. It is planned that Government will focus on development of infrastructure to support private investment and will avoid

direct investments in the productive sector. It is also anticipated that peace in the region should result in reductions in defense related infrastructural spending. The total PSIP is therefore targeted to decline as a proportion of GDP, from almost 10 percent in FY91/92 to about 7 percent in FY95/96. About 40 percent of the cumulative PSIP for the plan period is expected to be in the energy and water and transport and communications sectors, whilst 22 percent is planned to be for agricultural infrastructure, and 10 percent for construction and housing.

The PSIP for FY91/92 was discussed and agreed with the World Bank and the African Development Bank and the program for FY92/93 will also involve consultations with these institutions. The GOZ has agreed that while the ERP is being implemented, it will consult with both of these institutions on the PSIP on an annual basis or as and when such consultations are sought by either institution. The Government currently has a system that assesses projects by employing standardized calculations of their rates of return.

2. Monetary policy

In the past, interest rates have not been used actively as an instrument of monetary policy. While interest rates policies in principle take into account money market trends and developments in the real economy and in prices, rates have until recently been unchanged in nominal terms for prolonged periods. The Reserve Bank lending/rediscount rate remained static at 9 percent from mid-1981 through November 1990 when it was raised to 10.25 percent. As a result, changes in interest rates have reflected fluctuations in inflation and real interest rates have generally been negative. A more active interest rate policy is a key component of the economic reform program currently being implemented.

A stated objective of monetary policy has been to contain inflation by keeping broad money growth below that of nominal GDP. During the 1980's, broad money growth was on average in line with the increase in nominal GDP growth. However, since the second half of 1989, domestic credit expansion picked up substantially. Initially, this was fuelled by strong increases in credit to the private sector associated with the higher import and investment demand arising out of the beginnings of the trade liberalization process and the ERP in general.

Under the ERP, a distinction has been made between the ultimate, intermediate and operational targets of monetary policy. Ultimate targets include high growth rates, low inflation rates and a viable external balance. Intermediate targets are variables which have a stable relationship to ultimate targets, including real interest rates and real exchange rates. Operational targets are variables that have a stable relationship to intermediate targets and can be controlled directly by the monetary authorities. These include market liquidity and short term interest rates.

a. Reserve Bank of Zimbabwe operations

In February 1991, the RBZ responded to the rapid expansion in domestic credit referred to above by tightening monetary policy through: (i) an increase in the rediscount

rate from 10.25 percent per annum to 13 percent; (ii) an increase in the Base Lending Rate (BLR) from 12 percent to 15 percent (the BLR plus a cap of 2 percentage points set the upper limit on bank lending rates for productive purposes) and (iii) an increase in the reserve requirement for banks to 10 percent of all deposit liabilities.

These measures left the RBZ discount rate substantially lower than bank lending rates, and as a result the discounting of private paper (mainly pre-shipment bills issued by tobacco exporters) by the RBZ continued to rise substantially through mid-1991. Moreover, the RBZ's holding of government stock and treasury bills increased markedly as these government papers were not taken up by private investors at an interest rate acceptable to the monetary authorities. Thus, net domestic assets of the RBZ expanded by 120 percent and domestic credit expansion of the banking system increased by 36 percent in the twelve months to end-September 1991. Despite a sharp fall in net foreign assets emanating from the rapid growth in imports due to the expansion of the OGIL, the broad money supply (M2) grew by 40 percent in the twelve months to end-September 1991 (see graph 5 appendix IV).

With inflation accelerating and the balance of payments deteriorating, the RBZ took further monetary policy action in early September 1991. [A detailed description of monetary policy changes since September 5, 1991 is provided in appendix II.] In an effort limit the growth of credit, the RBZ raised the Base Lending Rate from 15 to 17.25 percent and also raised controlled interest rates across the board. Deposit and lending rates were raised by an average of 15 percent. The Reserve Bank announced that future issues of government stock would be by tender, leading to more market determined interest rates.

At the same time, the RBZ increased the rediscount rate from 13 to 15.75 percent and announced that it would adopt a less accommodating rediscount policy. The rediscount window for government stock at the RBZ was closed completely and the rediscounting arrangements for private paper were redesigned to tighten access. A three-tier classification of bankers acceptances rediscountable with the Reserve Bank came into operation on September 6, 1991. Class "A" bills were defined as acceptances bearing a CD1 number and drawn from financing exports. So as not to discourage exports, these bills would be eligible for re-discount with the Bank at the finest rate. Class "B" bills were defined as bankers' acceptances drawn to finance either exports or imports but without a CD1 number and having less than 30 days to maturity. Class "C" bills were defined as bills drawn for the same purpose as Class "B" bills but having more than 30 days to maturity. Class "C" bills would have a higher re-discount rate.

In mid-November, the statutory reserve requirement for banks was again raised, from 10 percent to 12.5 percent of liabilities to the public. Government stock of nearly Z$ 500 million were sold (primarily to the non-bank public) during November-December 1991 at an interest rate of 24-25 percent through open market sales and auctions. On December 20, 1991, the rediscount rate for the finest paper was raised further to 20 percent.

As a result of these measures, monetary conditions tightened sharply from late September and short term interest rates became positive in real terms. By late December 1991, bank lending rates had increased to 25.7 percent on a weighted average basis.

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Compared with an inflation rate of 23.5 percent for 1991, this left interest rates as a whole substantially positive on an ex-post basis. Graph 6 appendix IV shows the rates on 90 day certificates of deposits against the rate of inflation for the past three years.

In late December, the Reserve Bank once again effectively closed its money market accommodation window in an effort to slow money supply growth and satisfy the performance criteria for RBZ accommodation levels and domestic credit expansion agreed with the IMF. Once again, 90 day NCD rates climbed to above 35 percent in an unprecedentedly tight market. As shown by graph 3 of appendix IV, wide variations have been experienced in short term interest rates since September 1991. This has essentially been due to the frequent and counteractive changes in the accommodation policy of the RBZ as it has attempted to come to grips the operational targets agreed with the IMF and at the same time fund the market shortage.

Following a limited reopening of the discount window in January 1992, 90 day NCD rates stabilized at around 30 percent, but the pattern which emerged since the end of September 1991 was repeated in early March when the rates climbed to around 45 percent as the RBZ once again closed its rediscount window. On March 17 the RBZ reversed its policy yet again by lowering the statutory reserve ratio from 12.5 percent of liabilities to the public to 6.25 percent. The move injected some Z$ 340 million of high powered money into the banking system and short term rates fell immediately to around 30 percent.

b. Money supply

As outlined above, monetary policy has been tightened considerably following the start of discussions for an IMF supported ESAF program. After registering growth of 40 percent during the twelve months to end-September 1991, the growth in the broad money supply (M2) slowed rapidly through the end of 1991 -- to around 26 percent on an annual basis. M2 growth fell further, to 21 percent on a twelve month basis in January 1992. Essentially, this was achieved through the use of increased reserve requirements and a tightening of the Reserve Bank's discount operations. Under the new IMF supported program, broad money growth is targeted to rise by no more than 20.5 percent in the twelve months to end-December 1992 (graph 5 appendix IV). Consistent with this rate of monetary growth, private sector credit is programmed to increase by about 16 percent in 1992.

c. Interest rate controls

During the first year of the ERP, progress towards the complete elimination of administered interest rates has been much more rapid than was expected. The Framework for Economic Reform, published in February 1991, stated that the base lending rate would be abolished by the end of 1993. In fact, both the administered base lending rate and the "cap" on lending to the productive sectors (also scheduled under the FER to be abolished by the end of 1993) have already been abolished with effect from December 20, 1991.

Interest rate floors remain on savings and demand deposits and for consumption and personal lending, but the floors are well below the rates currently being applied.

(Monetary banks are currently offering 35 percent on call accounts in response the severe shortage of liquidity that has arisen as a result of restrictive RBZ operations.) A ceiling remains on deposit rates for non-resident controlled account holders. There is no intervention in fixed deposit rates.

Initial steps toward strengthening prudential supervision will be taken during 1992, including the adoption of a revised Banking Companies Act providing the legal basis for on-site inspection, expanded coverage of RBZ supervision -- widened to include building societies and finance companies -- and the introduction of capital adequacy ratios.

3. External Sector

The GOZ has been unequivocally commended by the IMF for the policy measures which were introduced during 1991 to strengthen the external position. These included the short term offshore commercial loans raised to finance to expansion of the OGIL, the maintenance of export competitiveness via exchange rate depreciation and greater domestic demand restraint.

a. Exchange Rate

During the two years to mid-1991, the Zimbabwe dollar had been depreciating at an annual average rate of 16 percent in trade weighted terms. Based on the Framework for Economic Reform's original assumptions, it was thought that continued downward management at roughly the same rate would be sufficient to support the program's objectives and continue the resource shift in favour of the export sectors. However, following the very much greater than expected increase in imports (due to the expansion of the OGIL), the authorities staged a sharp step depreciation of about 38 percent in the third quarter of 1991. The move was designed (a) tighten demand management; (b) protect against any reversal of progress already made in trade liberalization and (c) open the door for negotiations with the IMF for a long term facility.

Subsequently there has been little movement in the nominal exchange rate (see graph 2 appendix IV), with the authorities indicating that they intend to maintain the exchange rate relatively stable in nominal terms, while safeguarding external competitiveness in real terms by maintaining tight fiscal and monetary policies. The Reserve Bank's commitment to exchange rate stability through 1992 was confirmed in the third week of January when -- for the first time -- the local currency was managed upwards in order to counteract some slippage which had taken place due to movements in the major currencies to which the Zimbabwe dollar is linked.

It should be pointed out that the maintenance of a stable exchange rate in nominal terms implies in increase in the exchange rate in real terms as long as Zimbabwe's inflation rate remains higher than that of its main trading partners. An increase in Real Effective Exchange Rate (REER) in turn implies some erosion of the advance made in this area during 1991. However, the IMF/IBRD is satisfied with the fact that Zimbabwe implemented an upfront adjustment of the exchange rate and achieved a depreciation of more than 30 percent in the REER during 1991. Subsequently it has been agreed that a stable nominal exchange rate should be maintained to restore confidence and provide an

foreign exchange to that available through the OGIL system, thereby contributing significantly to the import liberalization program.

The greater reliance on the ERS for liberalizing imports has the advantages -- when compared with the strategy relying only on OGIL expansion -- of minimizing the potential for aggravating the balance of payments position (as the ERS imports depend on actual exports), and of scaling back government decisions regarding what goods should be imported, thus limiting the potential for bottlenecks.

The revised strategy for import liberalization was publicly announced by the authorities on December 20, 1991. This strategy involves further increases in the ERS ratio to 25 percent for exports in January-June 1992; 30 percent in July 1992 - June 1993; and 35 percent in July - December 1993. The unrestricted OGIL list will be expanded to 20 percent of imports (based on import values of the preceding year) by December 1992 and further to 35 percent by June 1993. The private sector now has access to imports without licensing restrictions under the OGIL and ERS. As a result of the expansion of the OGIL and the modification of the ERS, it is estimated that 50 percent of total imports (excluding petroleum and aid-executed imports, which together correspond to about 20 percent of total imports) are freely importable in January-June 1992.

The key objectives of Zimbabwe's external trade reforms are (i) to simplify the system and make it more transparent and predictable; (ii) to ease the access to imports; (iii) to reduce direct government involvement in import decisions and (iv) to reduce the level and dispersion of effective protection provided to different sectors and products.

4. Domestic Deregulation

In addition, a number of products have been moved from the category of strict control while price controls have been removed altogether for a substantial number of other products.

Prices of goods accounting for 16 percent of domestic production (as measured by the weights in the Producer Price Index) were decontrolled during 1991, mainly by the removal of maximum mark-up controls concurrent with the placement of goods on the unrestricted OGIL list. As a result, retail prices subject to direct or mark-up controls have been reduced to about 40 percent of domestic production, from 60 percent at the end of 1990. This means that about 60 percent of domestic production is now free of any price control. The remaining price controls are managed flexibly for a large number of goods. Of the eight goods remaining subject to strict or direct price controls, the price of bread was raised by 47 percent in October 1991, and milk by 23 percent in two stages. The price of maize meal was raised by 20 percent in April 1991. Prices for petroleum products have been reviewed regularly to ensure a timely pass-through of changes in world market prices, with the frequency of the reviews increasing since 1991. According to the IMF, there are no subsidies in the aggregate, to petroleum products.

New legislation was passed in December 1990 which permitted employers to retrench workers for financial or economic, as well as disciplinary reasons. The basic thrust of Government policy in this area has been to move away from direct intervention towards

collective bargaining and to establish time-bound procedures for settlement of matters pertaining to job security and retrenchment. Employment councils are progressively being established for all industries and activities, and they will be responsible for resolving all disputes regarding labor issues. The requirement that approval for retrenchment be sought from the Minister of Labor has been discontinued. Direct Government intervention in wage setting has been virtually eliminated. Wage agreements are now reached in employment councils and boards without any parameters being set by the Government, other than statutory minimum wages which are well below prevailing averages.

Recent policy steps to encourage investment have included the establishment of the Zimbabwe Investment Centre (ZIC); the adoption of a new investment code; increased flexibility in external remittance of dividends and profits for export oriented projects; the signing of international investment protocols and the liberalization of the sale to foreign and domestic investors of blocked funds at a freely determined discount for domestic investment projects (these are funds arising from limitations on external remittability for pre-independence investments).

5. Social Dimensions of Adjustment (SDA)

The GOZ attaches considerable importance to the SDA program which aims at safeguarding the economic well being of the poorer segments of the population and lessening the hardship and friction associated with unemployment that may emerge in the short run. A white paper outlining plans to shield poor and vulnerable groups has been released.

In addition, a Social Development Fund (SDF) has been established to support social welfare measures and employment promotion. This is to be financed from a variety of sources, with the Government making an initial contribution of Z$ 20 million. The GOZ anticipates that this will attract additional resources from domestic and external sources. A detailed system for the operation of the SDF is being developed.

The central part of the GOZ's strategy to address the social dimensions of adjustment process will be to facilitate the creation of more employment opportunities through the use of the SDF. Support will be provided to labor intensive public works, the non-formal and small scale enterprise sectors. The fund will provide training grants for outplacement, inplant exposure and self employment preparation in both the non-formal and formal sectors. It will also provide grants for the support of guidance, counselling and related research and information activities.

The GOZ has stated that the price of maize will have to be increased to reduce the losses of the Grain Marketing Board. In an attempt to address the effect that this will have on food deficit households, Z$ 30 million has been set aside through the SDA for a food grain subsidy aimed at maintaining nutritional standards for the poor. A review of the level and form of this subsidy is to be carried out by July 1992.

Communal areas have been exempted from primary school fees, which have been introduced from the beginning of 1992 as part of efforts to increase cost recovery. The

threshold below which medical care will be provided free has been raised from Z$ 150 per month the Z$ 400 per month, to correspond with the threshold for liability to pay income tax. Retrenched civil servants will be paid compensation and provided with training and related assistance to help them find employment.

6. External Financing

The successful implementation of the economic reform program will require a greater inflow of external resources to the economy during 1992-94 than was originally envisaged.

At the end of 1991 it was estimated that the total financing needs for the period 1992-94 were US$ 2.64 billion (about US$ 500 million more than was indicated at the 1991 CG meeting in Paris). This increase reflects the larger than expected widening in the current account deficit to nearly 12 percent of GDP, and the lower than expected inflow of donor financing in 1991. Of the total requirement of US$ 2.64 billion for 1992-94, about US$ 1.6 billion would be required to service debt.

About US$ 685 million of the total amount required for 1992-94 was accounted for by disbursements out of existing loan and credit commitments as at the end of 1991. This left US$ 1.9 billion for 1992-94 to be met out of new loan and credit commitments. In its documentation supporting Zimbabwe's request for this funding at the 1992 Paris CG meeting, the World Bank stressed that a substantial share of the finance would need to be in the form of grants and long-term loans to avoid excessive debt service payments.

The GOZ successfully raised just under US$ 1 billion at the 1992 Consultative Group meeting in Paris for the period 1992/93. Of this amount, funds of US$ 370 million had already been committed by the end of 1991. In addition, quick disbursing loans from the World Bank and the IMF contributed over US$ 300 million to the total requirement and these were further complemented by the African Development Bank loan of some US$ 170 million.

7. Appraisal

The Framework for Economic Reform (FER) document which was presented to the donors in March 1991 represented an economic adjustment and stabilization program which was to be implemented over a period of five years. The faster than expected growth in imports and the resulting sharp step depreciation of the exchange rate, however, led to an acceleration of the overall ERP timetable. In effect Zimbabwe, during the course of 1991, jumped from a slow track adjustment path to a fast track one. Negotiations for a three year Extended Fund Facility (EFF) -- to be converted to an Enhanced Structural Adjustment Facility (ESAF) -- have been completed with the IMF. This development signals the speeding up of the adjustment program -- a factor confirmed by the new trade liberalization schedule, where the key long range benchmarks all point to the completion of the trade liberalization process by 1994/95 (ie three years from 1991/92).

The Government borrowed short-term from commercial sources to avoid any slowdown in 1991, while awaiting the disbursement of longer term concessional donor financing. After it became evident early in 1991 that there would be a substantial time lag before disbursement of pledges, the GOZ successfully raised nearly US$ 400 million in short term credits from overseas commercial banks. The financing was used to expand the OGIL system in March and July 1991 and the GOZ thus demonstrated its commitment to the trade liberalization process. After drawing on its existing overdraft lines with commercial banks, the GOZ also secured a bridging loan worth US$ 155 million together with three other new short term trade facilities. The non-availability of donor credits would otherwise have translated into a critical loss of momentum in the trade liberalization process and therefore, in the ERP generally.

Zimbabwe has received the strong endorsement of the donor community for its strategy to liberalize trade and the external payments system through the expansion of the OGIL system; the strengthening of the Export Retention Scheme (ERS); and the restructuring of import duties so as to restrict protection for domestic producers to a low and uniform tariff structure. This approach is designed to improve economic efficiency by allowing substantial freedom in the import regime, while providing appropriate encouragement for the export performance needed to strengthen the external position. The success of the ERP depends ultimately, on the response of the export sector. This fact is well understood and indeed, the original ERP design strategy was built on this assumption.

Finally, in the interests of a sustained decline in the external debt service ratio and the maintenance of external balance; it is important that Zimbabwe relies predominantly on grants and on long term concessional borrowing over the next several years. Zimbabwe has always met its external debt service obligations in a timely manner and it is desirable that this record be preserved in this way.

IV. Recent Macroeconomic Performance and Prospects

In general, the economy responded positively to the first year of the ERP. Despite difficulties which emerged with demand management and the balance of payments, real GDP growth in 1991 turned out at 3.6 percent. Output in manufacturing benefitted in the second half of the year from an increase in imported inputs. Mining output also increased significantly as a result of the greater availability of foreign exchange. The value of marketed agricultural output (excluding horticulture) increased by 76 percent in local currency terms, or by 25 percent in US$ terms in 1991, with the tobacco marketing season exceeding all expectations. The value of tobacco sales rose by 50 percent in US$ terms to US$ 573 million and by 126 percent in Zimbabwe dollar terms to Z$ 2 billion. Tobacco accounted for 53 percent of marketed agricultural output in 1991 -- up from 27 percent in 1988.

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The recovery of economic activity, however, was also accompanied by the emergence of large macroeconomic imbalances in 1991. There has been a significant widening of the current account deficit on the balance of payments, from 4.7 percent of GDP to a preliminarily estimated 12 percent. This was mainly due to the larger than expected growth in imports (75 percent in Zimbabwe dollar terms) in 1991, associated with the expansion of OGIL. The surge in imports was intensified by the fact that access to imports was liberalized at time when large amounts of liquidity were being injected into the system and interest rates were negative in real terms. Furthermore, accelerating inflation combined with the depreciation of the Zimbabwe dollar led to speculative imports. In response to this, the GOZ began taking a number of corrective measures, including a sharp depreciation of the currency and a tightening of monetary policy.

1. Domestic Economy

As a rule of thumb, gross investment amounting to about 25 percent of GDP is required if the economy is to achieve its potential output growth rate of 5-6 percent annually. The ERP is aimed at addressing the low levels of investment in the productive sectors and the Framework for Economic Reform (FER) document which originally defined the program, projected that gross domestic investment would reach 25 percent of GDP by 1993. Recently released data, however, indicates that a substantial increase in domestic investment was in fact achieved in the first year of the program. Gross investment as a share of GDP is estimated at 22 percent in 1991, up from 17 percent in 1988. Some of this increase is probably accounted for by stockbuilding associated with the trade liberalization process; but nonetheless there was a sharp increase in private sector investment (of nearly 4 percentage points of GDP) in 1991, to an estimated 14.5 percent of GDP.

The widening of the external current account deficit reflected both an increase in gross investment associated with the trade liberalization process and a decline in the national savings rate -- from 19 percent of GDP in recent years to an estimated 12.5 percent of GDP in 1991. The decline in national savings was more than accounted for by a fall in private sector savings which were drawn down to finance the growth in imports.

Zimbabwe's well publicized unemployment problem has provided the rationale for the redirection of the economy. There are about 200 000 school leavers entering the labour market each year, but only about 80 000 formal sector job openings -- 40 000 from new jobs being created and about 40 000 from existing employees leaving formal sector employment. The excess is accounted for by the urban informal sector, the peasant farming sector and open unemployment. Encouraging growth has, however, been recorded in formal sector employment during the past four years, with total employment growing from 1.1 million in 1987 to an estimated 1.3 million in 1991. This translates into average annual growth of 3.6 percent, with the most rapid growth coming in 1991 (4.8%) when an estimated 60 000 new formal sector jobs were created. Notably, almost all of the new employment generated by the economy since 1987 has been in the private sector.

Inflation accelerated from 17.7 percent at the end of 1990 to 28.2 percent at the end of 1991. This mainly reflected increased domestic demand; higher energy prices; the further liberalization of domestic price and wage controls; the expansionary monetary policy up until September 1991 and the sharp step depreciation of the exchange rate

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which raised import costs. In January 1992, the latest month for which figures are available, the consumer price index for higher and lower income urban families stood at 30.0 percent on a twelve month basis. For 1991 as a whole, average consumer price inflation turned out at 23.5 percent - up from 15.7 percent in 1990.

The aggressive downward management of the exchange rate during 1991 translated into a fall in Zimbabwe's per capita income, from US$ 650 in 1989 to US$ 560 in 1991. [1] The latter figure is based on the average exchange rate for 1991. However, if the current exchange rate is employed the per capita income level turns out at closer to US$ 400 per annum.

2. External Economy

Zimbabwe's external competitiveness has improved in recent years as the currency has been managed downwards aggressively enough to achieve a substantial fall in the exchange rate in real terms. Important advances have been made in the area of international trade since 1987. Imports have risen by 76% in US$ terms to US$ 2.5 billion, while exports have more than kept up with the depreciation of the exchange rate to grow by 26 percent in US$ terms to US$ 2.1 billion. During the same period, Zimbabwe has become a very much more open economy, with the share of imports in GDP rising from 25 percent to 42 percent, while the share of exports has risen from 28 percent to 35 percent of GDP.

Preliminary estimates indicate that the growth in exports was only 4 percent in US$ terms or 2 percent in volume terms during 1991, as the favourable impact of further increases in tobacco exports was partly offset by a decline in sugar, maize and cotton lint exports. Non-petroleum imports are estimated to have grown by 31 percent in US$ terms or by 27 percent in volume terms during 1991. As a result, the current account deficit is estimated to have widened from US$ 300 million in 1990 (4.7% of GDP) to US$ 690 million (12% of GDP) in 1991. Considerable uncertainty remains about trade performance in the last part of 1991 and in early 1992.

Reflecting a technical correction associated with the exchange rate movement during 1991 and the weakening external position; outstanding external medium and long-term debt rose from US$ 2.6 billion (or 42% of GDP) in 1990 to US$ 2.9 billion (or 50% of GDP) in 1991. With the GOZ undertaking substantial short-term non-concessional external borrowing, gross international reserves are estimated to have increased to US$ 319 million (or two months of imports) by end-1991.

3. The drought

Effectively, the current drought is the worst this century. Not only is the 1991/92 drought on its own as severe as any this century, but it also follows two consecutive years of well below average rainfall (which means that water stocks were already seriously depleted before the season began). Moreover, this drought is unique in terms of its

[1] From the World Bank Development Report (1991). The World Bank employs a three year moving average for the purposes of calculating per capita income.

regional dimension. The total estimated costs of the drought in terms of imports (mainly food) and lost exports are US$ 650 million.

