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FD-AAA-96
DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

DEVELOPMENT GUARANTY PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

ETHIOPIA - DEVELOPMENT CORPORATION INTERNATIONAL

AID-DLC/P-484

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AID-DLC
Review and Control
Room 1001 NS

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-484
October 21, 1966

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Ethiopia - Development Corporation International

Attached for your review are the recommendations for authorization of a guaranty in an amount not to exceed \$5,000,000 assuring against loss of any loan investment by Bankers Life Company, Des Moines, Iowa, and Fidelity Mutual Life Insurance Company, Philadelphia, Pennsylvania ("Investors") for the purpose of providing long-term financing of a private housing project in Addis Ababa, Ethiopia.

This guaranty proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Friday, October 28, 1966.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
Memorandum for the DLC
Summary and Recommendations
Exhibits I-VII

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Memorandum for the Development Loan Committee

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October 21, 1966

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MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

Subject: Housing Guaranty Project No. 663-HG-002 Ethiopia

I. PROBLEM

Authorization of issuance of a Housing Guaranty in the amount of \$5,000,000 in the city of Addis Ababa, Ethiopia.

II. SUMMARY OF PROJECT CHARACTERISTICS

1. Sponsor: Development Corporation International of Boston, Massachusetts.
2. Builder: A to-be-formed subsidiary of Development Corporation International.
3. Location: Addis Ababa, Ethiopia.
4. Investor: Bankers Life Insurance Company, Des Moines, Iowa
Fidelity Mutual Life Insurance Company, Philadelphia, Pa.
Rates: 5 3/4 percent for 20 years.
5. Administrator: The Imperial Savings and Home Ownership Public Association of Addis Ababa, Ethiopia.
6. Amount of Guaranty: Not to exceed \$5,000,000.
7. Mortgage Financing: 7 3/4 percent for 20 years and 10 percent downpayment.
8. Number of Units: 740 detached and semi-detached one-story single family dwelling units.
9. Price Range: \$6,897 to \$8,976.
10. Construction Financing: The sponsor has been previously unable to obtain a suitable commitment for construction financing. A condition that the sponsor submit to A.I.D. acceptable assurance from a lending institution that it will supply the required construction financing, indicating the amount, term, and interest rate is made a part of this guaranty recommendation.

Attached for your information are the FHA Analysis and Recommendation dated October 14 (Exhibit I), a Statutory Check List (Exhibit II), draft of Guaranty Authorization (Exhibit III), Housing Market Data (Exhibit IV), Draft Letter of Advice (Exhibit V), A.I.D. Desk, USAID, and host country endorsement of project (Exhibit VI), and Letter of Reservation (Exhibit VII).

III. DISCUSSION

1. The Development Corporation International of Boston, Massachusetts, submitted an application to A.I.D. dated April 9, 1965, for an investment guaranty on a housing project to be built in Addis Ababa, Ethiopia. FHA, based on preliminary analysis and review of the documentation, recommended that A.I.D. issue a Letter of Reservation. Upon issuance of the Letter of Reservation, the Sponsor was requested to submit additional information necessary to conduct an intensive review of the proposal.

FHA has completed its review of the additional documentation of the proposed housing project submitted by the Sponsor and has recommended approval of the project.

2. The USAID Ethiopia and host government have indicated their support of the project. On the basis of our review of the recommendations contained in the FHA Report of October 14, 1966, and the related documentation we find the proposed housing project sound and feasible.

IV. RECOMMENDATION

1. The project, upon completion, will provide badly needed housing for middle income families in Ethiopia, for whom little housing is presently available. It is recommended that the project be approved subject to the conditions set forth in Exhibit V, Draft Letter to the Investor.

Clearance: NRVander Clute, Director, AFR/PE

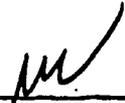


EXHIBIT I

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D.C. 20411

October 14, 1966

Mr. Norman R. Vander Clute
Office of Private Enterprise
Bureau for Africa
Agency for International Development
Washington, D. C.

Re: Case Number 663-HG-002
Addis Ababa, Ethiopia

Dear Mr. Vander Clute:

Pursuant to the amended Foreign Assistance Act of 1961, the Development Corporation International, Boston, Massachusetts, filed with the Agency for International Development an application for an investment guaranty on a housing project to be built in Addis Ababa, Ethiopia. On April 9, 1965, this application was submitted to the International Division of FHA for a feasibility review.

On the basis of this review, on August 18, 1965, FHA advised AID that it had completed its preliminary review of the application and recommended that AID issue a Letter of Reservation to the sponsor. Upon issuance of the Letter of Reservation on October 18, 1965, FHA requested from the sponsor the additional information necessary to conduct an intensive review of the proposal. We have completed our review and submit for your consideration the enclosed guaranty paper which presents our findings and recommendations for approval of this project.

Sincerely yours,