Appendix III provides a detailed account of the direct and spread effects of the drought across various sectors of the economy. The table below summarizes the estimated direct costs of the drought in terms of import costs and lost exports resulting from the drought. The figures include indirect spread effects of the drought such as the effect on manufacturing of reduced agricultural supplies and the effect on mining exports of reduced water availability.

Table 1. Summary of estimated cost of the drought.
(US$ Millions)

	1992			1993
	Import Costs	Lost Exports	Total	Import Costs
Maize	250	30	280	
Sugar	100	20	100	
Petrol	10		10	
Wheat			-	90
Tobacco		80	50	
Oilseeds	10		10	
Coffee		20	20	
Mining		50	50	
Manufacturing	30		30	
Water resources	50		50	
Total:	450	200	650	90

4. Medium term projections

Following four years of sustained economic growth (averaging nearly 4.5 percent during 1988-91) and despite the tobacco boom and the increase in employment and investment during 1991; the first signs of an economic downturn became evident during the second half of 1991, when investor confidence was damaged by the sharp step

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the OGIL, which is expected to increase revenues by several hundred million Zimbabwe dollars, these projections were reworked. The target for budget deficit reduction for the 1991/92 fiscal year was revised to 3.6 percentage points of GDP (ie. from 10.7% to 7.1%). However, following the drought and the additional expenditure demands in terms of food imports, supplementary feeding programs and food for work programs, it is now clear that this latter target is no longer achievable. At best, the 1991/92 central government budget deficit (excluding grants) can now be expected to turn out at 9.1 percent of GDP. This is one percentage point short of the original target and two percentage points short of the revised target.

The impact of the drought on the budget might in fact be felt more strongly in the 1992/93 fiscal year, when at best it is likely that the deficit will be held constant at around 9 percent of GDP. In 1992/93, the budget will likely come under further pressure on both the revenue side (where the lagged effect of negative growth will begin to be felt) and the expenditure side. The budget deficit to GDP ratio will also be adversely effected by the impact of negative GDP growth in 1992 (nominal GDP is the denominator in the ratio).

c. Inflation

Consumer price inflation averaged 23.5 percent in 1991 and stood at 30 percent in January 1992 -- the latest month for which figures are available. Under the IMF supported program for 1992, inflation was targeted to fall to 15 percent by year-end. This projection was overly optimistic even at the time it was produced, despite the fact the overall macroeconomic policy framework for 1992 was specifically designed to achieve this target.

In the light of the drought -- which will restrain both aggregate demand and supply -- the current consensus is that consumer price inflation will average about 27 percent during 1992 and end the year at about 25 percent on a twelve month basis. This implies that inflation will continue to rise through the first quarter of the year before flattening out and then falling through the second half of 1992 when the lagged effect of the restrictive demand policies begin to take hold.

Effectively the drought means that inflation will be higher in 1992 than was originally anticipated and that the medium range inflation target of about 10 percent will be pushed back by about one year. The table below gives medium term inflation projections before and after the drought. These are consistent with the assumptions currently being adopted for other key macroeconomic indicators. They also assume that Zimbabwe does not abandon the IMF/IBRD supported ERP.

Table 2. Projected Consumer Price Inflation, 1992-95.
(Period Averages)

	1992	1993	1994	1995
Pre-drought estimate:	20.0	15.0	10.0	9.0
Post-drought estimate:	27.0	20.0	15.0	10.0

d. The balance of payments

Before the drought, it was anticipated that the large external imbalance which had emerged during 1991 would be contained during 1992 by the combination of a buoyant export performance and adequately restrictive demand management in the face of the continued expansion of the OGIL and ERS. A current account deficit of US$ 590 million (or 11.8 percent of GDP) was originally projected. However, the balance of payments outlook has since worsened considerably. Negative GDP growth this year and a possible further depreciation of the exchange rate, mean that the larger projected current account deficit of about US$ 950 million will be measured against a smaller denominator (nominal GDP). This translates into a current account deficit of about 20 percent of GDP projected for 1992.

In addition to the US$ 950 million in external financing which has already been secured [3] to support the ERP in 1992/93; an additional US$ 450 million is now required as a consequence of the drought. This is made up of the following estimated components:

Table 3. Impact of the drought of the Balance of Payments

	US$ Dollars (Millions)
Outflows	
Food imports	360
Loss of exports	200
Water related imports	50
Agricultural inputs to manufacturing	30
Petrol imports	10

	650
Inflows	
Reduced demand for imports	160
Increased manufacturing exports	40

	200
Total impact on the balance of payments:	**450**

[3] Effectively this has been secured following the March 1992 Paris CG meeting and the successful conclusion of negotiations with the IMF, IBRD and ADB.

After falling from 32 percent in 1987 to 21 percent in 1991, the debt service ratio was expected (before the drought) to rise to 24.9 percent in 1992 before falling back to 23.9 percent in 1993; 22.5 percent in 1994 and 21.5 percent in 1995. The increase in 1992 was mainly due to the repayment of the short term commercial loans which were raised in 1991 and have been referred to above. In response to this, the IMF established strict ceilings (performance criteria) on new non-concessional borrowing. Only US$ 20 million in new short term non-concessional loans were allowed for in the 1992 performance criteria agreed between the GOZ and the IMF. It was therefore expected that the debt service ratio would fall back fairly quickly toward the low twenties as the GOZ began to rely more on longer term concessional funding and on grants to finance the ERP.

However, because the drought means that total exports will be significantly lower than anticipated when the pre-drought projections were made, the debt service ratio in 1992 is now estimated to be substantially higher -- about 28 percent -- in 1992. The table below gives medium term projections for the debt service ratio, both before and after having taken the effect of the drought into account:

Table 4. Projected Debt Service Ratio, 1992-95.
(period averages)

	1992	1993	1994	1995
Pre-drought projections:	24.9	23.9	22.5	21.5
Post-drought projections:	28.0	27.0	25.9	24.7

V. Impact on the Housing Program

1. Demand and expenditure.

A baseline scenario for domestic demand, expenditure and per capita income to 1995 is given in the table below. The assumptions upon which this medium term scenario are based incorporate the impact of the drought and reflect the baseline assumptions already adopted for GDP growth, inflation and the balance of payments.

Table 5. Demand and expenditure
(percent change from previous year in real terms)

	1991	1992	1993	1994	1995
Real GDP	3.6	-4.0	6.0	4.0	5.0
Real GDP per capita	0.8	-6.8	3.2	1.2	2.3
Domestic Demand	10.0	-1.0	5.5	3.0	4.2
Private Consumption	12.0	-4.0	9.5	4.5	6.0
Public Consumption	3.5	4.5	-2.5	-2.5	-2.5
Gross Fixed Capital Formation	14.5	-2.0	8.0	8.0	10.0
Change in net foreign balance (% GDP)	-7.0	-6.0	2.7	2.7	2.7
Exports goods and services	4.0	-2.0	12.0	12.0	12.0
Imports goods and services	26.0	16.0	5.0	5.0	5.0

* These projections might need to be adjusted once a full macroeconomic scenario has been completed by the GOZ and the IMF/IBRD.

The analysis suggests that as a result of the drought, it will take three years for the estimated 6.8 percent fall in per capita incomes in 1991 to be recovered (ie. per capita income is estimated to grow by a cumulative 6.7 percent during 1993-95). This analysis broadly implies that future affordability constraints, as far as the purchase of housing is concerned, cannot be expected to be overcome by rising real per capita incomes -- particularly if 1992 is included as the base year.

However, a component analysis of demand and expenditure in GDP, as outlined in the table above indicates a substantially different scenario. Of particular interest is the private consumption component of GDP: After falling by 4 percent in 1992, private consumption is projected to rise in real terms by an annual average of 6.7 percent (or a cumulative 20 percent) over the three year period 1993-95.

On a per-capita basis, this translates into a fall in private consumption of 6.8 percent in 1992, followed by an average annual increase of 3.9 percent (or a cumulative

11.7 percent) over the three year period 1993-95. For the full four years (ie. including 1992) private consumption is estimated to rise by an annual average of 4 percent, or by an annual average of 2.8 percent on a real per-capita basis.

The significant difference between projected real per capita income (based on GDP) and real per capita consumption (based on private consumption -- a component of GDP); depends crucially on the projected fall in the share of government consumption in GDP as anticipated under the ERP. As reflected in the table above, it also depends on the projected performance of the other components of GDP, namely domestic investment and the external sector. The component analysis (including projections for gross fixed capital formation, exports and imports) is consistent with the baseline GDP growth assumptions made in the light of the drought and the overall ERP design.

The analysis of the expenditure components of GDP suggests that the reduction in the share of government expenditure in GDP as anticipated under the ERP, should result in a substantial growth in per-capita consumption during 1992-95.

2. Employment and real wages.

The Central Statistical Office (CSO) publishes data covering total employment and earnings in the formal sector of the economy. Combining this data with published inflation statistics and the newly completed national income accounts data for 1991, gives trends for nominal and real wages and for changes in labor productivity.

From graph 8 appendix IV, it can be seen that non-farm productivity and real wages have been moving in opposite directions for the past ten years. During the past four years (when the economy averaged real growth of nearly 4.5 percent) real wages have fallen on average by 2.3 percent, while labor productivity has been rising by an annual average of 1.3 percent. This implies that there is scope for upward movement of real wages over the medium term -- a factor which would tend to improve the affordability of urban housing.

In 1991 real wages in the urban economy fell by 4.5 percent (table 4 appendix I). An even steeper fall can be expected in 1992 as inflation remains high and the economy contracts. Thereafter, however, this trend is likely to be reversed as (i) a return to more normal rainfall patterns and an improvement in investor confidence lead to positive growth in per capita incomes; (ii) inflation subsides due to appropriate demand policies and (iii) organized labor becomes more successful at negotiating pay increases via the recently introduced collective bargaining process. Projected changes in real wages through 1995 are as follows:

Table 6.	1991	1992	1993	1994	1995
Real wages in the non-farm formal sector:	-4.5	-7.5	3.5	5.0	6.5

As far as employment creation is concerned, there is a reasonably well established relationship between real GDP growth and employment creation. An average of 41 600 jobs have been created annually in the formal sector of the economy during the four year period 1988-91. Given that an average of 10 200 of these were accounted for by employment creation in agriculture, urban job creation amounted on average to 31 400 on an annual basis (graph 7, appendix IV).

Over the same four year period, GDP growth averaged 4.5 percent, while employment growth in the non-farm formal sector averaged 3.6 percent. It can therefore be anticipated that each percentage point growth in real GDP over the medium term will translate into employment growth of 0.8 percent. [This ratio was also found to hold during the preceding five year period (1983-87) when GDP grew by an annual average of 1.5, while employment growth in the urban formal sector averaged 1.2 percent.] During years when GDP growth is negative, the relationship is slightly different, with a one percentage point reduction in GDP producing a 0.3 percent reduction in employment. Based on these assumptions, the table below gives employment growth for 1991 and projections through 1995.

Table 7. Employment creation in the non-farm formal sector

	1991	1992	1993	1994	1995
Employment (% change):	4.5	-1.2	4.8	3.2	4.0
Employment (thousands):	943.0	931.7	976.4	1007.6	1048.0
Jobs created (thousands):	40.8	-11.3	44.7	31.2	40.4

If civil service retrenchments (anticipated under the ERP to amount to 5 000 in 1992) are taken into account, then upwards of 15 000 jobs could be lost altogether in 1992. The table below gives estimated employment creation in the non-farm formal sector after adjustment for the total of 22 000 jobs expected to be cut from the civil service during 1992-95:

Table 8. Employment creation in the non-farm formal sector after adjustment for civil service retrenchments.

	1991	1992	1993	1994	1995
Employment (% change):	4.5	-1.7	4.0	2.5	3.7
Employment (thousands):	943.0	926.7	964.2	988.1	1024.6
Jobs created (thousands):	40.8	-16.3	37.5	23.9	36.5

This analysis is designed to project changes in the total stock of formal employment in urban areas and does not address the employment issue from the point of view of labor absorption. In other words, after taking natural attrition (retirements, deaths etc) into account, there would be roughly 40 000 additional job openings each year .

3. Interest Rates

Since monetary policy was tightened during the final quarter of 1991, lending interest rates have become positive in real terms. Both the base lending rate and the stipulated add-on maximum margins for lending to various sectors have been abolished two years earlier than was anticipated under the original Framework for Economic Reform published early in 1991. Interest rates except for a limited number of categories are now determined by competitive and market related considerations. Since the beginning of March 1992, some monetary banks have been offering interest rates of 35 percent per annum on call deposits in an effort to attract resources.

Interest rate controls still remain for: (i) savings and demand deposits and for consumption related and personal lending, but these are floors which have not yet technically been abolished and are currently well below prevailing rates and (ii) for building society deposit and mortgage rates.

There was a rapid increase in private sector lending during 1991. Graph 4 of appendix IV shows that the growth in bank lending was considerably higher than the growth in bank deposits, while graph 5 shows that this was reflected in a rapid increase in net domestic assets -- the major component of broad money (M2) growth. Because lending has grown faster than deposits, bank lending ratios have risen dramatically -- from 55 percent of deposits to about 80 percent of deposits. With the restrictive monetary policy translating into very low growth in the banks' deposit base, there is little room left (if any) for further growth in bank lending.

In the third week of March 1991, the money market shortage was estimated at Z$ 100 million. Finance companies had stopped lending completely, while merchant banks were only lending via short term money market instruments. Furthermore, against the background of a very tight liquidity situation, the commercial banks were anticipating a further increase in the demand for credit. The combined effect of (i) the drought (ie the

need to fund food and other imports); (ii) the depreciation of the local currency; (iii) historically high inventory levels and (iii) seasonal factors (including agricultural financing carry-overs and the opening of the 1992 tobacco auction sales on April 1) suggest that the demand for credit will remain high despite the downturn in the economy. As a result, liquidity will remain tight and interest rates (ie. 90 day NCDs) are expected to remain high -- and positive -- fluctuating around the 30 percent level at least until the middle of 1992.

Against this background and against the assumption that the GOZ will not, for political reasons, allow the Building Societies to charge market related mortgage rates (and therefore offer market related rates for deposits), it is almost certain that the Building Societies will continue to face difficulties in attracting adequate resources during a transitional period. Until inflation and therefore interest rates are successfully subdued, the building societies and the housing sector in general are likely to remain heavily dependant on a range of special instruments and other forms of monetary assistance.

The measures taken recently by the GOZ, which are designed to secure an inflow of resources into the Building Societies have not yet made any significant impact. While this may in part be attributable to decision lags on the part of potential investors, it is possible -- given the overall lack of liquidity in the economy -- that these instruments will need to be strengthened to ensure the continued functioning of the Building Societies during the transitional period.

The view that the current difficulties facing the building societies are essentially of a short-term nature is a consensus one. The IMF/IBRD supported ERP is specifically designed to bring inflation down rapidly via both structural adjustment and macroeconomic stabilization measures. The medium-term macro scenario already developed in sections IV and V of this report suggests that interest rates, while remaining positive, will fall together with inflation as the ERP is implemented. Table 2 above gives projections for consumer price inflation both before and after the effects of the drought are taken into account; while graph 6 of appendix IV provides actuals and projections (after having accounted for the drought) for inflation and interest rates on a continuous basis through 1995. It can be seen that short term interest rates are projected to fall below 15 percent early in 1995; while inflation is projected to fall to an annualized average of 10 percent in 1995.

There is ample precedent, in Sub-Saharan Africa [4] and elsewhere of inflation rates being rapidly subdued by IBRD/IMF supported structural adjustment and stabilization programs. This is particularly true of IMF supported ESAF or EFF programs -- for which Zimbabwe has recently won board approval. Budget deficit reduction, supported by restrictive domestic credit policies are the critical success elements in domestic and external stabilization programs. Substantial progress in these two areas has been made in Zimbabwe during the past year and this has led to the strong endorsement of the ERP by the IBRD and IMF.

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[4] In Malawi, the first country to embark on an IMF supported ESAF program, inflation was reduced from 32 percent in the first year of the program (1988), to 11.5 percent in the third and final year (1990).

4. The debt service ratio.

Table 9. External Debt and Debt Service, 1989-98

	1989	1990	1991	1992	1993	1994	1995	1998
	Estimates			Projections				
	(In millions of U.S. Dollars)							
Debt outstanding 1/	2297	2621	2921	3748	4227	4578	4710	4965
Of which: HIG	--	--	--	15	35	50	50	50
Total Debt Service	413	436	425	557	619	674	720	837
Principal	256	253	218	302	323	339	365	448
Interest	156	183	207	255	296	335	355	389
Of which: HIG	--	--	--	--	1	3	4	4
Principal	--	--	--	--	0	0	0	0
Interest	--	--	--	--	1	3	4	4
	(Ratios in Percent)							
Debt outstanding 2/	37.1	42.3	50.5	78.7	87.4	80.9	77.8	67.3
Of which: HIG	--	--	--	(0.3)	(0.7)	(0.9)	(0.8)	(0.7)
Total Debt Service 3/	21.7	22.2	20.9	28.0	27.0	25.9	24.7	22.5
Of which: HIG	--	--	--	--	0.04	0.11	0.13	0.11

Sources: Reserve Bank of Zimbabwe, IMF and Standard Chartered estimates.

1/ End period, medium and long term debt disbursed and outstanding.
2/ As percent of GDP.
3/ As percent of exports of goods and nonfactor services.

The above table provides estimates and projections for external debt and debt service for the period to 1998, with the impact of the drought factored in. The calculations assume that half of the US$ 450 million of additional financing required for the drought will be provided for by grants and the other half by long term concessional financing with similar terms to that of the HIG loan. Based on these assumptions, it can be seen that the cost of the drought will be reflected in the debt service ratio through 1998. This compares with pre-drought estimates (table 4 above) which projected that the debt service ratio would return to its 1990 level of about 22 percent by 1994.

Before the drought, total external debt was projected to rise from 50 percent of GDP in 1991, to peak at 72 percent in 1993 before falling back to 60 percent by 1998. After factoring in the drought, however, total medium and long term debt outstanding is projected to peak at a much higher level of 87 percent in 1993 and to fall back to 67 percent of GDP by 1998.

Employing the same assumptions, the projected impact of the HIG loan on total debt outstanding and the debt service ratio through 1998 is also reflected in table 9 above. It can be seen that the HIG loan component of the total external debt to GDP ratio will not exceed 0.1 percent through 1998. During the same period the HIG loan will not add more than 0.13 percent to the debt service ratio.

VI. Conclusion

1. The Economic Reform Program

The drought has compounded the major risks associated with the ERP. The two main risks are: (i) political support could weaken as some of the transitional hardships become more apparent and government policies are questioned. The government, in anticipation of these problems, is intensifying a campaign to make the objectives and measures of the program better understood by all segments of society. It is also implementing a social dimensions of adjustment program, designed to install a social safety net to alleviate some of the effects of adjustment on the poor. (ii) The needed external financial support, particularly during the initial years of the program and particularly in the light of the drought might be slow in materializing. This might negatively affect the program implementation.

However, the implementation of the initial measures of the program as outlined in the previous section, suggest that the process of structural change in Zimbabwe is irreversible, thereby diminishing these risks to some degree. Moreover, while the drought could be viewed as presenting a severe and possibly overwhelming test of the commitment of the GOZ itself to the ERP; a perhaps more compelling case exists for the view that the drought has delivered the fait accompli insofar as the question of adherence to adjustment and stabilization objectives are concerned.

The future of the ERP depends importantly on the further rapid tightening of fiscal policy. This is essential to support the tight monetary policies currently being implemented and ultimately, to promote the resumption of economic growth, the deceleration of inflation and the strengthening of the external position. The originally planned reduction of the budget deficit in FY91/92 has been recognized as a major and credible step toward this end. The government has committed itself (in letters of development policies to the IBRD and the IMF) to contain the wage bill through reduced civil service employment and prudent wage policies; to reduce subsidies to public enterprises through the introduction of more realistic pricing and greater operational efficiency; to reduce the budgetary burden of education and health care through increased cost recovery and to reduce military spending when the regional tension eases.

More flexible pricing policies, as well as further liberalization of the marketing and export monopolies of the agricultural marketing boards are urgently required. Rapid progress towards comprehensive reform of the public enterprise sector is also needed to support the process of stabilization and promote a more efficient use of resources. The objectives of operational and managerial efficiency need to be rapidly translated into

specific policy steps, including the shedding of non-viable activities, the improvement of the legal and institutional framework in which public enterprises operate and the granting of adequate autonomy to these enterprises.

2. The Zimbabwe Private Sector Housing Program

The success of the PSHLP is less tied to the achievement of specific and time-bound benchmarks than it is to the GOZ's overall commitment to move in the direction as set out in the ERP. The proposed PSHLP is sufficiently flexible in its design to be able to withstand a range of possible adverse scenarios. For example, if inadequate foreign resources delay the programmed expansion of the OGIL, thus precluding construction equipment and building materials from the OGIL, perhaps US$ 10 million of the loan could be targeted to via a CIP to import required equipment and provide a jump start for the industry. On the interest rate side, any possible abandonment of monetary stabilization measures would result in a reduction of interest rates and an inflow of resources to the building societies. Conversely, adherence to restrictive monetary policy and positive interest rates as programmed would lead to the deceleration of inflation and confirm the transitional nature of the difficulties currently being experienced by the building societies.

Government's commitment to the implementation of the proposed Private Sector Housing Loan Program can be viewed as a function of its commitment to the overall ERP. Fortunately, the implementation of the PSHLP is far less politically contentious than the implementation of the ERP, where vulnerable groups are clearly at risk. In fact the implementation of the PSHLP would help protect vulnerable urban groups by providing a safety net in the form of low income housing which would remain affordable to families below the median income. By providing a targeted safety net, the PSHLP complements the GOZ's Social Dimensions Program to a significant extent.

Furthermore, the overall ERP would be strongly supported by the positive impact that the PSHLP would have on the supply side of the economy. The private enterprise sector could be expected to benefit markedly from the broadening and deepening effect that the program would have on the real economy and on the monetary sector.

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Table 1. Appendix I

Goods on Unrestricted OGIL, End 1991

Raw materials and intermediate goods	Finished products
Food and stockfeed raw materials	Light bulbs
Tanning and footwear input	Fluorescent tubes
Wood and furniture raw materials	Tires and tubes
Foundry inputs	Cement
Lead	Pulp
Zinc	Salt
Hexane	
Inputs for tires and tubes	
Cement raw materials	
Plastic raw materials	
Knitting yarn and carpet imports	

Table 2. Appendix I

Interest Rate Structure

Rates charged by a Monetary Bank by Lending Category

As at March 6th, 1991.

Amount (Z $)	Weights	Interest Rates	Total = Weighted Average
76 179 306	0.1067	22.0	2.3474
15 114 354	0.0212	22.5	0.4770
19 515 983	0.0273	23.0	0.6279
7 486 730	0.0105	23.5	0.2468
167 915 355	0.2351	23.8	5.5836
100 000	0.0001	23.8	0.0024
3 344 537	0.0047	24.0	0.1128
1 372 650	0.0019	24.5	0.0466
23 115 388	0.0324	25.0	0.8100
7 936 413	0.0111	26.0	0.2886
1 509 365	0.0021	26.5	0.0557
23 357 976	0.0327	27.0	0.8829
627 877	0.0009	28.0	0.0252
1 079 115	0.0015	29.5	0.0443
466 697	0.0007	30.0	0.0210
596 745	0.0008	31.0	0.0248
324 798 128	0.4548	38.8	17.6235
24 833 368	0.0348	39.0	1.1372
14 111 000	0.0198	39.5	0.7821
630 000	0.0009	40.0	0.0360
714 090 987	1.0000		31.1758

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Table 3 Appendix I

Real Short Term Interest Rates

Average Inflation versus Average NCDs

(Quarterly averages)

Quarterly Averages	Inflation	90 Day NCDs	Real Interest Rate
1989			
Mar.	9.17	9.32	0.15
June	11.73	9.30	-2.43
Sept.	11.73	9.06	-2.67
Dec.	13.70	9.21	-4.49
1990			
Mar.	14.27	8.49	-5.78
June	15.43	9.21	-6.22
Sept.	15.80	9.69	-6.11
Dec.	17.1	9.79	-7.31
1991			
Mar.	20.33	12.69	-7.64
June	23.93	15.12	-8.81
Sept.	23.27	17.11	-6.16
Dec.	26.36	28.60	2.24

Table 4. Appendix I

Real Wages

	1986	1987	1988	1989	1990	1991
	(Annual Percent Change)					
Agriculture and forestry	-4.0	-5.9	5.6	-3.7	3.9	5.9
Mining and quarrying	-5.2	-4.7	7.3	-0.7	3.7	-5.0
Manufacturing	-6.1	-0.5	4.4	-0.1	2.2	-5.5
Electricity and water	-8.8	1.5	7.9	-9.3	6.9	46.7
Construction	-7.5	-1.6	-8.4	-6.1	-3.5	0.2
Finance, insurance and real estate	-1.9	-0.4	7.7	-1.0	7.6	-3.3
Distribution and hotels	-9.8	-4.6	3.5	-4.4	-0.5	-7.2
Transport and communications	-0.7	-4.0	7.8	5.6	8.1	-24.3
Other Services						
Of which: public administration	-6.0	2.1	1.4	-3.7	0.7	-12.3
education	-4.0	-1.1	12.3	-4.5	12.5	9.5
health	-4.8	-4.8	4.3	3.0	9.4	-1.7
domestic services	17.2	-4.2	1.1	-7.3	-5.9	-16.4
other	-7.3	-2.5	0.3	0.4	6.3	-7.8
Total economy:	-4.0	-0.9	4.7	-1.9	5.7	0.6
Total economy excluding agriculture:	-4.9	-1.7	5.3	-16.1	6.1	-4.5

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Table 5. Appendix I

HIG Debt Service
(US$ 000)

Year	Loan Balance	Total Interest	Total Principal	Total Debt Service
1	0.0	0.0	0.0	0.0
2	15,000.0	1,275.0	0.0	1,275.0
3	35,000.0	3,075.0	0.0	3,075.0
4	35,000.0	3,075.0	0.0	3,075.0
5	50,000.0	4,425.0	0.0	4,425.0
6	50,000.0	4,425.0	0.0	4,425.0
7	50,000.0	4,425.0	0.0	4,425.0
8	50,000.0	4,425.0	0.0	4,425.0
9	50,000.0	4,425.0	0.0	4,425.0
10	50,000.0	4,425.0	0.0	4,425.0
11	50,000.0	4,425.0	0.0	4,425.0
12	50,000.0	4,425.0	750.0	5,175.0
13	49,250.0	4,361.3	1,750.0	6,111.3
14	47,500.0	4,207.5	1,750.0	5,957.5
15	45,750.0	4,053.8	2,500.0	6,553.8
16	43,250.0	3,832.5	2,500.0	6,332.5
17	40,750.0	3,611.3	2,500.0	6,111.3
18	38,250.0	3,390.0	2,500.0	5,890.0
19	35,750.0	3,168.8	2,500.0	5,668.8
20	33,250.0	2,947.5	2,500.0	5,447.5
21	30,750.0	2,726.3	2,500.0	5,226.3
22	28,250.0	2,505.0	2,500.0	5,005.0
23	25,750.0	2,283.8	2,500.0	4,783.8
24	23,250.0	2,062.5	2,500.0	4,562.5
25	20,750.0	1,841.3	2,500.0	4,341.3
26	18,250.0	1,620.0	2,500.0	4,120.0
27	15,750.0	1,398.8	2,500.0	3,898.8
28	13,250.0	1,177.5	2,500.0	3,677.5
29	10,750.0	956.3	2,500.0	3,456.3
30	8,250.0	735.0	2,500.0	3,235.0
31	5,750.0	513.8	2,500.0	3,013.8
32	3,250.0	292.5	1,750.0	2,042.5
33	1,500.0	135.0	750.0	885.0
34	750.0	67.5	750.0	817.5
35	0.0	0.0	0.0	0.0

Appendix II

HIGHLIGHTS OF THE MONEY MARKET

- 5 September 1991 - The long awaited monetary policy statement was announced by the Reserve Bank of Zimbabwe (RBZ). Interest rates for financial institutions were raised across the board by an average of 15.00% of the previous rates. A three tier classification of re-discountable bankers' acceptances was introduced.

- 17 September 1991 - A 5.00% p.a. penalty was imposed on second drawing bills issued to finance tobacco exports.

- 25 September 1991 - The Reserve Bank shut the discount window on the basis of unacceptably high levels of re-discounting of bankers' acceptances. On the following day, the Bank raised re-discount rates on all fine bills by 3.00% p.a. and reopened the discount window.

- 30 September 1991 - The Reserve Bank announced that it would in future determine the quantitative limits of overnight borrowings to discount houses.

- 1 October 1991 - The liquid asset ratios for commercial and merchant banks were reduced from 40% to 25% and 40% to 20% respectively. These ratios were further reduced to 10% on 10 October 1991 but backdated to 1 October 1991. Liquid assets were redefined to exclude all bankers' acceptances and reserve requirements.

- 15 November 1991 - The reserve ratio for commercial and merchant banks was raised from 10.00% to 12.50%. A fourth category of fine bankers' acceptance was introduced. In addition, the Reserve Bank placed caps on buying and selling rates for the discount houses.

- 2 December 1991 - The Reserve Bank increased the re-discount rates by 0.50% p.a. to 18.50% p.a. for Class "A" bills. Re-discount rates for Classes "B" and "C" bills were raised to 19.00% p.a. and 20.50% p.a. respectively.

- 16 December 1991 - The Reserve Bank announced that it would re-discount only Z$20 million worth of bankers' acceptances maturing after 30 December 1991 from each discount house plus all other fine bills maturing up to 30 December 1991.

- 20 December 1991 - The Reserve Bank again increased re-discount rates for all fine bills. The rates were raised to 20.00% p.a., 21.00% p.a. and 23.00% p.a. for Classes "A", "B" and "C" bills respectively.

- 27 January 1992 - The Reserve Bank raised the re-discount rate for Class "A" bills by 1.00% p.a. to 21.00% p.a., Class "B" bills by 1.50% p.a. to 22.50% p.a. and Class "C" bills by 2.00% p.a. to 25.00% p.a..

- 18 March 1992 - The Reserve Bank lowered the statutory reserve requirement for commercial banks from 12.5 percent of liabilities to the public to 6.25 percent. At the same time the RBZ announced that it was closing its rediscount window in order to ensure that accommodation targets for the end of March satisfy the IMF benchmarks.

Appendix III

Detailed effects of the drought

1. Maize

Domestic deliveries of no more than 400 000 tonnes can be expected in 1992. After taking into account the likelihood of sizeable on-farm retentions this year, actual deliveries could be as low as 150 000 tonnes. Maize import requirements to May 1993 are estimated at 1.2 million tonnes. This estimate includes the requirement for livestock feed.

As at the beginning of March 1992, the Grain Marketing Board had only one months supply on hand (85 000 tonnes). Only 35 000 tonnes of the first order of 100 000 tonnes, which had commenced delivery at the beginning of the year had been received, with problems of congestion being experienced on the Botswana rail line (due to the demands of other countries in the region) and with loading in South Africa. An alternative route to be exploited is Beira in Mozambique, which is to receive test consignments to assess the capacity of the port and the Beira Corridor to handle consignments.

Imports urgently need to be stepped up to meet the 5 000 tonnes per day demand. Supplies are mainly limited to the urban and peri-urban areas with little maize reaching the rural areas. The 60% ration to millers and the 100 000 tonnes of sourced imports were expected to see Zimbabwe through to April.

Current landed cost is US$ 265 per tonne. Substantial cost savings could be realized if imports could be routed through Beira rather than Port Elizabeth in South Africa. Probable import requirements to the end of 1992 amount to 1 million tonnes at an average estimated cost of US$ 250 per tonne. Exports of maize in 1991 amounted to 170 000 tonnes, or US$ 30 million. Total direct cost in 1992 are therefore estimated to amount to US$ 280 million; or US$ 250 million if lost export earnings are excluded.

3. Sugar

Production this year should be enough to meet Lome' and USA quotas (lucrative markets at about 3 times world price) but other contracts have been canceled. Assuming GOZ permits exports to EEC and USA - about 300 000 tonnes of raw sugar will need to be imported in 1992, at an estimated landed cost in Harare of US$ 350 per tonne. This translates into a total direct cost of US$ 105 million.

There have been delays in importing a consignment of 15 000 tonnes from Swaziland and only 4 000 tonnes has arrived. A stock out situation was anticipated by industry spokesmen by the end of April.

A major concern of the sugar producing industry is to provide sufficient water to maintain the Chiredzi Research Station in order to maintain a stock of planting material and protect 20 years of research. The linkages between raw sugar and other industries in Zimbabwe are vast, eg: canning, confectionery and bottling industries, carbon dioxide.

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4. Petrol:

Zimbabwe blends ethanol - a sugar by-product - with imported motor spirit to produce gasoline for domestic consumption. The blend is 80 percent motor spirit and 20 percent ethanol. As ethanol will not be available for blending in 1992, an additional 20 percent of the normal motor spirit requirement will have to be imported. Assuming normal motor spirit imports of about US$ 60 million, this points to an additional direct cost of US$ 12 million in 1992.

5. Wheat:

Shortage of water is expected to restrict plantings to 10 000 hectares, producing 50 000 tonnes, compared to 250 000 tonnes in 1991. Expected delivery of 50 000 tonnes in October 1992 might be sufficient to avoid imports this year. But 200 000 tonnes of wheat (at an estimated cost of US$ 300 per tonne) will likely need to be imported in 1993. Therefore, the total direct cost in 1993 = US$ 60 million.

6. Oilseeds:

Earlier, it appeared that there would be no import requirement, but the past month of dry weather means that it is now likely that about 40 000 tonnes will need to be imported towards the end to 1992, at an estimated direct cost of US$ 10 million.

7. Coffee:

Exports in 1991 amounted to 14 600 tonnes @ US$ 2 000 per tonne. The effects of the drought (on both quantity and quality) will reduce this to 12 000 tonnes at an anticipated average price of U$ 1 500 per tonne. This translates into an estimated direct cost to the economy in 1992 of US$ 1.3 million.

8. Tobacco:

Revised production estimates for the 1991/92 crop is now 170 million Kgs. At an estimated average price for the season of Z$ 10 per Kg, this means that the crop can be expected to realize some Z$ 300 million less than the 1991 crop. This translates into lost export earnings of about U$ 50 million in 1992.

9. Livestock:

a. Beef

The national herd has been decimated, with abattoir bookings up to 260 000 for the first six months of 1992. This compares with 60 000 for the same period of 1991, an increase of more than 300 percent.

The effect of these forced sales will be to improve industry revenues during 1992, but it will take several years before the national herd can be restored to pre-drought levels. For many communal farmers, however, the situation is are in many cases too thin to

b. Dairy

Even the most efficient dairy farmers are facing severe difficulties, with many farmers selling off the bottom end of their herds in an attempt to stay in business. A large number of dairy cows - both dry and lactating are being slaughtered and it is estimated that up to 30 percent of the dairy herd will be lost.

c. Poultry

The Grain Marketing Board is supplying less than 50 percent of the regular requirement of maize for stockfeed. Soyabean meal is also in short supply. The large producers are believed to have secured adequate feed supplies and will be able to capitalise on the expected shortage of beef beginning later this year. Small producers, however, are totally dependent on broiler of egg production and their continued ability to stay in business is doubtful. Little or no capital development is taking place in the industry and destocking over the next few months is anticipated.

d. Pigs

The same problems with maize and soya meal apply here and overall the position in this industry is similar to that described above for the poultry industry. The main feature is destocking, while the mix of porkers to baconers being supplied to the abattoirs has become heavily distorted. The uncertainty in the industry has raised concern about the viability of a new Z$ 120 million processing facility.

e. Stockfeed

It is estimated that about 350 000 tonnes of maize per annum is required for livestock. This estimate is highly tentative there is traditionally a high level of on-farm retention of maize for this purpose. Farmer to farmer transactions have been taking place at over Z$ 1 000 per tonne, compared with the current controlled price of Z$ 550 per tonne.

Cottonseed meal is used extensively as a winter maintenance supplement in beef production and is also an important component in dairy rations. This commodity is expected to become unavailable within the next few weeks. The latter can be imported at a price in excess of Z$1 000 per tonne (approx 100% increase on local price). Total requirements are about 80 000 tonnes.

5. Mining

The Chamber of Mines is presently undertaking a survey of its members to ascertain the effect of the drought. The mines are actively developing alternative water supplies. The main impact on the economy will be on the decrease of foreign exchange earnings, estimated by the mining industry to be down US$ 50 million this year. This could be considerably reduced by the advent of late rains, which would allow the mines to increase their production capacity. Other areas of the economy will also be affected by their

linkages with the mining industry. eg the supply of raw materials for the manufacture of fertilizer.

7. Manufacturing

The Confederation of Zimbabwe Industries are also conducting a survey of their members to assess the impact of the drought and identify linkages within the industry and with other sectors. It is anticipated that a number of industries will face financial difficulties as a result of reduced demand stemming from the drought. The CZI envisages that the anticipated response of manufactured exports to the much improved export incentives will be very significantly muted as a result of the drought and generally difficult operating conditions.

On the availability of water, the urban area requirements for human consumption will obviously take precedence over manufacturing and industry. In some areas, alternative supplies (eg. boreholes) have at times been found unsuitable for industrial use.

11. Water

Of the main urban areas, only Harare, Hwange, Victoria Falls and possibly Marondera and Masvingo have sufficient water reserves. As far as Masvingo is concerned, the main problem lies with extending the pipeline to the receding water line in lake Mutirikwe. Most, if not all, other urban areas face serious water shortage problems, with Mutare, Chegutu and Shurugwi being the most critical followed by Bulawayo and Bindura.

The situation in the rural communal areas is disastrous - particularly south of the watershed. The GOZ is considering importing new air-rigs and other equipment to speed up borehole drilling at a total cost of Z$ 314 million. Private contractors would be hired to undertake much of this additional work.

The President has declared a national drought disaster, with sixteen 16 water shortage areas being named. This affords the Water Court discretion to reallocate all water resources within the catchment areas so designated.

Only Lake Chibero, Lake Manyame, Mazwikadei (Mashonaland) and Manyuchi Dam (Lowveld) have any surplus water which may be made available to agriculture for irrigation purposes.

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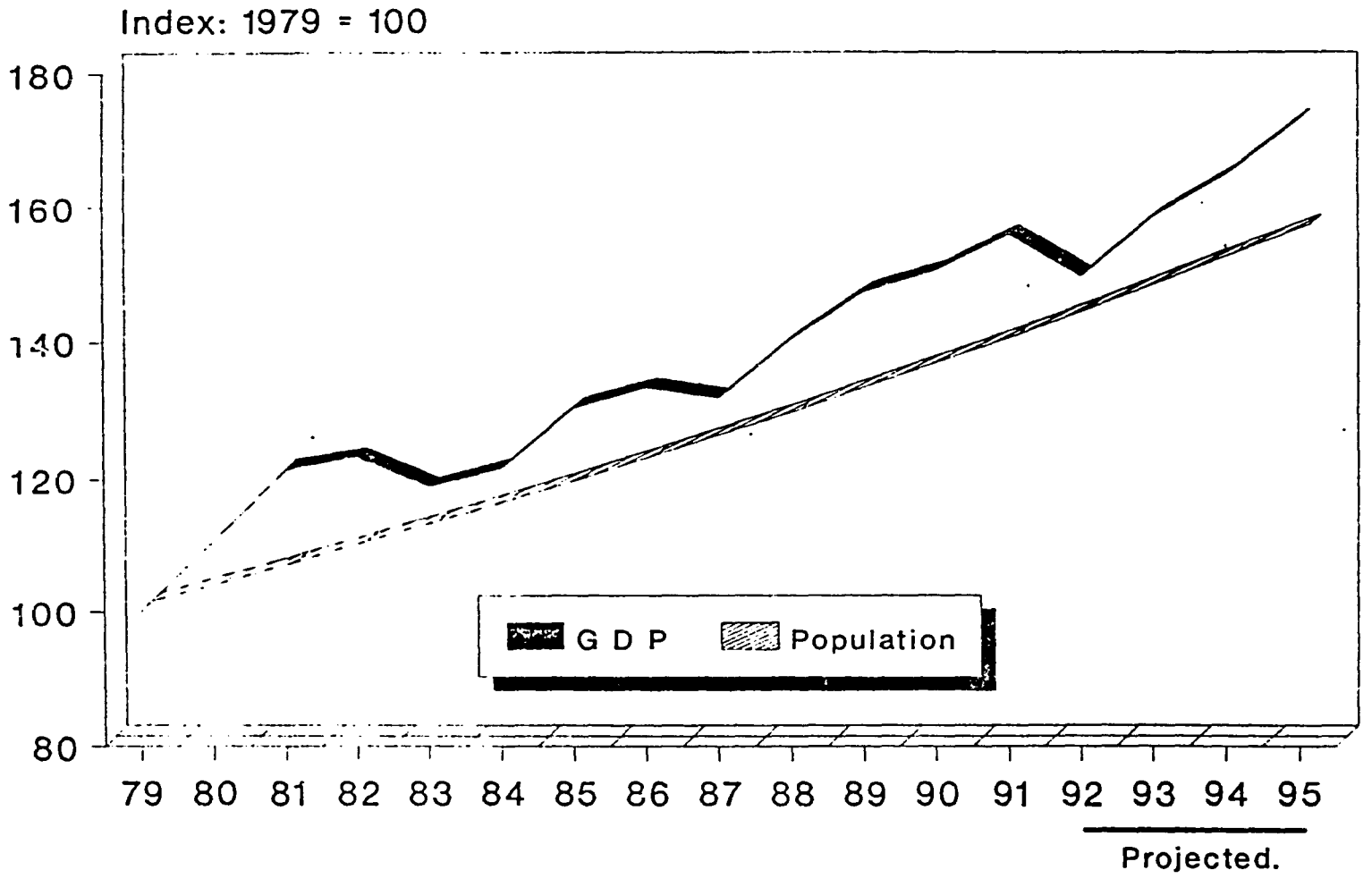
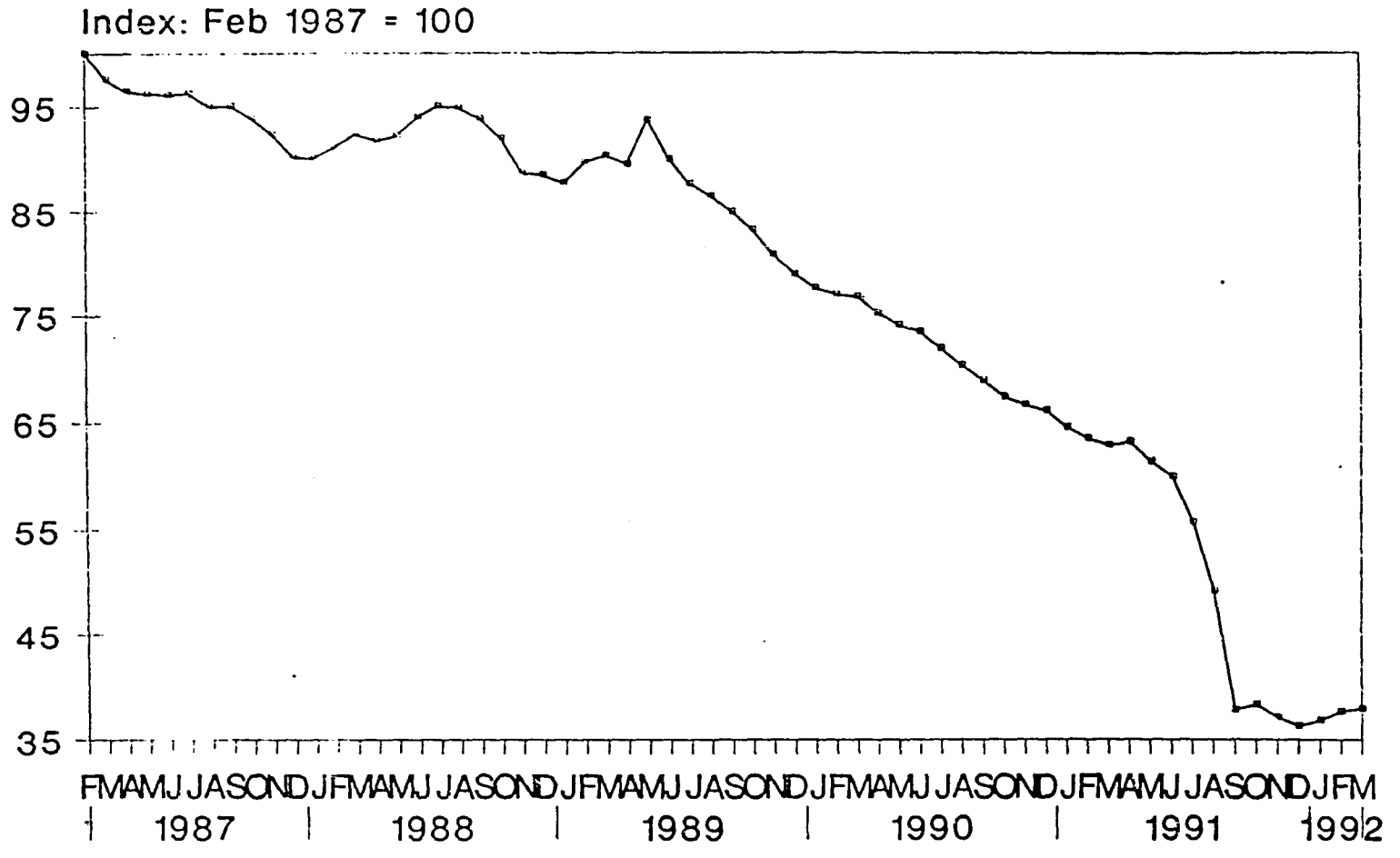
Post Independence Growth

Real G.D.P. versus Population

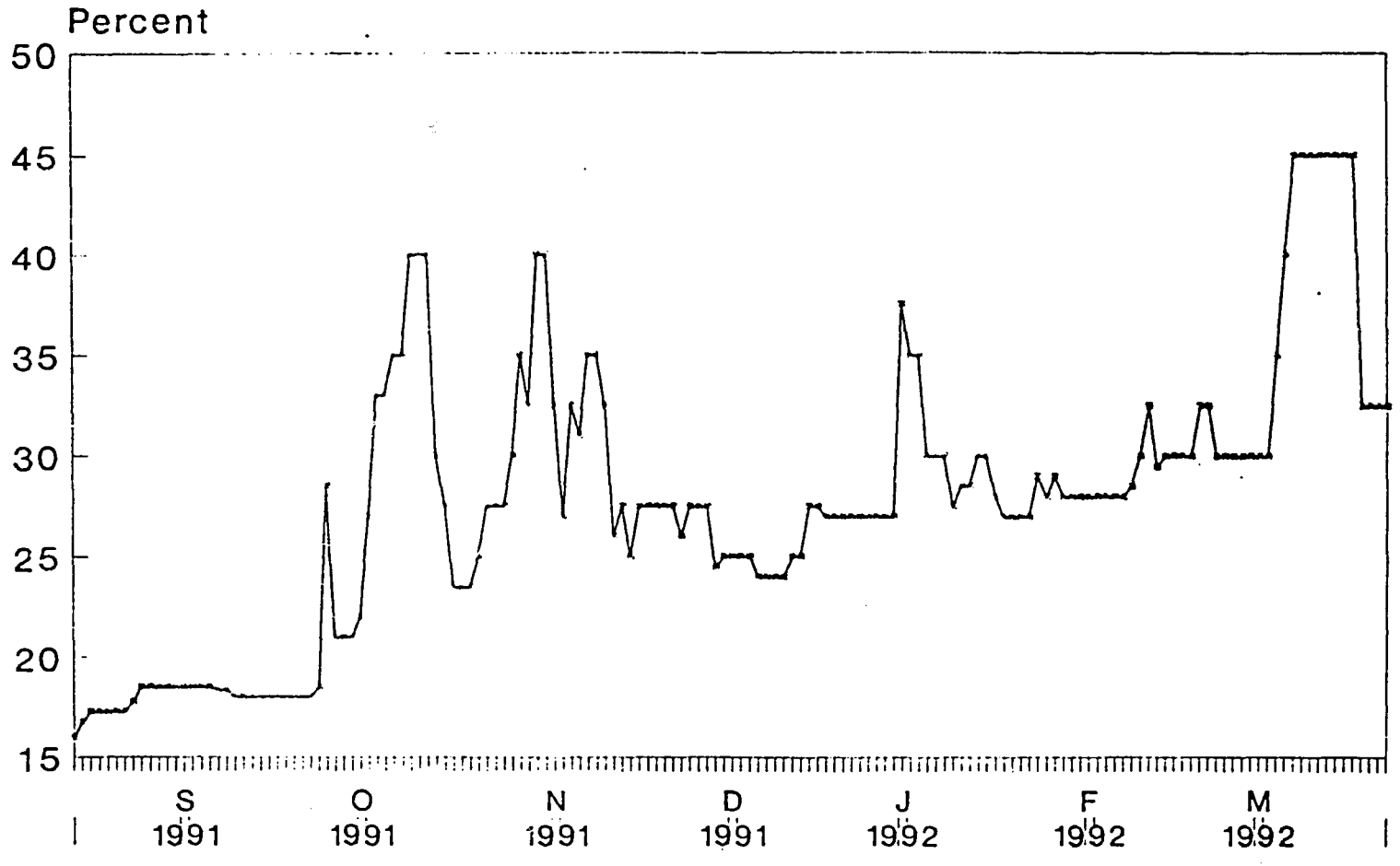


Nominal Effective Exchange Rate (NEER)
Five Years to March 1992

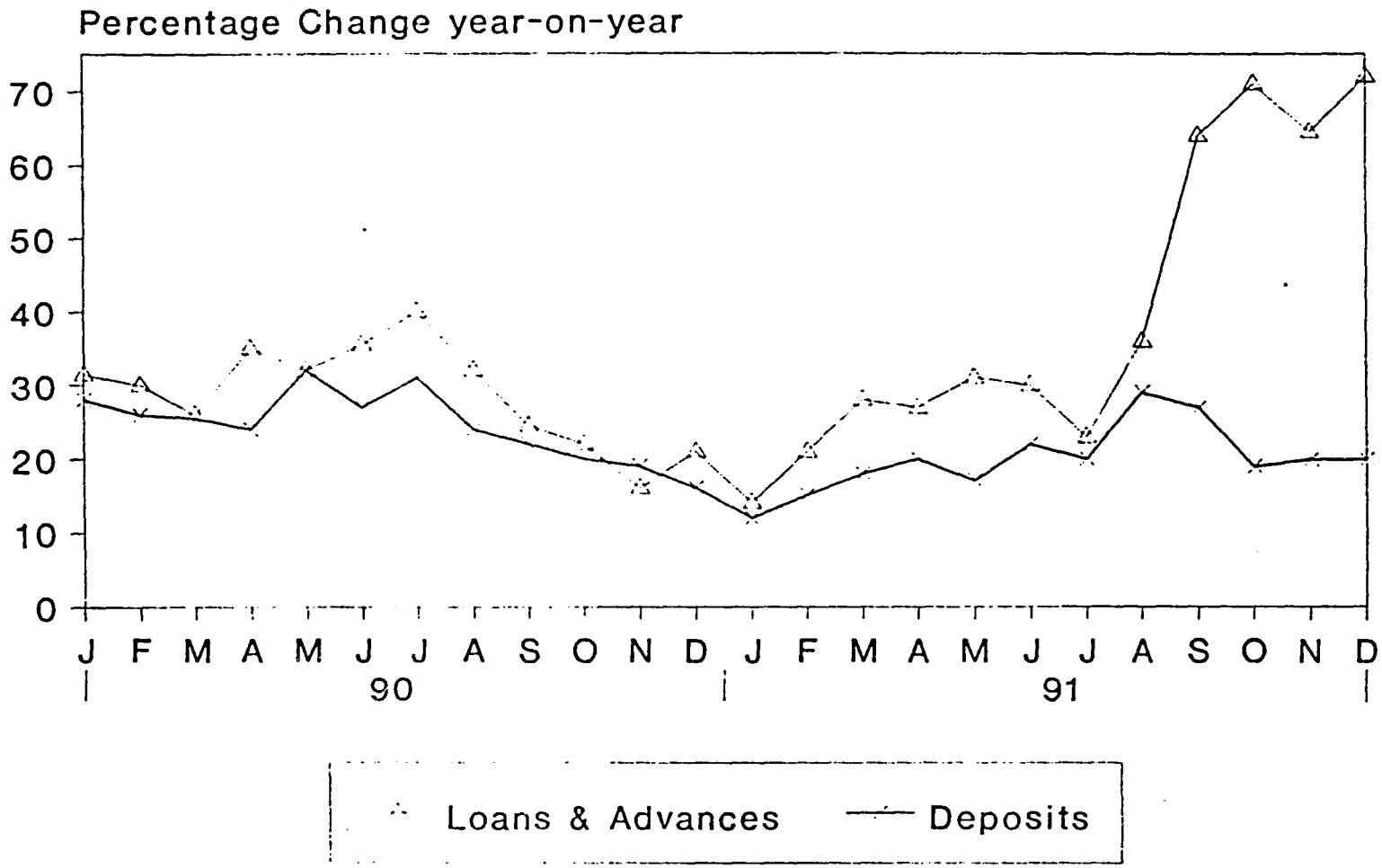


90 Day NCDs

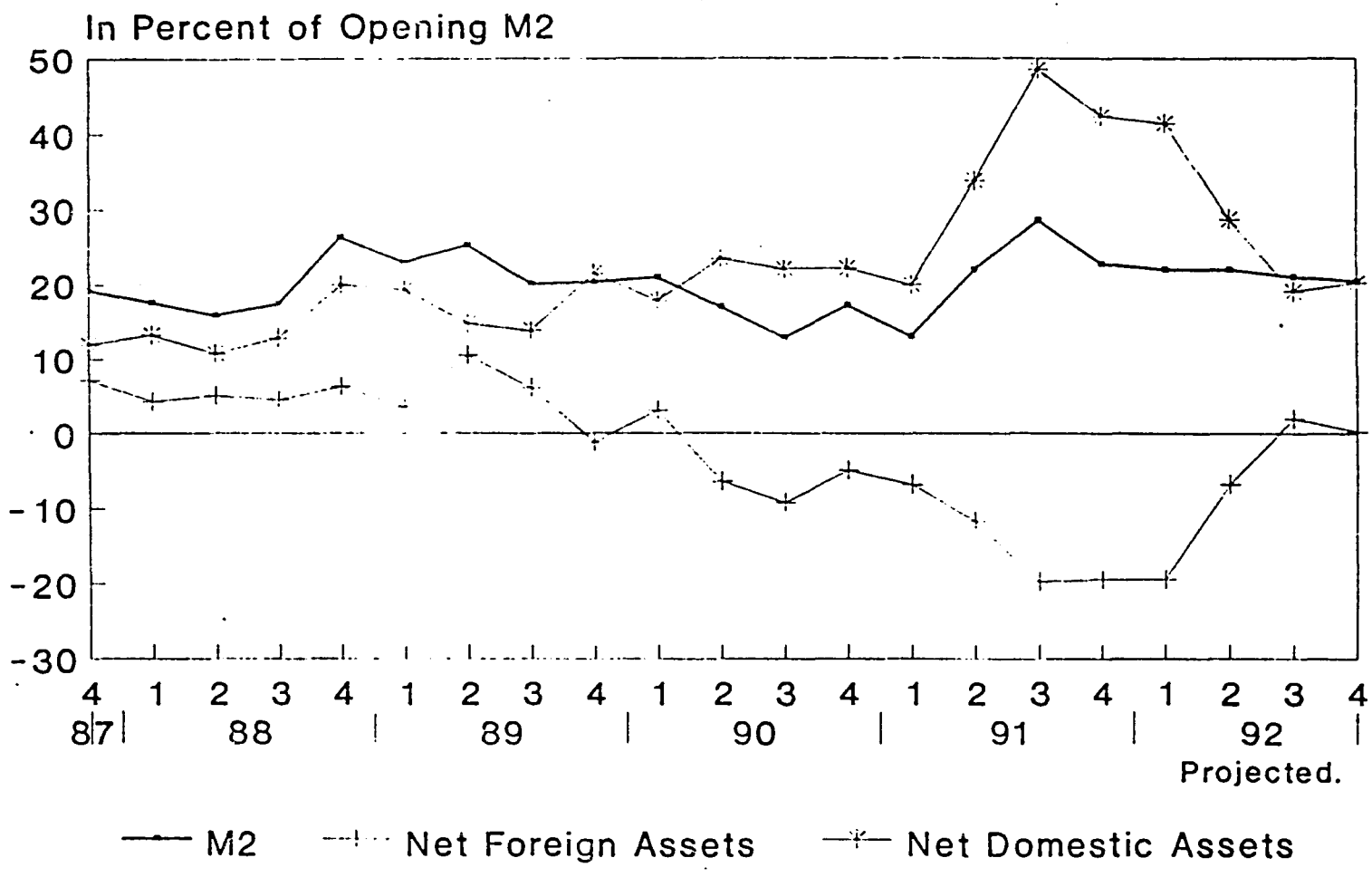
Daily Quotes: August 1991 to March 1992



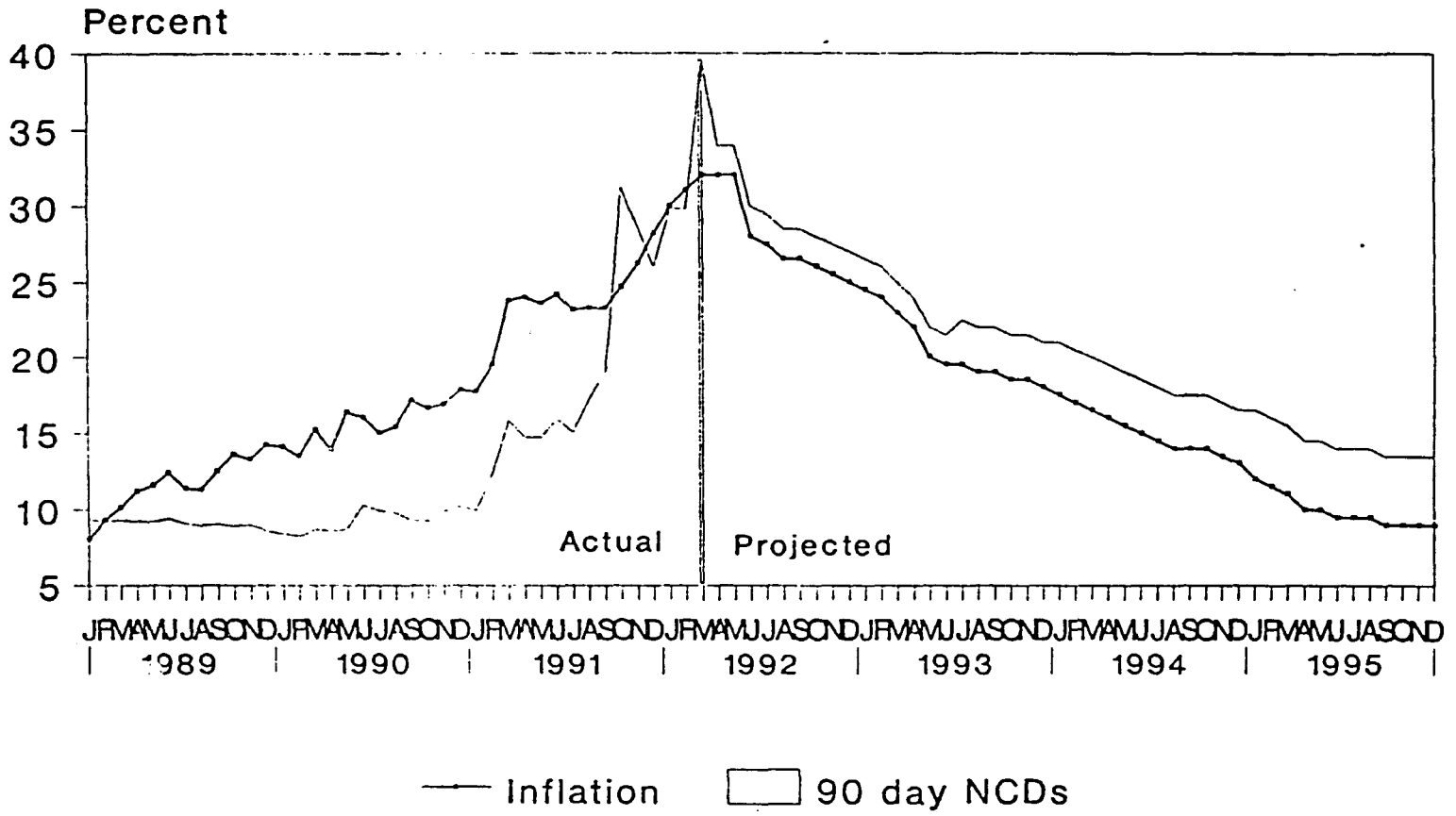
Loans & Deposits
Commercial Banks



Broad Money (M2)



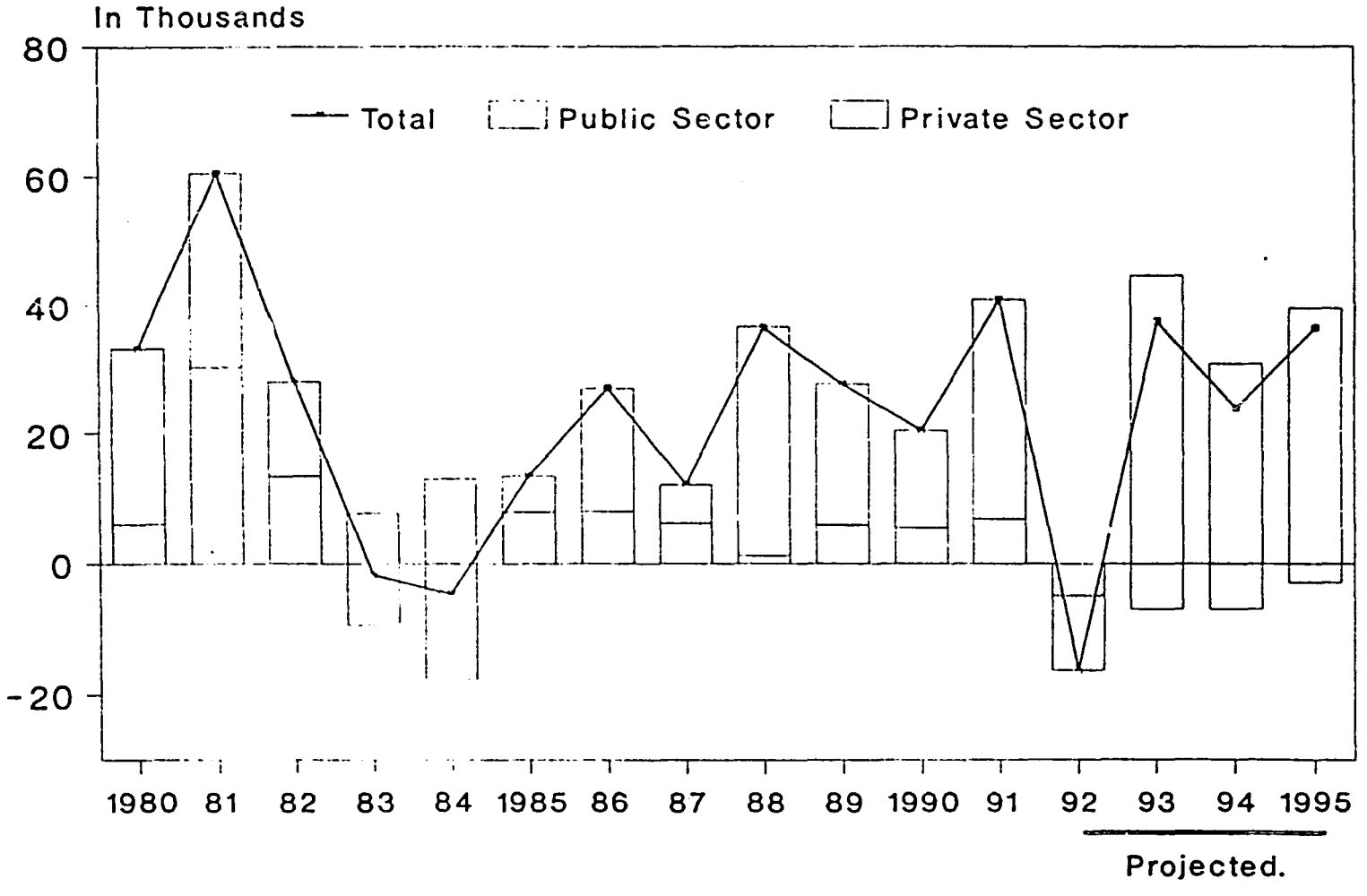
Interest Rates
Versus Inflation



• Inflation estimates for Feb & Mar 1992

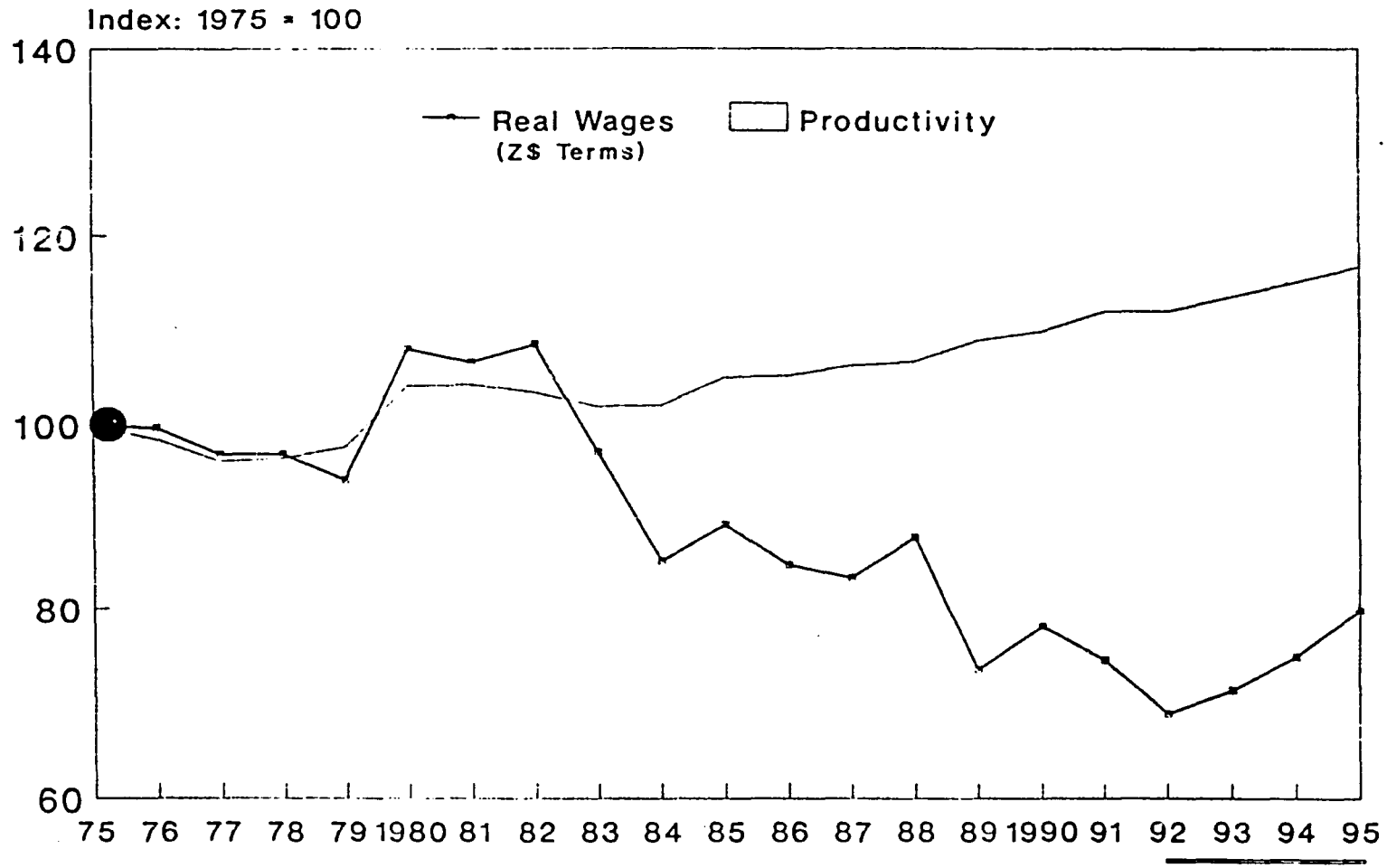
Non-farm employment

Number of jobs created / destroyed



Real Wages -v- Productivity

Total Employment Except Agriculture

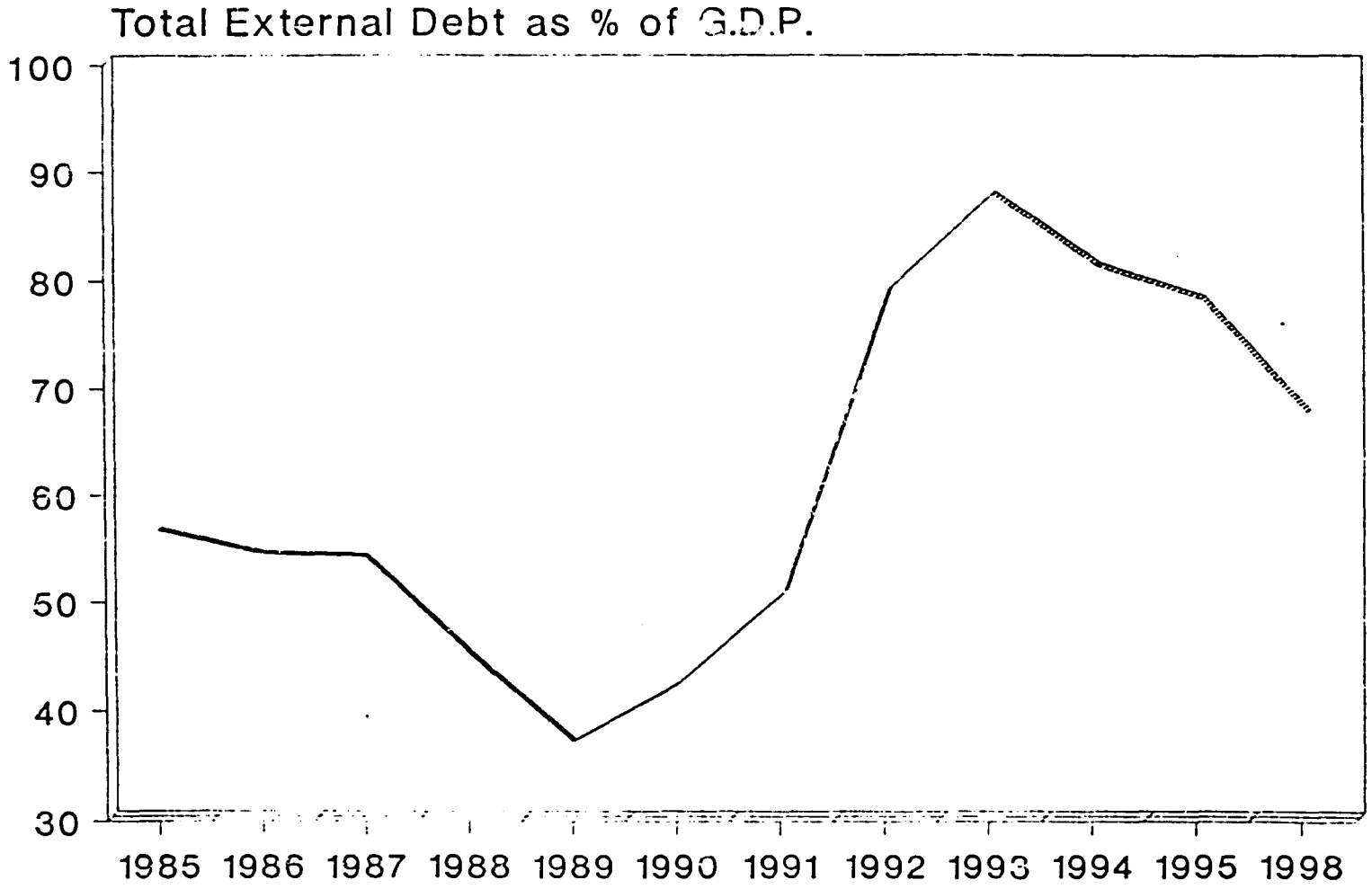


•Productivity = value added per head employed in constant Z$

Debt Service Ratio

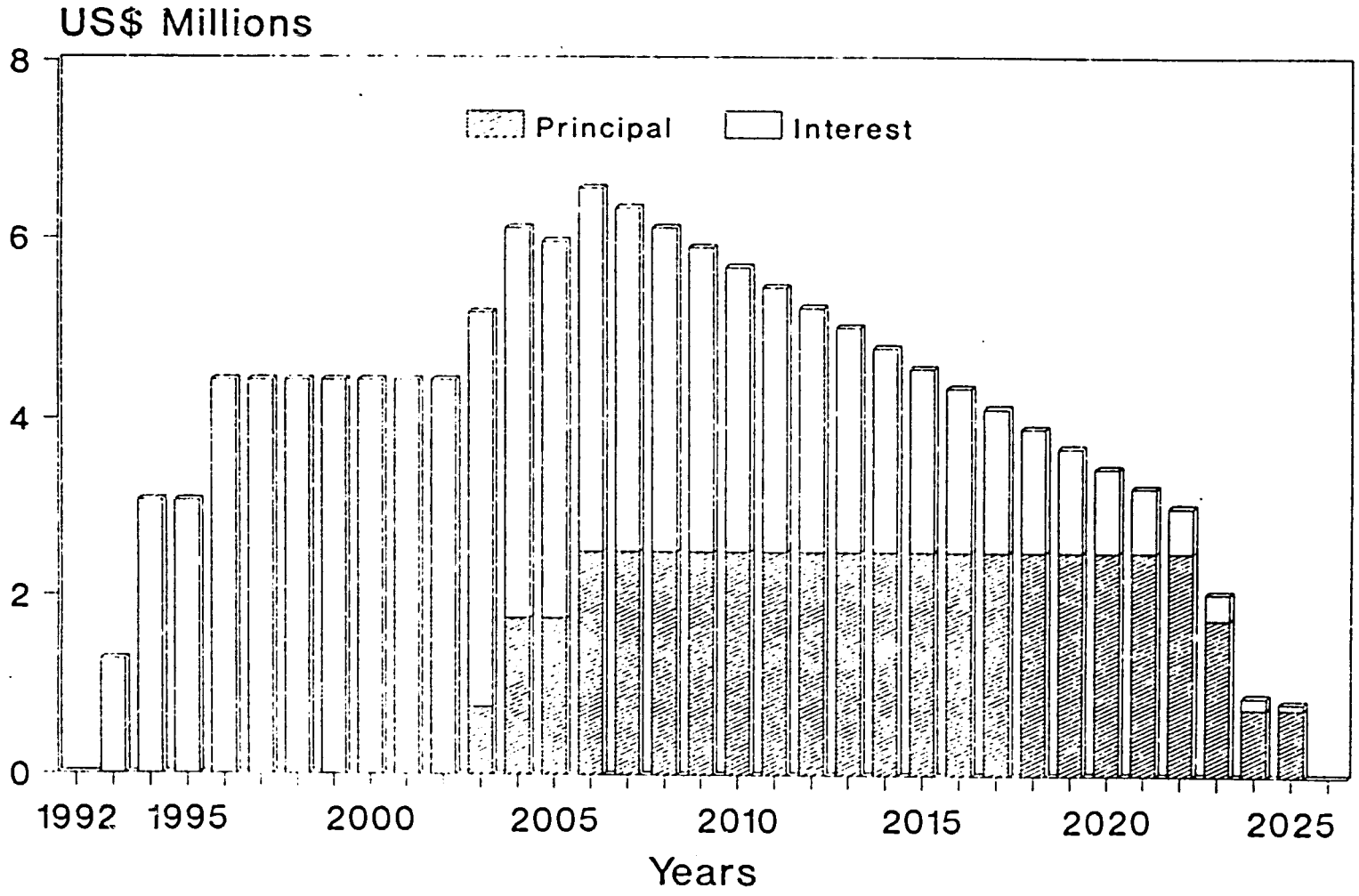
• Includes HIG loan.

External Debt Outstanding



• Includes HIG loan.

Debt Service on HIG loan



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Social Feasibility Analysis of the Zimbabwe Private Sector Housing Program

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17 March 1992

Prepared for the United States Agency for International Development
Under Contract 613-0510-C 00 2012 Delivery Order No. 1

1. EXECUTIVE SUMMARY

The Social Feasibility Analysis of the Zimbabwe Private Sector Housing Program examines whether the policy changes proposed in the program will provide more accessible and affordable housing opportunities and solutions for the low-income urban households.

More specifically, the analysis reviews the socio-cultural context of the program providing background information on urbanization and migration, the housing situation, and the political economy of Zimbabwe in relation to housing. Profiles of the intended beneficiaries are examined in terms of affordability criteria, and socio-cultural and gender based constraints. Participation of the beneficiaries is considered in terms of their motivation to acquire the proposed housing opportunity, their ability to obtain access to finance for housing, and their ability to manage the building process.

The socio-cultural feasibility of the program is reviewed. Assumptions made about the residential requirements of the beneficiaries are examined to assess their validity. The section on the impact of the program looks at a social cost benefit analysis of various inputs into the program. Some suggestions on urban issues related to low-income housing are raised. The consideration of monitoring and evaluation of the program raises some indicators for this exercise. Finally, conclusions are drawn and some recommendations, which are considered to contribute towards the social feasibility of the program, are made.

2. SOCIO-CULTURAL CONTEXT

2.1 Urbanization and Migration

Since the independence of Zimbabwe in 1980, the movement of population into the urban areas has increased considerably. The urbanization rate is currently approximately 7 per cent, which is double the rate of natural population increase of 3.4 per cent. The urbanization level at independence was 26 per cent and the Government estimates an urbanization level of approximately 40 per cent by the year 2000.[1]

[1] Figures from Zimbabwe (1986) Population Projections of Zimbabwe 1982 to 2032, Central Statistical Office, Harare. The next census is due to be held in August 1992.

This increase in urbanization can be attributed to a number of factors. The removal of the influx control legislation, (namely, the Land Tenure Act of 1969 and the Urban Areas Accommodation and Registration Act of 1946, which enabled the authorities to control the flow of blacks entering the urban areas), allowed people greater freedom of movement between urban and rural areas. Thus, there was the migration of the families of "single" men who, as a result of previous legislative restriction and for economic reasons, had remained in the rural areas. The pressure of population in much of the communal lands contributed towards greater urbanization, particularly of unemployed youths. The fact that average incomes in the urban areas are much higher than in the communal lands, and opportunities for employment are perceived to be greater in the urban areas; in 1985 the average income per household for the communal lands was Z$482 per annum and for the urban areas the average household income was Z$3 529 per annum.[2] The impact of the drought of 1983-85 on the rural areas brought an increased movement of people into the urban areas in search of food and water. Finally, the increased security of urban living resulting from the Government's extension of home ownership to occupants of formerly publicly owned rental housing meant that urban dwellers could bring their families to town and consider forgoing their land in the rural area hitherto their only form of security.

An examination of the distribution of the urban population shows a concentration of the population at the top end of the urban hierarchy with 71 per cent of the urban population living in the five largest settlements, and 64 per cent of the urban population living in Harare, Bulawayo and Chitungwiza.[3] This concentration of population in a few settlements combined with rapid population increase, and urban unemployment, displays the usual problems of overurbanization, with overcrowding causing risks to public health and to the physical and mental health of the low-income population.

There are clearly observable differences in the densities of the population in the various large urban areas in Bulawayo and Harare, for example, densities vary within the cities between the once white suburbs, now known as low density suburbs, and the former black townships, now known as the high density suburbs (racial residential division has now been replaced by residential division based on class). The growth in the urban population has also brought about a change in composition of the population; with greater security of tenure in the towns, through the increased availability of home ownership, family residence has increased in the urban areas. It is anticipated that the 1991-92 drought currently being experienced, the worst Zimbabwe has suffered in recorded history, will add to the flow of migrants to towns, the permanency of the migration

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[2] When these figures are adjusted for gifts and transfers from urban to rural areas the average household income for the communal lands is Z$837 per annum and for the urban areas the average household income is Z$3,261 per annum. Figures from Central Statistical Office, The Economy of Households in Zimbabwe, Harare, 1988.

[3] Figures from Zimbabwe (1985) Population Factors and Development, Central Statistical Office, Harare.

depending on the duration of the drought. The movement of population will also depend on the effectiveness of the Government's food for work program and the drought relief measures which would help curb an exodus from the rural areas.

2.2 Housing Situation

This increasing urban population's impact has been felt in the area of housing where a critical demand for housing is being reached, approximately 500,000 housing units are needed in the high density urban areas of Zimbabwe. In the past the existing housing stock has served as a relatively elastic source of supply, absorbing additional people as lodgers which has lead to increased overcrowding. Until recently this elasticity was sufficient to avoid squatting, but now overcrowding has reached a state where the existing housing stock cannot absorb additional people.[4] Therefore, the critical level of demand for housing is being reached and manifests itself in spontaneous squatter settlements. National occupancy rates in the high density areas vary from 9 people per 200 - 300 square metre plot in some areas of Harare and Bulawayo to 30 people per 200 - 300 square metre plot in parts of Harare and Chitungwiza. Approximately 66 per cent of the population of the high density suburbs are lodgers either renting a room in the main house or a shack (a tangwena) on the plot.

Despite the fact that the housing delivery system in Zimbabwe is one of the most efficient in Sub-Saharan Africa, the system is unable to satisfy current demand, particularly for low-cost housing. Although there has been an average annual production of 12,000 to 14,000 low cost units over the last five years, the Government estimates that only a third of urban housing demand is being met. Continuation of this shortfall of supply will result in an additional one million inadequately housed urban dwellers by the year 2000. Furthermore, from 1986-1991 the cost of providing one low-income housing unit, that is four rooms and a separate bathroom and a toilet on a 300 square metre plot, has risen from approximately Z$10,000 to Z$43,500.[5]

The Ministry of Public Construction and National Housing (MPCNH) acknowledges a waiting list for Harare of 72,000 households and considers this to be increasing at a rate of 1,200 a month. The MPCNH waiting list figure for all the urban areas is [illegible] with 70 per cent deemed to be low-income households. The list, however, is not a true reflection of housing demand and, particularly, housing need, since many households see themselves as being unable to afford the present low-income housing units and therefore do not bother to register. This is particularly the case with low-income female headed

[4] Additionally squatting was avoided through the implementation of previous influx control measures, and the currently utilized Vagrancy Act under which squatters have recently been removed from Harare.

[5] Figures from Zimbabwe (1986) Report on Housing and Urban Development in Zimbabwe: Public and Private Sector Partnership, MPCNH, Harare.

households.[6] The program recognizes that this deficit in housing production and its lack of affordability to the low income population is in large part due to inappropriate housing sector policies, such as the minimum standards of 300 square metre plots with four rooms with a separate bathroom and toilet.

1.3 Political Economy

The Government is well aware of the political problem of having a large proportion of the nation inadequately housed and that squatter clearance operations are counter-productive, particularly in the years leading up to the election in 1995. At independence the Government was sensitive to the issue of housing and, from 1981, promoted private ownership of formerly publicly owned housing in the high density suburbs. Regulations were also brought in setting the maximum rents for lodgers in the high-density suburbs at Z$8.00 a month for one room (the Housing and Building (Lodgers' Rent Restriction) Regulations of 1980). However, these regulations were found to be unenforceable, in a situation of increasing demand for shelter and the figure has not been revised subsequently.

The Government was concerned in the early 1980's with a transformation from capitalism to socialism and saw their housing policy as a redistributive mechanism for redressing colonial income and wealth inequalities and to this end were concerned to improve the standard of accommodation offered to the low-income. In 1983 the MPCNH issued a policy directive specifying a minimum plot size of 300 square metres and a minimum house size of approximately 55 square metres consisting of two bedrooms, a living room, a kitchen, a shower that can be converted into a bath, and a separate toilet.[7] The cost of building this four-roomed house in 1983 was approximately Z$7,850, while the same four roomed house in 1992 costs approximately Z$35,000. This four-roomed core was to be completed through aided self-help in 18 months from the time of allocation.[8] These development standards and time frame proved too ambitious given the financial resources of the low-income group and in many instances have led to increased overcrowding where beneficiaries have taken in lodger families to meet building costs. Another result of this

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[6] This point was strongly made by lodgers in Marondera and Harare during Focus Group Discussions, and confirmed that the waiting list was a gross underestimation of housing demand.

[7] See Patel D. (1984) "Housing the poor in the socialist transformation of Zimbabwe" in Schatzberg M. (ed) The Political Economy of Zimbabwe, Praeger, New York, for a further discussion of housing policy in Zimbabwe.

[8] The Government considered that construction of the house should be on the basis of aided self-help, by which beneficiaries initiate their own housing construction but can be aided by local authorities. The form of assistance envisaged once the beneficiaries are allocated the serviced plot is the provision of alternative house plans and sometimes a building materials store and perhaps some financial assistance to complement the beneficiaries' own resources according to their income and affordability. The vast majority of homebuilders choose to employ informal sector builders to build their houses not having the skills or the time to build it themselves.

policy has been to create false expectations among the population of a right to an "affordable four-roomed house".

With the introduction of an Economic Structural Adjustment Program (ESAP) in 1991 the policy environment in Zimbabwe has changed dramatically.[9] Under ESAP urban development and housing are seen, conceptually and operationally, as part of the overall strategy of structural adjustment policies, in which the cities, through privatization processes being promoted in Zimbabwe, play an important role in national economic growth. The social costs of these policies are high and the Government of Zimbabwe has not made provision for shelter under the Social Dimensions of Adjustment Programme (SDA).[10] The SDA program is designed to assist disadvantaged groups over the economic reform period. It is targeted at benefiting disadvantaged or vulnerable groups among which are listed the urban informal small-scale sector, the urban unemployed, urban unskilled formal sector, and particularly women. The program concentrates on provision of food, health and education for these vulnerable groups. The Government has indicated a willingness to include housing in this program if it was targeted towards helping the poor. Furthermore, the Government recognises that the present minimum standards for urban infrastructure and low-income housing are inaccessible to the poor on a cost recovery basis and that the climate is now right to review these minimum standards and make them as flexible as possible and therefore cater for the vulnerable groups on a cost recovery basis. Through ESAP the effects of the cuts in consumption subsidies and the rise in prices will be detrimental to the poor, regardless of their income sources, and a polarized economy will emerge with an even more extreme distribution of income. Cognisant of this the USAID program aims to assist in the private provision of shelter for households earning below the median income level which has been calculated to be Z$800 and the political climate is considered to be right to support the policy changes required in the USAID program.

In this policy environment housing is seen not as a costly social good, but rather as a productive capital good and, therefore, housing can make a significant contribution to both economic growth and improved housing conditions. Secondly, the approach recognizes that a housing policy should not be based on the housing needs of the population but on the people's willingness and ability to pay, i.e. effective demand. Hence, the USAID Private Sector Housing Program will eliminate constraints which prohibit the private sector from developing low-cost shelter and will remove the excessive building and development standards which increase the cost of shelter. Thirdly, the main problem continues to be on the supply side, due to the existence of different blockages that distort the efficient functioning of the market and the provision of housing. Therefore, the role of the Government is seen as making housing markets more efficient by removing bottlenecks that block the supply of inputs at the city level (i.e. land, labour,

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[9] See Zimbabwe (1991) Zimbabwe: A Framework for Economic Reform (1991-95), Government Printers, Harare.

[10] For a list of SDA priorities see Zimbabwe (1991) Social Dimensions of Adjustment (SDA): A Programme of Actions to Mitigate the Social Costs of Adjustment, Government Printers, Harare.

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finance, materials and infrastructure) to the production agents (developers and landlords, including poor families). To this end the USAID program will secure foreign exchange for the building materials industry so that it can increase its output. Fourthly, the feasibility of the approach depends on the Government's ability to restrict its intervention to those areas where it has comparative advantages, i.e. the provision of infrastructure, the mechanisms for establishing and transferring property rights and a regulatory framework that can allow the private sector to provide housing finance. Hence the program will identify additional mechanisms to attract private investment into the building societies so that housing finance is made available to low income groups. Thus the main role of the Government, as envisaged in the USAID program, is not to continue intervening directly in the production of shelter in individual housing projects, but to act as an enabler of the market.

3. BENEFICIARIES

3.1 Profile of Low-Income Households

The median income has been calculated to be Z$800 per month, thus the low-income population is designated as those earning on or below this figure per month. This low-income population is very heterogeneous. There are those employed in the formal sector earning between Z$800 and Z$150, the minimum domestic workers wage, but given the present economic environment, the vast majority of the low-income earners work in the informal sector. The informal sector is also very heterogeneous with some operators making a reasonable livelihood and others eking out a subsistence living. A nationwide survey of the informal sector was carried out in 1984 and the average monthly income was found to be about Z$260 (substantially higher than the minimum wage in formal unskilled occupations) in a number of different formal sector activities.[11] Women in particular either as sole breadwinners or supplementers of their husband's income, are found in the lower-income levels of the informal sector. Many of those employed in the formal sector also have ways of supplementing their income in the informal sector. The random non-statistical household survey of homeowners conducted in Marondera and Harare high density suburbs indicated that the median income of the head of household is Z$550 per month. The additional median income from other sources, predominantly lodgers, is Z$170 per month. These figures support the calculation of the median income of Z$800 per month for the program period from 1993 to 1996 is based on an average income at the end of 1991 of Z$576 per month, which was obtained from the Central Statistical Office's Household Survey of 700,000 urban households. Calculations of the additional income were based on Z$100 for rents from lodgers and a conservative

[11] Cited in Zimbabwe : A Framework for Economic Reform (1991-95), Harare, 1991.

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estimate of other informal sector income of Z$30 per month.[12] There is a prevalent under estimation of income from informal sector activities, this is reflected, for example, in the higher expenditure figures than income in the household survey.

Length of stay in the urban areas together with income, determine priority/eligibility on the housing waiting list. Approximately 40% of urban dwellers are second generation, this means they are likely to have more tenuous ties with the rural areas and are more anxious/motivated to have their own stake in the urban areas. Those people currently on the waiting list are either living with extended family members or lodging (i.e. renting a room or rooms) or street sleeping (i.e. sleeping in the open on the streets or under bridges or in shop doorways), or squatting (i.e. living illegally on public or private land usually under a makeshift shelter of plastic, cardboard, tin, or grass although in some areas more permanent structures of brick and asbestos may be found), or living in tied housing (e.g domestic workers quarters). Many families on the waiting list have been there for many years not simply because of the backlog in the supply of housing opportunities,but also because the opportunities on offer were not affordable to them and they were passed over in favour of those families with higher incomes.

Present living conditions are usually very crowded, particularly for lodgers; it is not uncommon to find families of 5-7 children and two adults living in one small room. This situation leads to much tension and stress not only within families but also between landlords and lodgers. Landlords prefer to take in single people as lodgers because of difficulties with children; this makes the lodger families' stay in accommodation somewhat tenuous with constant shifting from one place to another. Alternatively, families are split between urban and rural areas as low income heads of households cannot find affordable accommodation for their families in the cities and the communal lands become the dumping ground for the young and the old. Parents are particularly concerned about the morals and welfare of their teenage daughters and frequently send them back to the rural areas away from what they perceive to be the evil ways of city life. This has a negative impact on the education of female children since secondary educational opportunities are scarce in the rural areas. A further source of hardships for lodgers is their inaccessibility to gardens for growing vegetables to feed the family. For one room in the high density suburbs lodgers pay Z$60 -Z$150 per month and share in water and electricity costs.[13] Toilet facilities on each plot are stretched with frequent drain blockages and overflows occurring in the most overcrowded areas. An elaborate roster system is set up designating individuals' access to toilets in the mornings with some people getting up at 4 o'clock in the morning so that everyone on the plot has a chance

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[12] For a discussion of median income see Micro-economic Analysis detailing Access to Low Income Housing Finance and Affordability, USAID 1992.
Figures on calculation of income and expenditure for low-income households taken from Zimbabwe Private Sector Housing Program : Households Income/Expenditure Survey, USAID 1992.

[13] During the Focus Group Discussions it was very apparent that, due to the high demand for housing, lodgers are in an extremely vulnerable position. The rent paid by one lodger family frequently covers the homeowners entire repayments on the house.

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to get to work on time. In addition, some local councils where administration is viable, require a levy from registered lodgers e.g. in Marondera lodgers pay a levy of Z$8.80 a month in order to be registered and have access to community facilities such as schools and clinics and have registration on the waiting list, but many lodgers remain unregistered.[14]

Over the years land costs have tended to push the new low-income housing schemes farther out on the periphery of the city contributing to the urban sprawl of cities in Zimbabwe. Here transport costs are high and frequently transport is insufficient to meet the demand with people spending up to six hours a day getting to and from work. Job and income earning opportunities are scarce and there is lack of access to services such as schools, clinics and shops.

The impact of overurbanization and the resultant overcrowding is being felt among the low-income urban dwellers in particular; as traditional kinship patterns weaken as there is rising crime and delinquency, increased alcoholism and drug abuse, and increasing promiscuity and the breakdown of the nuclear family. The USAID program is aimed at providing a flexible housing solution to cater for the varying needs of those on the waiting list and at improving the urban environment for the low-income population.

3.2 Gender issues

Despite the fact that there are no legal gender policies which discriminate against women, women have a problem of accessibility to housing. Female-headed households represent approximately thirty per cent of lodging households and yet women have limited access to housing projects e.g. in Kuwadzana Phase One only 3 per cent of the beneficiaries were female-headed households.[15] Since women and children are the main users of housing the situation needs addressing. Women's position in the labour market and in the family constitute conditions which work in favour of men. The majority of women are in lower paying jobs and in less remunerative areas of the informal sector. Women comprise about 64 per cent of the total workers in the informal sector as opposed to 25 per cent in the formal sector. Most women, 54 per cent, surveyed in Harare in 1984 stated that they started informal sector businesses because they could not find other employment.[16] Women are most likely to engage in home-based activities, such as knitting, crocheting, cooking or handicraft production, due to the demands of child-care. As in the formal sector, earnings for women fall below men's earnings. Therefore positive discrimination in favour of women is needed in order to give women equal access

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[14] The Ministry of Local Government, Rural and Urban Development thought the practice of lodgers levies was quite prevalent among the local authorities, but its implementation may well not be worthwhile or feasible i.e. the administrative costs may be higher than the revenue.

[15] See Evaluation of Kuwadzana (Parkridge-Fountainbleau) Low Income Shelter Project Phase 1: Evaluation of Secondary Sources of Data, USAID, 1985.

[16] See Zimbabwe : A Framework for Economic Reform (1991-95), Harare, 1991.

to housing. It is suggested here that a target of 30% of housing allocations made by local authorities should go to female-headed households; similarly targets for Building Societies' mortgages should be set at 30% for women. This would go some way in redressing the gender issue.

A further issue is that of married women's stake/right to the house to prevent frequently occurring eviction of wives. This can be safeguarded to some extent by encouraging joint-mortgages for husbands and wives and even for those cohabiting couples. When assessing affordability for mortgages the Building Societies are prepared to take a higher percentage of household income for couples. The calculated percentage for one income earner is 22%, for couples it is 25% and for employer assisted mortgages it is up to 30% of monthly income in terms of monthly repayments to the Building Societies. The present compulsory mortgage protection insurance operated by CABS, the Central African Building Society, the largest Building Society in Zimbabwe, provides security in the event of the death of the mortgage holder. Under this scheme mortgage protection insurance is compulsory for all bonds of less than Z$30,000 and in the event of the death of the mortgage holder the mortgage is paid off. However, the insurance companies do have a right of revision clause and this is an important issue in a society facing an AIDS epidemic. Figures from the Ministry of Health for 1991 indicate that 18 per cent of women attending anti-natal clinics in Zimbabwe were HIV positive. Zimbabwe is still in the early stages of the epidemic and the majority of deaths have been recorded among men between the ages of 20 and 50. The level of HIV incidence is unlikely to exceed 35 per cent of sexually active people. However, records on the incidence of HIV and AIDS related deaths are inaccurate in Zimbabwe as the reporting is poor.[17]

3.3 Secondary Beneficiaries

The majority of low-income housing in aided self-help schemes has been built by small contractors in the informal sector. These informal sector builders usually try to build five to six houses simultaneously and with the present shortage of building materials often move on to the other contracts before being able to complete the original house. Thus, each beneficiary may end up employing as many as four builders before the house is completed.[18] The USAID Housing Program through additional production of building materials and increased production of plots will engender more employment for informal sector builders.

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[17] See The 1990 AIDS Annual Report Ministry of Health 1990. Figures of anti-natal attendees for Harare are 30% HIV positive.

[18] The Focus Group discussions highlighted problems with builders, which together with shortage of finance and materials, were seen as the main obstacles faced by homeowners during the building process. This point was also verified by the Zimbabwe Private Sector Housing Program Household Income/Expenditure Survey, USAID, 1992.

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Through the increased production of low-income housing opportunities more rental accommodation will become available for lodgers. It is hoped that the increased supply of rental accommodation, as well as reducing overcrowding, will help reduce the exploitation of the low-income lodging population.

4. PARTICIPATION

4.1 Motivation of Beneficiaries

Even prior to the independence of Zimbabwe there had been a tradition of aided self-help housing schemes for the low-income urban population. These aided self-help schemes have given minimum assistance in loans to the beneficiaries, whilst beneficiaries managed the building of their houses usually by employing an informal sector builder. There has also been experience over the last few years of mortgages for low-income groups through Building Societies. In addition, Zimbabwe has a strong informal sector tradition of savings clubs; savings from this have been used by individuals to finance housing development. This USAID program builds on this experience, but makes the housing more affordable, accessible, acceptable and appropriate by making available more serviced plots through the National Housing Fund, by making housing opportunities more affordable to the low-income by accepting more appropriate and affordable standards for infrastructure, plot size, and housing, and by increasing the liquidity of the Building Societies enabling them to offer mortgages to the low income, and by increasing the availability of building materials.

As demonstrated above, the demand for housing in the low-income population is very great. Furthermore, much of the demand is hidden because low-income urban dwellers do not perceive present solutions as affordable and accessible and, therefore, have not bothered to register on the waiting list.[19] The Household Income/Expenditure Survey indicated that 52 per cent of lodgers interviewed could not see themselves owning their own houses because the present housing solution of a four-roomed core was not affordable. Any move to produce an affordable and accessible solution would produce an apparent sudden increase in demand with potential beneficiaries registering on the waiting list.

Beneficiaries are prepared to make enormous sacrifices in other aspects of household budgets in order to meet repayments on housing in home-ownership schemes. The Household Income and Expenditure Survey shows a very high propensity among lodging

[19] The Focus Group discussions revealed quite clearly that since lodgers could not afford the present housing solutions being provided for the low-income group they saw no point in registering their names on the waiting list. They also expressed concern about favouritism and nepotism in the allocation of plots which meant that waiting lists were sometimes by-passed.

households to own their own home and a willingness to find the money, from whatever sources, to do so. The USAID program considers that children should not go without food and education in order that a family should have a chance at home-ownership and, therefore, a minimum solution which does not create unnecessary hardship and sacrifices for the families should be found. A minimum solution means that access to land and title is the priority, which gives the low-income urban population a housing opportunity, this is seen in terms of a serviced plot.

4.2 Factors Impacting on the Participation of Beneficiaries

4.2.1 Finance

Much financial assistance for aided self-help housing schemes in the past has been provided by the local authorities through the National Housing Fund (NHF) in the form of loans to the beneficiaries, and recent World Bank housing schemes have provided mortgages through the Building Societies. Local authorities have been very accessible to the beneficiaries with offices on site. Although Building Societies have done their best to simplify procedures and attend orientation sessions, they operate largely from a remote central office. More outreach needs to be provided by the Building Societies to increase communications with the beneficiaries. In order to facilitate this, Building Societies should operate an office on site using automatic teller machines to accept and make payments (as indicated in discussions, Building Societies are prepared to consider this).

Over the years local authorities have been able to exercise a degree of discretion with defaulters, but ultimately, water supplies have been switched off to enforce payment. Defaulting rates have been very low e.g. approximately 4% for Kuwadzana.[20] Building Societies, once their liquidity situation improves, are prepared to exercise similar discretions; indeed they already have provision for deferment of payment for six months in the event of unemployment. Preferring not to foreclose on their clients, the Building Societies are prepared to make concessions but do not "advertise" the fact for fear of being taken advantage of. As a result of lack of knowledge on the part of beneficiaries those in financial difficulties do not go to the Building Societies but resort to selling their plot/house to opportunists at a price below what they might have recovered from the Building Societies. CABS, the largest Building Society, reports that to date they have only had one foreclosure on their low-income mortgages, which since 1987 total 13,559. It is anticipated that these problems can be tackled with improved communications between the Building Societies and their clients. The proposal of a flexible package for low-income clients designed to vary mortgage repayments over the year to cater for varying demands on a family budget, e.g. School uniforms and School fees in January, was put to the Building Societies and they are prepared to consider it under an improved outreach program. Furthermore, to cater for low-income loans, the Building Societies will also consider co-operative loans provided the co-operative has title to the land.

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[20] See Harare City Council (1986) A Case Study of the Kuwadzana Aided Self Help Housing Scheme, Harare, Zimbabwe. Department of Housing and Community Services.

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4.1.2 Building Process

In order to facilitate a greater community development orientation among the beneficiaries many local authorities should reconsider their present practice of scattering beneficiaries from the same company or co-operative throughout a housing project rather than allowing them to be allocated adjacent plots. Allowing those beneficiaries with shared interests to live adjacent to one another would encourage greater cooperation and community participation.

Problems in past projects, for example, in Kuwadzana and Hatcliffe in Harare, have been created for beneficiaries through lack of information on a detailed breakdown on the building materials for each phase of the building process. When the beneficiaries choose their plans during the orientation process quantity surveyors have provided information on the total amounts of materials required to complete the four-roomed core. Information on the amounts of materials needed for each phase of the construction process would greatly assist beneficiaries in estimating and procuring the correct amount of materials required. This would protect beneficiaries from exploitation and theft from unscrupulous dealers and builders who would assist beneficiaries in budgeting for the building of their houses and obtaining the correct kind and amount of material for each phase of the construction process.

Quotations produced by informal sector builders are often unrealistic because builders underbid in order to secure the job. This leads to much wrangling and haggling and a souring of relations between builders and beneficiaries as and when contractors return for increases in payment. Once beneficiaries have taken a mortgage from the Building Societies the Societies become involved in the need to produce a satisfactory house for an affordable amount of money. This may be a serviced plot with just a wet core, or a wet core and one room. To this end the Building Societies are prepared to consider, as part of an outreach program and in the interests of development, a facility to assist informal sector builders in their quotations. This would improve the management and organisational skills of the informal sector and, at the same time, protect the Building Societies' clients.

Many low-income aided self-help projects in Zimbabwe have involved building materials' stores run by local authorities. These facilities have, however, been underutilized in the larger housing schemes due to the large distances between the stores and the beneficiaries' plots and the lack of provision of transport.[21] Beneficiaries have preferred to purchase from private dealers who will deliver the materials to the plot. It is proposed here that the subsidy of the local authorities in running the store be done away with by allowing private material suppliers to operate on site.

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[21] See Evaluation of the Kuwadzana Low-Income Shelter Project Phase I : Report on a Survey of the Beneficiaries of the Kuwadzana Housing Project, USAID, 1985.

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Presently, building inspection is the responsibility of the local authorities. Building inspectors who are lowly paid and lacking in motivation are supposed to check every phase of the building process.[22] Building Societies envisage taking over this role and using low-level construction supervisors to check on building progress. Since the program envisages the reduction of standards to a minimum acceptable and appropriate level it becomes even more crucial for health, safety and durability that these standards are inspected and maintained. Realising that they need to protect their investment the Building Societies are prepared to take over aspects of the Building Inspectorate.

5. SOCIO-CULTURAL FEASIBILITY

The USAID Zimbabwe Private Sector Housing Scheme aims to provide a housing opportunity targeted at those households earning Z$800 and below. The solution is aimed at full cost recovery and to this end the subsidies hitherto provided by the local authorities are to be removed, for example, in administering loans to beneficiaries through the National Housing Fund (NHF), running building materials stores and running the Building Inspectorate on low-income housing construction. To make the housing solution affordable to the low-income households policy directives will have to be effected in order to accommodate the minimum building standards proposed in the program. These standards should allow for a flexible solution in housing design to cater for the heterogeneity of the low-income population. A serviced plot (with access to piped water and water-borne sewerage) of 150 square metres is seen as the present acceptable and affordable minimum housing opportunity, which allows development to take place that is appropriate to the household's ability to pay as and when he/she sees fit.

The next step up in terms of affordability is a serviced plot and a wet core or toilet block which allows the household to move on site straight away and, therefore, save on the need to pay rent elsewhere. Another important consideration is that the families' presence on site also increases security of building materials and allows for easier supervision of the building process. Under this solution the family could construct a temporary shelter to stay in while the house is being built. This option has been tried successfully in Glen View in Harare prior to independence in 1979 and many of the temporary shelters remain standing today 12 years later. It is anticipated that this solution will maintain present environment and health standards, and indeed improve the mental and physical health of those presently housed under overcrowded conditions. The reduction in size of plots will reduce servicing costs to the area and cut back on the urban sprawl and ultimately on transport costs. During the process of building construction

[22] Discussion in the Focus Groups of Homeowners in Marondera and Harare revealed that there were insufficient building inspectors and that since they were poorly paid and under motivated the system of inspection was open to abuse.

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families, particularly the women who traditionally undertake the task, would be able to grow vegetables on the plot. This food production is an important survival strategy for the low-income population. It is here suggested that once the house building is completed nearby allotments should be made available for urban food production, thus mitigating any hardship from a reduction in plot size.

The one room and toilet solution on 150 square metres is preferred by the better-off members of the low-income population who are concerned with the security of their property and want somewhere to keep it locked away.[23] The number of rooms commonly used by owner-households in the high density suburbs is three. These, according to tradition, house the male children in one room, the female children in another, leaving the third for the parents. Rooms in excess of this number are usually used for lodgers. In the older more developed high density suburbs it is not unusual to find, in addition to the homeowner's family, six or seven lodging families accommodated on one 200 square metre plot. This demonstrates that, with the present housing shortage, to increase the size of plot beyond the immediate requirements of the household merely promotes more overcrowding as homeowners seek to maximize their income through taking in lodgers.

With an appropriate outreach program it is here considered that the low-income will have no difficulties in taking full advantage of loans offered by the Building Societies to finance the minimum affordable housing solutions. Building Societies will assess affordability of monthly repayments based on approximately 25% of the client's gross monthly income plus an additional Z$100 for income from lodgers. The Building Societies are also prepared to consider absorbing the front-end charges of approximately Z$1,000 for the registration of the bond into the mortgage repayments for low-income clients; however, this requires amendments to the Building Societies Act and to the Building Societies Regulations. All of this would contribute to the affordability of the low income group and avoid unnecessary financial hardships. Under the present overcrowded conditions low-income households are prepared to undergo inordinate hardship to secure a home of their own.[24]

The present socio-economic conditions of ESAP, i.e. inflation and subsidy removal, will mean considerable social costs for the low-income population or what the SDA terms the vulnerable groups.[25] There is the negative effect of an increase in general price level,

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[23] Focus Group discussions revealed the heterogeneity of those in the low-income group and thus their differing needs and aspirations with regard to housing.

[24] During Focus Group discussions the lodging families indicated that they could meet the front-end charges of Z$1 000 if they were given six months notice. Once a perceived affordable solution was available they would find the money "by hook or by crook".

[25] Zimbabwe, (1991) Social Dimensions of Adjustment (SDA): A Programme of Actions to Mitigate the Social Costs of Adjustment, Government Printers, Harare, outlines ways in which the Government of Zimbabwe will monitor and evaluate the impact of ESAP on the vulnerable groups.

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together with the removal of subsidies on education and health. Through focusing on a minimum acceptable solution of a serviced plot with perhaps a wet block the USAID program focuses on this vulnerable group and offers an acceptable and appropriate improvement in the living conditions of the low-income.

Through access to foreign exchange for the construction industry it is envisaged that the supply of building materials will be more readily available to the low-income group and that costs of building materials will eventually decline in real terms. If this is not forthcoming the low-income group as in the past, will bear considerable social and economic costs in the delay in the building process. Either the process is delayed for many months by which time costs have risen, or the home owner must pay exorbitant costs for the material on the black market.

Middle class raiding of a low-income housing scheme appears inevitable in a situation where the housing demand for the middle income is not adequately catered for. In a free market economy it is not possible to have mechanisms to lock out the middle income group, it is merely hoped that by aiming for a minimum solution it does not appear to be attractive to the middle class. This will be measured during the USAID program monitoring and evaluation.

6. IMPACT

The USAID program's most direct impact will be a substantial improvement in the living conditions of the low-income population, particularly of the women and children who are the main users of the household environment. The revision of building and urban land use standards to allow a minimum solution of a 150 square metre serviced plot will cater for the needs of the low-income population without adversely affecting environmental and health standards and will address some of the problems of overurbanization and the urban sprawl.

The USAID loan's effect, which complements the World Bank's Urban II program, will be much greater than the number of serviced plots provided by the local authorities through the National Housing Fund or the number of mortgages of Z$15,000 or less approved by the Building Societies. The capital input into the National Housing Fund will provide a revolving fund through which local authorities can continue to service plots. The directed credit to the Building Societies will assist in financing the backlog of approved loans as well as the processing of new loans and the Building Societies will be in a position to provide long term financing for low-income housing.

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Through the placement of construction related plant and materials on OGIL and the assured availability of foreign exchange through the program the building materials industry will have a greater production capacity which should mean reduction in construction costs with more readily available building materials for the low-income homeowners. It is also anticipated that the increased production in the building materials industry will increase job opportunities within this sector and also create more employment opportunities for informal sector builders. It is further considered that through their co-operation with the Building Societies the informal sector builders will be able to improve their management skills.

The role of Government in the provision of low cost shelter will be limited to the provision of primary infrastructure such as roads, water, security lighting and sewerage systems. By removing the fundamental obstacles which limit Zimbabwe's construction capability in absolute terms, the USAID loan will allow much more efficient and beneficial investment of both public and private resources. This will have a spread effect to the middle class and will make the housing market more accessible to the middle income, and enable them to marshal their own solutions within the privatization process. For example, under the economic conditions of ESAP the employer assisted mortgages would be more likely to be offered by employers to their skilled middle class employees, whom they wished to retain, than to unskilled general workers. This may help minimize the middle class raiding envisaged in low-income projects. This raiding may be further minimized by stressing minimum affordable solutions of 150 square metre plots which may not be attractive to the middle class.

The policy changes will have a dramatic impact on the urban environment contributing to locally sustainable development (after the program is complete) by allowing individuals to take responsibility for the provision of housing through the removal of legal and bureaucratic bottlenecks. This will largely be achieved by shifting the responsibility for the provision of low-income housing from the public to the private sector. There would be increasing participation of the low-income group in the development process through increased empowerment of the low-income group. This increased empowerment of the low-income population of Zimbabwe will come through the provision of a flexible housing solution and their access to private capital through the Building Societies.

Through facilitating and encouraging increased private investment in Building Societies the USAID program will also greatly strengthen linkages between low-income borrowers and large institutional investors and developers. This will have a spread effect outside the housing sector, with the experiences of the housing sector providing a demonstration of the viability of low-income borrowers and of investors' commitment to development.

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7. RELATED ISSUES

7.1 Community Facilities and Services

In order to serve the needs of the low-income group, particularly women, low-income housing schemes should provide sufficient creches, schools and clinics. Whilst cuts in subsidies require that attention be paid to the allocation of an appropriate amount of land and appropriate building standards for these facilities, attention should also be drawn to the possibilities of providing community services in multifunctional buildings. This, however, requires the co-ordination and co-operation of several Government Ministries all eager to defend their property and spheres of influence. The high density suburbs have many examples of under-utilized facilities, for example, schools are not used in the evenings, at week-ends, or during the school holidays; community halls also are minimally used by the communities, for example, for weddings or political meetings.

Present land use regulations prohibit many informal sector operations from being conducted from residential plots. These informal sector activities are important sources of income for the low-income group and provide a useful community service, e.g. tuck shops selling groceries, welding, basket making and furniture making. The de facto situation is that many of these activities are taking place on residential plots and the de jure situation needs reviewing, in order that low-income dwellers can maximise their opportunities for self-reliance. This requires review of local authority bye-laws related to what are perceived as non-compatible activities.

To compensate for the smaller size of plots for low-income housing it is here suggested that allotments be provided for householders on undeveloped land nearby. This would allow women, whose traditional role is to till the vegetable garden, to supplement their families' diet and income. It is suggested that provision be made for households to rent allotments on undeveloped land from the local authorities.

8. MONITORING AND EVALUATION

The social effects of the USAID program will be monitored closely. For the program to have the intended impact on the low-income population a considerable amount of political will is required. The local authorities must make every effort to target the low-income group in the allocation of plots. The Building Societies must commit themselves to making their loan facilities comprehensible and accessible to the low-income population. Local authorities and Building Societies need to commit themselves to the targets set to assist women in obtaining access to housing. To this end of meeting the low-income urban dwellers needs for shelter the following indicators are suggested: that movement through the waiting list is indicated and a monitoring of the extent to which female-headed households, the elderly, and the poor may be being passed-over be carried out;

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that serviced plots are being allocated to those below the median income taking into consideration the targets for women; and that Building Societies are processing mortgages of Z$15,000 or less, again taking into account the target for women.

It is possible that the increased efficiency of the formal construction sector through the USAID program might lead to a decrease in the market share of building low-income housing for the small-scale and informal builders. Monitoring and evaluation should consider indicators demonstrating greater employment opportunities within the construction sector and for the informal sector in particular. Prices and supplies of building materials also need monitoring to demonstrate their greater availability to the low-income urban dweller.

Monitoring and evaluation of the social benefits of the USAID program should ascertain whether there is maximisation of the impact of the program on these vulnerable groups. If it is evident that maximisation of social benefits to these low-income groups is not being realised, then it is here suggested that appropriate adjustments be made to the USAID housing program.

9. CONCLUSION

The USAID Zimbabwe Private Sector Housing Scheme aims to provide an affordable, accessible, acceptable and appropriate housing solution for the urban low-income dwellers of Zimbabwe.

After the policy changes are made giving access to land and title as a housing opportunity to be developed as and when the low-income are able, and the financing made available, much of the success of the Program depends on the political will of the local authorities and the Building Societies to allocate serviced plots and mortgages to the low-income respect ely. The role of women and children as main consumers of housing opportunities must be acknowledged and efforts should be made to meet the targets for housing opportunities set for female-headed households, who constitute much of the poorest section of the urban population. Efforts must also be made not to discriminate against the older members of the community who may have been on the waiting list for a considerable time because of lack of an affordable housing solution. Building Societies should consider that mortgages offered to those over 55 years of age can be taken over by their children.

It is going to be difficult under the conditions of ESAP to cater for the needs of the low-income group and much will depend on the success of the SDA in ensuring that the poor and vulnerable groups have access to the basic foodstuffs at affordable prices, and that they do not suffer from increased cost recovery in the social services. The success of the USAID program in meeting the needs of the low-income population will create

greater demand for housing as an affordable solution is perceived. The impact of initiatives and the distribution of benefits will therefore require careful monitoring and evaluation, the lessons of which should be incorporated into further planning and development of the urban sector.

10. RECOMMENDATIONS

To contribute to the success of the USAID program in meeting the needs of the low-income urban population for housing opportunities and a better urban environment the following recommendations are made:

(i) A target of 30% of plot allocations made by local authorities should go to female-headed households; similarly targets for Building Societies' mortgages should be set at 30% for female-headed households.

(ii) More outreach needs to be provided by the Building Societies to increase communications with the beneficiaries. In order to facilitate this, Building Societies should operate an office on site.

(iii) A flexible mortgage package should be offered by Building Societies for low-income clients designed to vary mortgage repayments over the year to cater for varying demands on the family budget.

(iv) In the interests of community participation and co-operation, local authorities should allow those beneficiaries employed by the same company or members of the same co-operative to be allocated adjacent plots.

(v) That, together with the plans of the houses, beneficiaries should be given a detailed breakdown of the kinds and quantities of materials required for each phase in the building process.

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(vi) The Building Societies should include as part of their outreach program a facility to assist informal sector builders in formulating their quotations, and thus improve their management and organisational skills.

(vii) Private building material suppliers should be allowed to operate on the site of low-income housing projects rather than the local authorities running a building materials store.

(viii) That Building Societies take over the role of inspecting the various stages of progress in low-cost housing construction from the local authorities.

(ix) Local authorities should provide allotments of land, on undeveloped land, which can be rented by low-income households, on which to grow vegetables.

(x) Amendments should be considered in the bye-laws to enable low-income households to conduct informal sector income generating activities from their residence.

(xi) As part of a cost saving and space saving exercise consideration should be given to providing community services in multi-functional buildings.

(xii) Older members of the low-income population, over the age of 55, should not be discriminated against in the allocation of plots and Building Societies should acknowledge that their bond repayments can be taken over by their children.

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Institutional Analysis: The Zimbabwe Private Sector Housing Program

Emery M. Roe

Executive Summary

The Zimbabwe Private Sector Housing Program has three basic components: expanding the Open General Import License (OGIL) to increase the supply of equipment, materials and spares necessary for low-cost housing construction; increasing the liquidity of building societies to lend high-density mortgages; and rationalizing building, site and construction standards so that cheaper housing can be built for many more low-income families.

Institutionally, none of this is new to the Government of Zimbabwe (GOZ). That essential construction item, cement, was recently put onto OGIL; building societies have been lending in the high-density area since 1987; and GOZ officials have been experimenting with different housing standards for some time.

What is new about the Program is its focus on pushing these processes further and institutionalizing them over the course of the Program. OGIL will be expanded in ways that reflect a GOZ commitment to improve the capacity of the country's construction industry to build low-cost housing. Liquidity of building societies will be increased at a time when there is little or no liquidity under current financing mechanisms. Official, rather than ad-hoc, changes will be made in building, site and construction standards so as to make low-cost housing more affordable to low-income families.

While the Program components are straightforward, the institutional environment in which they will be undertaken has been and continues to be a turbulent and uncertain one. The government's structural adjustment program (ESAP) underscores the country's declining economic health up to the present, and the effects of the present drought will oscillate well into the country's future. The special impact of these difficulties on Zimbabwe's housing sector are discussed in the following section. What needs only to be noted here is that these difficulties pose both advantages and disadvantages to Program performance.

Most worrisome is the fact that even in the best of times Zimbabwe's institutionally diverse housing finance and construction sector was unable to produce a legal low-cost housing unit affordable to low-income families. Almost as troubling is the fact that, as the country approaches the worst of times, its building societies seem not to be sufficiently innovative--now when they have the most reason to be--in finding ways to liquidate their

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backlog of approved mortgages.

Fortunately, the Program does not require building societies to innovate, nor does it leave unaddressed those factors which have hobbled the construction industry's capacity to produce affordable low-cost housing, namely, excessive housing standards and import restrictions. In fact, the country's current and continuing difficulties pose a unique set of factors that work in favor of, rather than against, Program success. The housing affordability crisis is only getting worse, the drought promises to turn that crisis into a full-scale emergency for those it leaves homeless in the cities, and the increasingly large backdrop of the 1995 election is sure to make low-cost housing provision a key issue over which Zimbabwe's multiparty politics will be contested.

For these and other reasons discussed in the report, key government officials and politicians accept now more than ever before the need to make more low-cost housing more affordable to more low-income households. Indeed--and this is the most important institutional factor working to make the Program a success--there is an extraordinarily wide ranging consensus, both within and outside government and across Zimbabwe's political spectrum, that what is needed is to (i) increase the private sector's capacity to build low-cost housing, particularly through expanding contractors' access to forex for essential equipment, material and spares; (ii) rely on financial markets to provide more funds for low-cost housing construction; and (iii) change building, site and construction standards to make them less onerous and costly. These are precisely the aims of the Program.

In short, the Program components of expanding OGIL, increasing the liquidity of building societies, and rationalizing building, site and construction codes are institutionally feasible. With few exceptions, the organizations, units and positions most instrumental to Program success are willing and able to undertake the Program's proposed changes. There are caveats, qualifications and recommendations discussed in the report, but the overall conclusion deserves to be stated at the outset: The four key incentives working for the Program--the 1995 elections, an amplifying affordability crisis, the drought and the extraordinary consensus over Program components--outweigh the disincentives.

Zimbabwe's Housing Sector at a Glance.

The keystone of the entire arch of Zimbabwe's housing sector been the diversity and depth of its institutions at all levels:

- The construction industry offers a myriad of different contractors--skilled and semi-skilled, large and small, in Harare and elsewhere--for all types of residential construction, including low-cost housing.

- Though faced with many of the same legal and financial constraints, the three major building societies (CABS, Beverley and Founders) are by no means alike when it comes to mortgages to low-income families. Beverley, for example, offers a Red Door scheme that CABS will not. The new Zimbabwe Building Society, in turn, intends to carve out and secure the market niche of providing affordable low-cost housing to low-income families.

- While building, construction and site codes continue to add excessively to the cost of housing, it is also the case that central government, local authorities and building contractors have experimented with a variety of building techniques, materials and site specifications through time and across localities.

- Low-income households are themselves diverse. Median incomes vary by region and over the life cycle of the family. Some low-income households seek urban housing because they have nowhere else to go, while for others this housing represents the urban assets of rural-based families. A focus on the below-median income family and its problems in finding affordable housing should not obscure the very real diversity and heterogeneity of the "low-income household".

What has this depth and diversity added up to? If what came the housing market yesterday were--the numbers are arbitrary--000 new serviced stands, 10,000 new employer-assisted housing ts, and 5,000 four-room core houses at today's inflated prices, -income families would have found the wherewithal to purchase m--somehow, someway and soon.[1] True, affordability has been a ssing problem, but it is diversity in shelter demand and supply,

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[1] A general manager of one of the building societies told the ry of selling off some of his society's vehicles, where even the pany's casual worker earning Z$300 a month came up with the ey for a Z$10,000 car--and the books balanced that evening.

- -- Ministry of Local Government, Rural and Urban Development (MLGRUD), including but not limited to local authorities;
- -- Ministry of Finance, Economic Planning, and Development (MFEPD); and
- -- Reserve Bank of Zimbabwe (RBZ)

Within the Zimbabwe Private Sector:

- -- Zimbabwe's financial sector, including but not limited to the building societies (CABS, Beverley, Founders and the recently registered Zimbabwe Building Society);
- -- Zimbabwe's construction industry, private developers, and industry associations, particularly the Construction Industry Federation of Zimbabwe (CIFOZ) and the Zimbabwe Building Contractors' Association (ZBCA); and
- -- Low-income households, especially potential and existing homeowners.

ıer important decisionmakers will be discussed as and where :essary, e.g., the Ministry of Industry and Commerce and the :ld Bank.

Goals, Constraints and Their Interaction. For the purposes of : report, the mandate and activities of key stakeholders can be :wed as a function both of their stated goals and of what they : as their core tasks and measures of effectiveness, given the .straints under which they operate. As we will see, their .avior is more constraint-driven than goal-oriented during this :iod of increasing resource scarcity. These goals, constraints, the resulting core tasks are discussed for each stakeholder. constraints identified here are those that limit the goals of organizations, units and positions. Other constraints working inst low-cost housing generally and against the Program cifically are discussed under the subheading "Disincentives" in anizational Dynamics.

Government of Zimbabwe.

Ministry of Public Construction and National Housing.

The portfolio responsibilities of MPCNH are wide ranging and er the maintenance of GOZ buildings, provision and acquisition government office space, and the preparation and execution of or construction projects for other operating ministries. Those

The National Housing Fund Study estimates that over 80% of the local authority bids between 1988/89 to 1991/92 for NHF urban finance was left unfunded by MFEPD. Underexpenditures are attributed by MPCNH staff to the shortage of serviced stands, surveyor staff, and equipment. Shortage of building materials and foreign exchange are also cited in its most recent (1989/90) annual report as constraints on the Ministry's Public Sector Investment Program (PSIP) budget.

The NHF is not alone in its gap between requests, provisions and expenditures. After years of underspending, the Ministry's most important PSIP subhead, K (Construction Works), now faces considerable overexpenditure:

FY	Provided	Expended
985/86	Z$ 111,495,000	Z$ 71,883,570
986/87	148,147,000	103,180,090
987/88	279,315,945	247,418,866
988/89	258,037,600	247,389,477
989/90	315,541,000	286,788,988
990/91	394,717,000	448,394,958

In the recurrent side of the MPCNH budget, the amount provided on the salaries line as a percentage of the amount requested has been declining in recent years, as has the percentage for the maintenance and repair subhead. For the last three years or more, the Ministry has requested MFEPD to fund the posts of Under Secretary, Chief Executive Officer and Principal Executive Officer for NHF matters. Treasury has refused.

There is, however, a third level of analysis important to interpreting the constraints on MPCNH, and that is the Treasury perspective just mentioned. According to the Treasury Under Secretary responsible for its recurrent budget, MPCNH is a "fairly efficient" ministry, e.g., the ratio between its salaries and support costs is relatively low (approximately a quarter of the budget is devoted to salaries and allowances). In the view of the Treasury Under Secretary responsible for its PSIP budget where local authority housing projects show up, MPCNH is "really doing quite well," considering the constraints they are operating under--particularly in forex, materials and staff--are not of their own making.

More important for the Program's purposes, "definitely housing is a priority" in MPCNH, according to the two Under Secretaries. "They always come prepared to defend" their PSIP requests for housing projects. Even though there are the problems of full funding and implementation under Subhead L, the view on the Treasury side is that MPCNH takes housing seriously. The forthcoming elections will keep it a core task, as discussed below.

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authorities for servicing stands and building GOZ-funded low-cost housing projects was actually disbursed in 1989/90. According to the MPCNH annual report mentioned earlier,

> "A total of $16 480 000 was allocated to local authorities for the provision of serviced stands and construction of low cost houses during the year ended 30 June, 1990. Of the amount $2 230 000 had been disbursed by the end of the financial year."

The reasons given for why the remainder of the funds were not released include:

- failure of local authorities to obtain MLGRUD approval for borrowing powers;
- reluctance of local authorities to take up a loan burden while still awaiting the Department of Physical Planning to produce layout plans of the areas to be developed (MLGRUD may also fail to provide funds for primary off-site infrastructure, like sewerage treatment plants, necessary for the operation of the serviced stand);
- delays encountered by local authorities in receiving land surveys of the sites in question;
- inability of obtaining bricks, cement, and other building materials in a timely fashion, if at all; and
- MLGRUD withholding new loans to local authorities already in arrears on past loans.

In short, implementation even more than lack of funds has been the problem. According to its Assistant Director of Housing, the Harare City Council has spent only a third of their current capital budget for servicing stands, yet no serviced stands are said to be available. The immediate difficulties are, again, lack of equipment and skilled personnel, particularly council engineers, surveyors and architects.[4]

Differences in these matters between larger and smaller local authorities, as well as within some local authorities, are described elsewhere in the report.

Ministry of Finance, Economic Planning and Development.

Ministries everywhere are advocates of their own expenditures,

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[4] A more detailed list of specific problems is developed and discussed in the Program's technical report on the land and shelter delivery process.

authority housing projects are said to sneak through, once MPCNH and Treasury agree on the final figures.

The major problem with this process is that it does not encourage MPCNH or MLGRUD to set priorities prior to submitting its proposed estimates to Treasury. Why limit the requests from your departments and divisions, when you never know your targets until the rush of preparing the estimates for publication? Not surprisingly, ministries that do not know how much they can spend will frequently not only ask for too much, but feel under no compulsion to prioritize what they ask for. Housing is a priority, but then so is everything else.

Things are said to be changing. The Under Secretary for finance in MPCNH has requested ceilings from Treasury, so as to force his ministry to frame not just estimates but these priorities as well. The MLGRUD official responsible for coordinating his budget submissions has long called for a closer link between NDP targets and the annual PSIP budget submissions in MLGRUD. The Under Secretaries in Treasury responsible for the MPCNH recurrent and PSIP budgets say ceilings are coming, as is a forward budget, at least on the recurrent side. The reason they, and other measures, are not on line yet stems ironically, it is said, from the work pressures of ESAP.

Certainly, the Economic Reform document has established "global" ceilings within which GOZ estimates are framed, e.g., in hiring new personnel or encouraging productive over social expenditures. ESAP also seems to be translating into Treasury approving few, if any, supplemental allocations to the ministries to cover shortfalls in the voted budget allocations for this financial year. Treasury has become "more strict" under ESAP is how MLGRUD and MPCNH budget officials describe what has been happening. Holding the line on supplementaries does more for expenditure control, though, than for priority-setting. In practical terms, the lack of priority-setting benefits the Program by reinforcing the MPCNH, MLGRUD and local authority focus on the divided stand on the basic core component to whatever housing priorities emerged from the annual budgeting process.

Reserve Bank of Zimbabwe.

The Reserve Bank of Zimbabwe stands at the apex of the country's banking and monetary system. Established by the Reserve Bank Act of 1964 and growing out of the 1956 Bank of Rhodesia and Nyasaland, the RBZ carries out all the traditional functions of a central bank, serving as banker both to the country's banking system and to the GOZ. It sets liquidity and reserve requirements, regulates and supports the commercial financial sector, and intervenes in the market to regulate interest rates levels. In its capacity as the allocator of foreign exchange, the RBZ operates a

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sophisticated allocation system involving both the public and private sectors in the determination of foreign exchange available to the sectors.

For the purposes of the Program, the Reserve Bank of Zimbabwe exemplifies the one possible exception to the constraint-driven behavior of the Program's key stakeholders. If anything is goal-oriented, it is the view within RBZ, and by extension MFEPD, that does not want to see OGIL become a patchwork of special-interest earmarkings, where one donor seeks to expand OGIL for the purposes of promoting one sector, while another donor expands OGIL to promote a different sector. Fortunately, OGIL's restricted and unrestricted features appear suitable for use by the Program, according to an official of MFEPD's exchange control division.

Zimbabwe Private Sector.

Financial Institutions, particularly Building Societies.

Like the construction industry described below, Zimbabwe's financial sector is diverse and several institutions deep. By the end of the 1980s, there were commercial banks, merchant banks, insurance companies, pension funds, discount houses, finance houses, and a stock exchange, among others, in addition to the building societies.

Insurance companies have been represented by international firms as well as Zimbabwean companies. Many of the pension, provident and retirement annuity funds have been administered by these insurance companies and have diverse investment portfolios: commercial property, industrial term loans, stocks and shares. Commercial banks provide deposit and current accounts to individual and corporate clients, and much of the lending has been short-term and on an overdraft basis; provident facilities are particularly important to building societies. Merchant banks in Zimbabwe have provided a range of services including the financing of imports and exports, processing of letters of credit, and providing [illegible] financing, bridging finance and foreign exchange [illegible]. Discount houses service the money market, while finance houses and hire purchase companies have provided commercial and retail-term finance facilities.[6]

Until recently there have been three building societies established under the Building Societies Act of 1965--the Central Africa Building Society (CABS), Beverley Building Society, and

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[6] For more background information, see the 1985 Housing Finance in Zimbabwe, prepared for USAID by the National Councils of Saving Institutions.

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terest rates.[8] Their core dilemma is described in the recent sume of points raised by the Building Societies Association to e RBS:

> "The Association is conscious of the dilemma faced by monetary authorities in setting building society interest rates. On the one hand, retail deposits and share investment are at present not competitive and cannot continue to be pegged below market levels without drying up the societies sources of funds for housing and seriously damaging the structure of the movement....On the other hand, the cost of building society funding has become too expensive, particularly for the lower income group wishing to purchase houses in the high density areas and even for those in the middle income group. If mortgage rates continue to rise we could be contemplating a situation to that which has occurred in the United Kingdom with a build up of loan arrears, leading to an unhealthy number of foreclosures."

[illegible]

[illegible]

[8] For more on the flexibility and adaptability of building societies, see the social and financial analyses of the Program's design team.

In terms of contractor associations meant to regulate and monitor industry practices, the Construction Industry Federation of Zimbabwe, or CIFOZ for short, is the legally recognized body representing Zimbabwe's construction industry. CIFOZ has its historical origins in bodies established to regulate affairs within the construction industry and to maintain standards and procedures in trade and professional matters. The World Bank report found CIFOZ representing some 400 building and civil engineering contractors, some ten percent of whom account for at least three-quarters of the industry's total turnover. It is important, however, to recognize that more than 60% of CIFOZ member companies are thought to employ no more than 50 persons.

The Zimbabwe Building Contractors' Association, or ZBCA for short, is a much younger organization with its origins dating to the mid-1980s. ZBCA sees itself as the most forceful representative of Zimbabwe's indigenous contractors, and its set of contacts in the GOZ is notable. The black Zimbabwean contractors who are members of ZBCA include medium-sized general contractors, several electrical and plumbing contractors as well as many small supply-and-fix and limited-material-supply contractors. Its paid-up membership has been estimated to be at least [illegible] members. A few ZBCA members are also members of CIFOZ, and vice versa.

In a September 19[illegible] memorandum of agreement between CIFOZ and ZBCA, the two organizations agreed to establish a Joint Industrial Commission (JIC), the purpose of which would be to ensure the [illegible] distribution of [illegible] under the auspices of the [illegible] [illegible] in government [illegible]

[illegible]

in that preference would be given to [illegible] if they [illegible] within five percent of a CIFOZ member's bid.

The ZBCA's chief executive reports that these proposals--[illegible] and different--have [illegible] approval and [illegible] implementation by the GOZ's tender board.

Certainly there is the impression that ZBCA contractors need

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preferential treatment. It is clear, e.g., that the upper echelon of CIFOZ contractors have little in common with the ZBCA membership as a whole: The finance and materials needs of contractors differ between the associations, with ZBCA builders saying they lack the basic working capital, equipment and bridging finance that the average CIFOZ member has access to.

Yet such generalities obscure similarities that exist between some CIFOZ and ZBCA members and differences among members within such an organization as CIFOZ. Spares, equipment and transport are also a problem for middle and lower echelon members of CIFOZ, as they are for ZBCA members. Where the larger CIFOZ contractor "isn't in the business of doing 20 low-cost houses at a shot," as one put it, not so for some CIFOZ members, and most certainly not the case for the ZBCA membership. The results of a July, 199[illegible] CIFOZ survey of its members vehicle needs hold just as well for ZBCA: The overwhelming request of contractors is for one-to[illegible]. Indeed, some CIFOZ members turned down the offer of large [illegible] because they, like ZBCA members, simply cannot afford them. Things may be changing as well for the upper echelon of CIFOZ. As one senior building society official put it, in two to three years, large-scale developers will find their buckets empty as well. When they are no longer booked up, they will once again be looking for large-scale, low-cost housing projects.

Nevertheless, there are differences between the [illegible] associations, and they matter for the purposes of the [illegible]. From the perspective of CIFOZ's upper echelon, [illegible]

[illegible]

[illegible] get the material needed or replenish their inventories [illegible] once they use their own supplies.

Households, including Homeowners.

The profile of low-income families, who are either aspiring or existing homeowners, is described more fully by other members of

the Program's design team. What must be underscored here is their diversity.

A USAID study, Household Incomes/Expenditure Survey (February, 1992), reports that some survey households have been urban residents all their lives. Some visit their rural homes, if they have one, infrequently while others visit seven or more times a year. Some wanted their own urban house, other don't.

Nonetheless, households are being homogenized by the affordability crisis. Where the 1988 USAID Evaluation concluded that "about 75 percent [of the low-income households] can afford the four-room core at a burden level of 27.5 percent," the same in no way holds today. Although sampling frames differ, it is indicative that the 1992 survey households were barely able to match inflows and outflows, i.e., "low income households spend all or even slightly more than they earn with no savings". Diversity is giving way to the same problems of surviving, with more and more households unable to afford anything more than a serviced stand with a minimum of superstructure.

Concluding Comment.

From the perspective of the household, the public and private organizations just described look very similar bureaucratically. They are a fishnet of procedure woven across procedure. While government is synonymous with red tape, building societies and financial institutions, for example, have their own "red tape" for [illegible] mortgage approval and credit extended. [illegible] [illegible] contractors, and [illegible] members through its own [illegible] trail.

[illegible] differences between these public and private organizations [illegible] relevant for Program design purposes. The specifics are [illegible]

[illegible] these [illegible] that:

Public bureaucrats have a strong incentive to worry more about

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16 For example, James Q. Wilson ([illegible]), Bureaucracy: What Government Agencies Do and Why They Do It, Basic Books, New York, especially the chapters on constraints and national differences (Chpts 7 and 16).

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constraints than goals, which means they worry more about processes than outcomes. This dynamic is certainly at work in Zimbabwe's low-cost housing sector generally and in the design of the Program specifically. Some government officials have, for example, expressed concern that process of getting OGIL-imported equipment, material and spares to the site for low-cost housing construction be controlled and explicit. Private sector contractors see that less of a problem than the bottomline of ensuring that the low-cost houses actually get built.

Since so many constraints exist on the use of resources by public managers, they tend to be more risk-averse. The best example of this dynamic is the high degree of caution exhibited by government officials in the area of changing building, site and construction standards (more below). In contrast, private sector contractors have been much more willing to let the market decide what will sell or not.

The multiple constraints on a government department or ministry enhance the power of potential [illegible] in that organization. Clearly USAID has more leverage on the GOZ in the proposed Program than it does on the private sector, as the Program's Condition Precedents constrain government directly and the private sector only indirectly through government action. By implication there are [illegible] chances of USAID directly influencing GOZ decisions affecting building codes and the OGIL than USAID directly influencing what happens in the offices of private contractors.

[illegible] a public [illegible] authority is [illegible] very much a two-edged sword for Program design. [illegible] willingness and ability of the Permanent Secretary, [illegible] take the lead in interministerially reconciling the [illegible] and integrity is a [illegible] turn of events. [illegible] alternatively, the [illegible] action [illegible], rather than [illegible] implementation.

[illegible] opinion [illegible] identified at the start of the report. These effects are discussed in the section, Feasibility Assessment, and their proposed mitigation in Recommendations below.

Organizational Dynamics.

Authority Is Fragmented. The chief consequence of the

multiple constraints driving the key stakeholders just discussed is that no one has overall authority to control the low-cost housing sector. The Program has been designed not only to accommodate this fragmentation of authority, but to use it as a precondition for Program success, as we will see in a moment. The fragmentation is best exemplified by the currently low probability of getting low-cost housing constructed and occupied by low-income households:

> If it is not satisfied with low-cost housing services on the open-market or, as more often is the case, housing simply isn't available there, the household puts its name on the local authority's waiting list, assuming it is eligible to do so. If on the waiting list, the household can be jumped over by others who, e.g., have quite legitimately gotten mortgage guarantees from their employers. If the household is at the head of the list and the local authority has the land, the land must be surveyed and serviced. When title is issued, the building society is then in a position to review the household's application for a mortgage, assuming the society is liquid and still processing applications. If the household is eligible (i.e., the mortgage application has been approved), the household must be able to pay the transfer and bond fees in order to process the mortgage. If the household is able to cover these expenses (an increasing problem for some families), construction costs may have gone up, and the original cost estimate upon which the loan request was based is no longer valid. If housing construction gets underway, some further delays and cost increases can be expected (e.g., the building inspector says to start over). Finally, if the house actually gets built and occupied, the household may find its monthly mortgage payment more and more difficult to meet, and some will seek to extend the payment period from 25 to 30 years (thereby making "low-cost" housing ultimately more expensive).

[illegible]

[illegible] low-income families.

[illegible] something in the low-cost housing sector, then cut down the number of steps that are needed, either by focusing the program on the early part of the process or by reducing the number of steps that follow thereafter. The Program in fact does both. Its components of OGIL expansion, increased liquidity of the building societies, and standards rationalization will, when implemented, increase the probability that what happens early on in the process, namely, servicing a stand and constructing a minimal

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superstructure, are dramatically improved.

The conditional probability is, however, a function of the time horizon used as much as the number of steps followed. What holds for the short-run (e.g., up to the Cabinet reshuffle) or for the medium term (through the next year of ESAP and drought) will look different in the longer-term (say, to the 1995 elections). Overall the pressures are working to reinforce support for the Program elements through time (see the Incentives section below). The point to remember is that even in the best of times, housing provision in Zimbabwe is necessarily a process of different people at different times and in different ways contributing to any given decision, thereby making coordination by planning or centralized control very difficult indeed.

That is precisely why having the private sector as the armature of the Program is essential to its success. Only the price system, with freely communicating parties mutually adjusting their actions in response to others, can coordinate such a process. No government department or interministerial committee, let alone a major donor like USAID, stands a chance of bureaucratically administering the low-cost housing sector, and they would greatly embarrassed if they tried.

<u>In Many Cases, Communication Isn't The Problem</u>. Once the focus is on the willingness and ability of organizations, units and positions instrumental to the success of the Program to freely communicate and adjust their actions in response to rapidly changing events, the obvious question becomes, How well are they doing that now?

There have been problems of coordination between MHCWH and MLGRUD, but they are said to be improving. For example, it is estimated that only 1 or 2 percent of the local authority applications for borrowing powers is pending in MLGRUD, and that the application which must be made 1 year in advance, [illegible] a [illegible] for months [illegible]. [illegible] of [illegible] MHCWH, [illegible] of most communicating to improve to the former [illegible] when the ministries were [illegible]. [illegible] even so, there would still be the standard turf and communication problems [illegible] and [illegible] between different divisions, especially if they [illegible] physically located in different places.

Building societies certainly feel they have a failure in communication with the RBZ over the mortgage rate issue. In reality the two communicate quite well: Meetings are held, position papers discussed, corrective measures reviewed. Their problem is less communication than that their basic interests do not coincide, at least for the time being.

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But when it comes to changing building and construction standards, there is a real problem of communication between local authorities and central government. The GOZ is highly centralized. Field officials habitually look up--to Harare, to the headquarters, to their superiors, to the donors--for decisions, innovation and leadership, instead of down to the voters and beneficiaries, or horizontally to their colleagues in the office next door. There are exceptions and some of these are identified below. But it is generally recognized that, if change in standards is to be realized across local authorities, the center will need to take the lead, communication will have to be at least downward and outward, and some local authorities may lag behind others in effecting the changes (e.g., some smaller town councils say it is the larger municipalities which are the more conservative).

Incentives/Disincentives. As with the constraints on stakeholders discussed earlier, problems in authority and communication are not automatically disincentives to undertaking the Program. What is an incentive or disincentive depends on how these stakeholders interact with each other for the purposes of implementing Program activities and continuing them after its end. As we shall now see, the Program requirements recast some constraints into preconditions for Program success.

Incentives.

Four key incentives are in place to the make the Program work:

- the 1995 elections, when low-income housing and shelter are very likely to be an election issue. "The idea that low-cost housing is not a [GOZ] priority is bullshit," according to one leading private-sector entrepreneur, with considerable GOZ experience and connections.

- [illegible] better to build now before costs rise further; the building societies are, by their own admission, battening down, without much hope of their situation improving dramatically before the end of 1993; and houses built originally as low-cost shelter are now reselling at prices 50 to 100 percent higher than the already inflated prices low-cost housing is currently being built for.

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- **drought-induced migration to cities, which will catalyze the affordability crisis into a full-fledged emergency for some.** Epworth is said to be partly a creation of the last drought, and more can be expected in this one. Not to put a fine point on it, any housing program implemented during or after this kind of emergency will look better simply for having followed, rather than preceded, the descent to rock bottom.

- **last, but certainly not least, the extraordinarily wide ranging consensus, both within and outside government and across Zimbabwe's political spectrum, over the need to undertake precisely the kinds of interventions proposed by the Program.** What is needed, it is generally agreed, is to (i) increase the private sector's capacity to build low-cost housing, particularly through expanding contractors' access to forex for essential equipment, material and spares; (ii) rely on financial markets to provide more funds for low-cost housing construction; and (iii) change building, site and construction standards to make them less onerous and costly. Granted, analysts disagree over particulars, but a "good" public policy is commonly defined as one that a variety of analysts agree with generally, and the Program certainly passes that test.

Specific incentives are also at work to increase the chances of success in each Program component:

OGIL Expansion.

- An OGIL expansion geared to the construction industry goes considerable way in addressing what NDP II sees as major needs for that industry, i.e., "easing of foreign exchange regulations to enable local construction companies to purchase new plant and equipment".

  Import duties on machinery equipment, materials and spares would be reduced, once they are on OGIL. Such reduction is a priority of the ZBCA president and members.

- The organizational infrastructure in the construction industry exists to track or otherwise channel OGIL imports (i.e., the Joint Industrial Commission as well as CIFOZ and ZBCA secretariats), should that be deemed necessary. Certainly, a list of low-cost housing construction needs, both for ZBCA and CIFOZ members, can be compiled fairly easily and quickly by their secretariats.

Building Societies.

- One of the more encouraging developments in the housing finance sector has been the appearance of the Zimbabwe Building Society. Even if it never gets off the ground, this initiative demonstrates that there are still those who see a future in Zimbabwe's building society movement for financing truly low-cost housing affordable to low-income households. Moreover, ZBS is proposing some novel arrangements to achieve this end (e.g., land title exemptions, housing suitable more for families rather than lodgers). "Maybe in 10 years we'll be like the other building societies," admits a key official in the ZBS, but until then they will try something different to capture their market niche of low-cost housing. As the organization literature reminds us, the commitment to innovate is strongest in the formative years of an organization's growth.

- Another encouraging indication is the clear willingness of RBZ to make concessions to building societies and review their performance periodically. As for building societies themselves, the general manager of the largest portfolio holder of low-income mortgages, CABS, is fairly upbeat about the future of building societies over the longer term.

- Anything that from time to time pushes out of the Financial Gazette's front-page headlines the drought and ESAP, as does the mortgage rate problem of building societies, underscores its priority and salience. Since the three major societies have closed their waiting lists, it has become abundantly clear that the building societies have not just a role, but a major role, in providing low-income household mortgages.

[illegible] Communication [illegible] Standards.

- The greatest incentive to rationalizing standards is the growing recognition and acceptance among key government decision-makers that the 100m2 minimum plot is unaffordable to low-income households. Even those who officially have supported minimum standards, e.g., the Director of Works of Harare City Council, are reported unofficially to be seeking deregulation of standards. That the Permanent Secretary of MPCHH wants to mentor the Program through the GOZ indicates the new receptivity to rethinking low-cost housing provision in the standards area.

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- NDP II commits itself to review building standards so as "to come up with building systems which produce socially acceptable housing units at a lower cost than the conventional ones. Some legal requirements will be relaxed so as to improve the output of surveyed land and houses."

- MPCNH proposals for demonstration projects, like Norton Rural Council's "Pilot Project on Urban Low Cost Infrastructure," the competition for comprehensive planning and design of low-cost housing, its research institute, as well as the existing variety of draft layouts for local authority low-cost housing schemes all indicate that the new rethinking of low-cost housing provision is moving toward doing something about it on the ground.

- Notwithstanding continuing problems with inflexible and excessive standards, a great deal of defacto variance and innovation has gone on in the standards arena. Different plot sizes, different layouts, different materials have been tried over time, and not just by local authorities or MPCNH/MLGRUD, but by building societies as well, e.g., Founders allows a less costly shower instead of a bath, while CABS has given a mortgage for a 18m2 house. The Harare City Council gives title to serviced stands in different ways depending on donor and building society requirements. The Ministry of Education is reported to have unofficially recognized 3.8ha for single stream school and 4ha for double stream ones. The list goes on.

- Lastly, there is the persisting belief across a spectrum of architects, realtors, government officials, building society managers, and others that, even if construction costs keep rising, building society liquidity keeps falling, and OGIL goes nowhere, significant costs savings can still be realized by relaxing building, site and construction standards. There are just too many reported instances where inflexible application of inappropriate standards have led to inordinate housing costs.

Disincentives.

Since program designers are routinely criticized for being too optimistic in their assumptions, it is important to be quite clear and detailed about Program disincentives from the outset. This is done not to accent the negative or fabricate probabilities, but to reduce the number of possible surprises along the way. To this end, the following discussion is ordered in terms of generality. We start with those disincentives that are specific to the Program components, then move on to a discussion of those that work against

the provision of low-cost housing generally. Lastly, we examine the extent to which Program components could--not "would," but "could"--achieve the opposite of what is intended. Remedies for the asterisked "*" disincentives are proposed in the later Recommendations section.

Specific Disincentives.

OGIL Expansion.

- o Possible disappearance of mentoring role by the Permanent Secretary/MPCNH, either through a Cabinet reshuffle or other contingency.

- o The current slowdown in expanding OGIL and the tardiness of officials from its parent ministry, the Ministry of Industry and Commerce (MIC), in discussing its expansion for the purposes of the Program.

- * Most important, the lack of a transparent mechanism to ensure that what gets into the country through OGIL actually goes to increase the stock of low-cost housing. The ZBCA/CIFOZ secretariats are, for example, understaffed for the purposes of tracking their members' use of OGIL imports. Yet if they were adequately staffed, any tracking and monitoring system on their part raises the specter of patronage and side payments in return for their not recording observed transactions inconsistent with the Program.

Building Societies.

- o Their core dilemma (see pages 13-15).

- [illegible] existing backlog of approved mortgage applications, and the priorities for their liquidation. Even though the backlog is not all in low-income mortgages, it will take time to process them, once liquidity returns. Here to the point, each building society has its own processing priorities. The general manager of Heverley says low-income applications have priority; the CABS general manager says first priority goes to CABS "supporters" (presumably depositors).

  Most important, the lack of new ideas from the three major building societies on how to open their waiting lists and resume giving low-income mortgages, even during their current battening down period. The recent

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concession by the RBZ to building societies, like the low-income oriented employer-assisted housing schemes, will "only slightly alleviate the national housing crisis," a building society official is reported to have said in a recent Financial Gazette article (February 27, 1992).

Building, Construction and Site Standards.

- The inability of key government decisionmakers to bite the bullet and change standards officially, notwithstanding their unofficial recognition that the 300m2 plot standard is no longer affordable. According to one senior official, decisionmakers "don't have the guts" to say what standards are now appropriate to replace the 300m2 policy directive. It is reported that the Model Building Byelaws were recently under review for over a year, and few changes were agreed upon. The National Joint Practices Committee dropped discussion of the ByeLaws from its agenda, because committee members couldn't reach consensus over what changes were needed.

- Relatedly, the vacuum in policy direction. All the willingness and ability of GOZ officials to undertake demonstration projects, turn the blind eye to site variances, and permit donor- or drought- or ESAP-induced exceptions to existing standards do not add up to a coherent policy framework.

* Most important, the lack of a GOZ mechanism to regularly review and revise building, construction and site standards. The problem is not only that the Model Building ByeLaws and the MPCNH policy directive on the 300m2 plot, to take two examples, are outdated. The real dilemma is that, even though these standards were introduced fairly recently (reportedly, 1977 and 1982/83) they have been out-of-date for most of the time since then. This suggests that whatever officially replaces the 300m2 plot size standard runs the risk itself of being irrelevant before the ink is dry on the new directive. Similarly, recommending that any building standard should be acceptable "as long as it is consistent with health and safety codes" misses as well the point that even these codes change over time, and often rapidly: A Mathare Valley in Zimbabwe, for instance, might not look so unacceptable at the end of this drought as it does now to GOZ officials. What is missing is not so much a set of appropriate standards as an institutionalized mechanism that can change standards in a regular and timely fashion and that requires something less than a Cabinet decision to do so. What

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Zimbabwe has instead is nothing more formal than a open-ended process of ad-hoc consensus building.

General Disincentive.

* Most important from an organizational perspective, the greatest disincentive to undertaking the earlier PID version of the proposed housing program must be the increasing inability of Zimbabwe's institutionally diverse housing sector and construction industry to produce a low-cost housing unit affordable to the aspiring low-income homeowner. Whether you start with the housing design and try to build it for low-income families or you start with what they can pay and design the unit to that amount, in practice what ends up being built on the ground is a superstructure that few low-income families can now afford. Fortunately, the focus of the current Program on the serviced stand with a minimum of superstructure recognizes and accommodates this problem (see Feasibility Assessment).

Worse-Case Scenarios.

The point of conjuring up worst-case scenarios is to try to imagine if there are any unforeseen effects of a proposed program that are not only negative, but disastrously so. The question then becomes, If the Program were to have unintended negative effects, would they be reversible or, worse, irreversible? Does the Program have multiple ways of achieving its ends in case any one way fails unexpectedly? Is Program implementation incremental, and therefore subject to mid-course correction, or are Program components so comprehensive and tightly integrated a package that they cannot be implemented separately?

These three dimensions--the reversibility of program effects, the functional redundancy of program resources, and the incremental or comprehensive nature of the program components--have been used to analyze program and policy choices. Reproduced below is one analysis that has remarkable overlap with the Program components under investigation in this report:

POLICY MAKING STRATEGY

EFFECT OF POLICY		INCREMENTAL: REVERSIBLE	INCREMENTAL: IRREVERSIBLE	COMPREHENSIVE: REVERSIBLE	COMPREHENSIVE: IRREVERSIBLE
FACTOR OF POLICY REDUNDANCY	FUNCTIONAL	Tax Policies OGIL	Energy Resource Depletion Serviced Stands	Community Mental Health Planning Environmental Protection	New Town Development Low-Cost Estates Large Scale Urban Renewal
	DYSFUNCTIONAL OR ABSENT	Interest Rate Adjustments	Public Works Investments		Bldg. Stds. Metropolitan Mass Transit and Land-Use Planning

Source: LaPorte, 1975

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surveying of stands. Measures to address this bottleneck are discussed in Program's technical report on land and shelter delivery.

One constraint has yet to be mentioned, and it is one the Program can do absolutely nothing about. Not once in the interviews undertaken for this report did any of the interviewees mention the root cause of the housing and shelter shortage in Zimbabwe, namely, the high rate of urbanization fueled by the lack of a coherent GOZ policy for rural development. All over the world people are being pulled off the land by the promise of cities. What is different about Zimbabwe is that people are not only being pulled from, they are being actively pushed out of, the countryside. This is not just because of the drought. The reason why people can't find low-cost housing in Harare is that the GOZ has found few ways of productively housing them in the communal areas.

Feasibility Assessment.

The Program components of expanding OGIL, increasing the liquidity of building societies, and rationalizing building, site and construction codes are institutionally feasible. With few exceptions, the organizations, units and positions most instrumental to Program success are willing and able to undertake the Program's proposed changes. There are caveats, qualifications and recommendations discussed below, but the overall conclusion deserves to be stated at the outset: The four key incentives working for the Program--the 1995 elections, the amplifying affordability crisis, the drought and the extraordinarily wide consensus over Program components--outweigh the disincentives mentioned earlier.

To reach this conclusion requires several steps from the general to the specific. First, we discuss the likely effects of Zimbabwe's increasing resource scarcity on the Program's key stakeholders. Thereafter the variety of different factors arguing for the Program's focus on the serviced plot with a lighter superstructure are enumerated. Last, the likely responses of specific stakeholders to each Program components are outlined in the form of a matrix.

<u>Scarcity and Institutional Response.</u>

Earlier the report identified the major differences between the public and private stakeholders. Just how does resource

scarcity affect these differences? What evidence we have[11] suggests the following:

1. Most obviously, in circumstances of increasing resource scarcity, public organizations find it more and more difficult to realize their core tasks, let alone their goals. For example, a Registrar of Building Societies who had difficulty earlier in seeking to amend the law so that building societies can become developers will have even more difficulty now in meeting any Conditions Precedent that require her to make further legal changes, should these be deemed necessary under the Program.

2. In circumstances of increasing resource scarcity, the pressure on the public organization is to expand their activities to meet greater public needs, but the organization's actual response will be to constrict their activities and fall back on the minimum that it takes for them to survive. Thus, precisely at the moment MPCNH is under more pressure than ever before to promulgate new policy guidelines for low-cost housing construction, it says local authorities should take more of a lead in this area.

The private sector firm, on the other hand, will under similar circumstances diversify its activities in order to find a way to overcome that scarcity.

In practice these differences between public and private sector responses to resource scarcity mean that the failure to expand activities is less fatal to a public organization than to a private one. The RBZ, for example, finds its failure to raise mortgage rates considerably less harmful to its institutional survival than would building societies if they were making the same decision.

For the purposes of Program design this means capitalizing on factors that do not allow the ministries to constrict or otherwise delay those activities essential to the success of the Program. Clearly the election, affordability criteria and drought are just such factors.

2. In circumstances of increasing resource scarcity, public organizations will fall back on what they see they do best and have had most success at technically. Thus, it is not surprising that senior officials, both in MPCNH and the Harare City Council, see the short-term answer to low-cost housing to be what they have been best able to do in the past by way of

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[11] For example, Barry Bozeman and E. Allen Slusher (1979), Scarcity and Environmental Stress in Public Organizations," Administration and Society, Vol. 11, No. 3.

their activities around what they think they can do best. In practical terms, this means a Program focus that is based on the serviced stand will have growing support within the GOZ. In fact, the institutional feasibility of any legal low-cost housing project in Zimbabwe can be measured by how far it deviates from the serviced stand: A project focused at the front-end, say, in revising the eligibility criteria for local authority waiting lists, or at the back-end, say, in devising new materials and technologies for constructing the four-room core, is considerably less feasible than a project that centers around servicing the stand and constructing a minimum of superstructure. This latter objective is precisely the focus of the proposed Program.

It is worth enumerating here the variety of reasons that support such a focus:

- As just mentioned, the serviced stand is something the authorities, both central and local, have considerable experience in providing, and by and large they do that provision well. Local authorities say they want the stands, and these are what the NHF have been financing for some time. Because the stand is much cheaper than a full-fledged dwelling unit, more of them can be provided as well. Indeed, the stand is the basic building block of housing projects.

- The serviced stand offers the household the maximum opportunity to build and use the house the way it wants. Some 90% of USAID surveyed households recently said they would rather own their own individual serviced plots than share a large 4-roomed house with another family, for example.

- Focusing on the serviced stand, instead of stand plus four-room core, improves dramatically the above-mentioned conditional probability that something will actually get done the way it was designed originally.

- The serviced stand is popular with low-income households, as demonstrated in Kuwadzana.

- A Program focus on servicing stands fits in well with the current GOZ policy of homeownership and aided self help.

- At present few, if any, serviced stands are available from some local authorities, e.g., from Harare City Council. For many local authorities, the lack of serviced stands is the first limiting factor to low- cost housing provision.

- By centering its activities around serviced stands, the Program also focuses on those areas where great cost

construction, that is, to provide the infrastructure necessary for serviced stands. Such fallback behavior reinforces the pressure to constrict activities and be less responsive to future pressures from the outside to innovate. A program that, for example, enables the GOZ to provide serviced stands more successfully than ever before will find GOZ officials less willing later to innovate in the superstructure area than they now are. Considerations of superstructure are currently moot, however, since anything more than a serviced stand with toilet and one-room slab is scarcely affordable for most low-income households.

3. In circumstances of increasing resource scarcity, public organizations will become more formalized, centralized and habitual. Not only is it the case, as we saw earlier, that the more constrained a public organization is--the fewer resources it has to do what it wants--the more discretionary authority is pushed to the top. Senior officials also become more confirmed in their routine decisionmaking. Where crisis forces many in the private sector to innovate, the same crisis ratifies officials' belief that government is needed now more than ever. Thus, from the perspective of Program designers, the affordability crisis argues for a much more central role for the private sector in low-cost housing provision. From the perspective of senior MPCNH officials, the current crisis simply reinforces the MPCNH view that it must play an even more important and leading role in low-cost housing provision.

The cumulative effect of these considerations must be faced. Clearly, there is the consensus that something must be done to improve low-cost housing provision by way of private sector involvement. Clearly, there is a revitalized and demonstrated willingness on the part of GOZ officials to rethink old policy and directive in this area. Yet there is danger of misinterpretation here. What this consensus and willingness may simply indicate is that an increasingly influential, but smaller and more hierarchical, circle of GOZ decisionmakers is more determined than ever before that it knows what is best for Zimbabwe's low-cost housing sector. Fortunately for the Program, both USAID and GOZ decisionmakers are in agreement over what needs to be done. A different program designed three years from now might not be so lucky. Certainly, if there was ever an ideal time for shifting to a private sector focus in low-cost housing provision, now is that time and this is the Program that provides the opportunity.

The Serviced Stand with Minimum Superstructure.

Since conditions of resource scarcity are not likely to improve dramatically until well within the Program period, central and local authorities can be expected to continue tightening up

savings can be realized, e.g., roads and plot size.

- Last but not least, serviced stands are something employers, and through them building societies, are willing to help pay for in order to retain staff.

Some caveats are in order. Even with a focus on serviced stands with minimal superstructure, we should expect some Program-generated effects that work against achieving this aim. The effects follow not from the aim, but from the overall private-sector orientation of the Program. They can be effectively addressed in Program design (see Recommendations) and are in no way reasons for modifying the Program's private sector focus. But they must be recognized and dealt with up-front in the design stage if they are not to be problems later on in Program implementation.

- First, it is likely that, other things being equal, the actual amount of administration and paperwork will increase, not decrease, under the Program when compared to the earlier USAID housing project. Under the Program, there are more key actors, their working environment is much more turbulent, and their need for communication and feedback necessarily greater. Organizations operating under such conditions almost always develop more elaborate administrative structures and procedures.

- Second, it is likely that, other things being equal, the new Program will increase, not decrease, pressure within some segments of the GOZ to regulate the housing sector, whether or not the Program succeeds in building more stands and units. Several reasons account for this:

  (i) Since the core of the Program is to bring together those who are basically strangers to one another (i.e., households, contractors and building societies), the pressure will increase for standardization, certification and formal rules to ensure that those who do not know each other can nonetheless work together confidently for the purposes of financial transactions.

  (iii) Rationalizing and deregulating building, construction and site standards will increase the inspectorate needs to ensure that these new standards are enforced. Whereas the contractor could skimp a little when building a 9" wall, a standard 4 1/2" wall means he or she can't afford to skimp, otherwise the whole superstructure might come down as a result. Inspection matters more, not less, when standards are relaxed. On the positive side, Zimbabwe's local and central government inspection systems for monitoring

housing construction have been among the more successful ones in Subsaharan Africa.

For these reasons, it is likely there will be counter-pressures from some (though by no means most) government departments to increase standards or regulations, contra the Program objective to reduce them, unless pre-emptive action is taken in Program design, as discussed in the Recommendations below.

Stakeholder Matrix.

Each Program component entails a set of actions to be undertaken by organizations, units and positions key to meeting the Program's Conditions Precedent and to making the Program a success. An assessment of each stakeholder's response to these requirements is set out below, where "+" indicates an overall positive response, "+/-" a mixed response, "?" a response unknown at the time of writing (March 17, 1992), with "N/A" indicating not-applicable.

	OGIL Expansion	Bldg.Soc. Liquidity	Bldg.Stds. Rationalization
MPCNH/ Bldg.Contractors	+	+	+
MLGRUD/ Loc.Authorities.	+	+	+/-
MIC	?	N/A	N/A
Bldg.Societies	+	+	+/?
MEEPD	+	?	N/A
RBZ	?	?	N/A

The details for each of these overall responses are as follows:

MPCNH/Building Contractors. They are in the forefront of seeking the changes proposed in the Program. A Cabinet reshuffle that led, e.g., to consolidating MPCNH and MPCNH, would cause some operational hiccups, but would not dilute the basic positive direction of MPCNH support, and the backing of CIFOZ/ZBCA for such changes.

MLGRUD/Local Authorities. They see cost-savings in infrastructure and superstructure from having cheaper and more readily available building supplies through an expanded OGIL. More building society liquidity means local authority waiting lists can start moving more rapidly once again. While many in MLGRUD and the local authorities are in favor of code rationalization, it must be recognized there are still some councilors and officials who want standards kept as they are. Their numbers can be expected to dwindle as the election approaches.

MIC. It is probable that the Ministry of Industry and Commerce will sign-off on the OGIL expansion, but the inability of MIC officials to meet with members of USAID and the design team on the matter must leave it open for the moment.

Building Societies. Obviously proponents of their own liquidity, they also see the need for a cheaper dwelling unit to lend on. If OGIL-induced containment of construction costs can be realized, all well and good from the perspective of building societies. As for building code rationalization, the general manager of CABS (again, the largest portfolio holder of high-density mortgages among the three building societies) has indicated his acceptance of lending for a serviced stand of reduced plot size with toilet and one-room slab. Founders, the smallest building society and thought to be the most conservative, may take more convincing.

MFEPD/RBZ. An official in Treasury's exchange control division has given the nod in principle to using the restricted and unrestricted features of OGIL to increase the private sector's construction capacity, including that for low-cost housing. While the MFEPD is committed to improving the liquidity of building societies, it is too early to say whether Treasury will sign-off on the Program's specific mechanism for increasing that liquidity. Similarly, it is too early to say what the RBZ responses will be to the specific OGIL expansion and liquidity components of the Program. In more general terms, the RBZ, as with MFEPD, seeks to ensure that building societies remain liquid and that OGIL continue to expand.

Recommendations, Implementation Timing and Phasing.

The report has identified several problems and disincentives that require attention if Program performance is to be assured. Some can be dealt with administratively through the Program's proposed Coordinating Committee, others must be addressed through a Conditions Precedent.

The most important task of a Program Coordinating Committee, chaired by the USAID director, would be for stakeholders to come to some kind of agreement over how to tackle the Program's evolving problems. Ongoing attention would consequently have to be given to ensuring that the Program's monitoring and evaluation mechanisms evolve along with the problems. One potential problem area will be the changing fortunes in building society liquidity over the course of the Program. The expectation is that the RBZ will be in a better position by the end of 1993 to do something about the current mortgage rate structure of building societies. New ideas and mechanism may be required by that time, and the Committee may well have to take a lead in generating those ideas.

Overall, though, the committee's guidance should center around meetings, workshops, and planning/review sessions. Such a focus would ensure interorganizational communication (by facilitating feedback) and would cut down on the administrative reporting, documents and other paperwork requirements induced by the Program. The underlying premise of such a committee must be straightforward: In an environment as complex and uncertain as Zimbabwe's housing market, KEEP THE PROGRAM SIMPLE.

In addition to minimizing the Program's administrative requirements, its coordinating committee must monitor any Program-related pressures to re-regulate the housing sector. The one area that could well engender renewed regulatory pressures is the lack of a transparent mechanism to ensure that what was gets into the country through Program-induced OGIL expansion actually goes to increase the stock of low-cost housing. These pressures must be foreseen and resisted by the coordinating committee. It will need to make continually clear that the Program's core task is not one of being able to say that imported cement mixer produced those low-cost units, but rather one of showing how increased OGIL imports can lead over time to a more affordable superstructure. Indeed, it is only through the OGIL expansion, complemented by standards rationalization, that Zimbabwe's institutionally diverse housing sector stands a chance of ever coming up with a legal superstructure that low-income households can afford to live in.

From an institutional viewpoint, the Program's most important Conditions Precedent would be one to ensure a GOZ mechanism is set up to review and, where necessary, change building, construction and site standards in a regular and timely fashion. Too much can go wrong, and has in the past, by not systematically addressing inappropriate standards. Nothing so risks the sustainability of Program changes once the Program ends than the currently open-ended process of ad-hoc consensus building in the area of standards.

The expectation of USAID/Harare is that the Program Agreement between the two governments will be signed by or on July 15, 1992. Establishing the Program Coordinating Committee, and staffing it, should be the first priority.

Appendix I: Methods

A literature search and key informant interviews provided the basis of the report. The literature search was two-pronged. Articles and books on organization theory were first reviewed in order to cull empirical generalizations about the likely behavior of public and private organizations under the kind of resource stress Zimbabwe is currently facing. Second, specific literature was canvassed for information on the Program's key stakeholders. Here USAID files and archives, University of Zimbabwe departments and staff, and the files of other team consultants were useful. Zimbabwe's Financial Gazette proved to be a mine of information.

Key informants were identified both in consultation with USAID/Harare staff and through referrals made in the course of each interview.

Appendix II: List of People Contacted

O.M. Chidawu, President, Zimbabwe Building Contractors' Association (ZBCA).

M. Mozondo, Chief Executive, ZBCA.

K.G. Butterfield, President, Construction Industry Federation of Zimbabwe (CIFOZ).

B. Brunette, Chief Executive, CIFOZ.

M. Sanders, President, National Property Association.

G. Hollick, General Manager, Central African Building Society.

Terry Conway, General Manager, Founders Building Society.

G. Burmester, General Manager, Beverley Building Society, and head of the Building Societies Association.

F. Nhema, one of founding members of Zimbabwe Building Society.

D. Phillips, Assistant General Manager (Mortgages), Founders.

P.M. Kodzwa, Permanent Secretary, Ministry of Public Construction and Housing (MPCNH).

E. Tafangombe, Under Secretary for Strategic Planning, MPCNH.

I. Mberengwa, Assistant Secretary for Strategic Planning, MPCNH.

A.D. Binga, Chief Executive Officer, MPCNH.

S.V. Vushe, Under Secretary for Finance, MPCNH.

A.D. Mashanyare, Under Secretary (Public Sector Expenditure), Ministry of Finance, Economic Planning and Development (MFEPD).

W.C. Moyo, Under Secretary (Public Sector Expenditure), MFEPD.

Tony Wilson, architect with private Harare firm.

P. Mbiriri, Deputy Director (Urban Planning), Ministry of Local Government, Rural and Urban Development (MLGRUD).

Messrs. Masanzu, Dumba, Chitiyo and Sharpe, Harare City Council (Deputy Director/Housing, Assistant Director/Housing, Senior Administrative Officer, Assistant Director/District Administration, respectively).

D. Gonda, Managing Director, Chitungwiza Building Contractors.

I. Mapgonga, Managing Director, ISM contractors.

E. Mavhudzi, foreman, Source Construction.

Messrs. Mapondera and Burre, Mid-Tech Construction (supervisor and foreman, respectively).

L. McKay, Deputy Resident Representative & Senior Economist, World Bank Mission to Zimbabwe.

S. Malaba, Head/Economics, Reserve Bank of Zimbabwe.

J. Moyo, Permanent Secretary, Ministry of Labour, Manpower Planning and Social Welfare.

D. Matawu, Deputy Town Clerk, Gweru Town Council.

F.G. Chitambira, Director of Housing and Community Services, Gweru Town Council.

M. Kasunguma, Director of Engineering Services, Gweru Town Council.

P. Dumba, Treasurer, Marondera Town Council.

S.P. Chiduza, Director of Engineering Services, Marondera Town Council.

H. Makombe, Director of Community Services, Marondera Town Council.

M.P. Kaviya, Budget Controller, MLGRUD.

D.M. Mandaza, Deputy Secretary (Finance), MLGRUD.

B. Sibanda, Director, World Vision International.

H.A. Mushonga, Managing Director, Source Construction.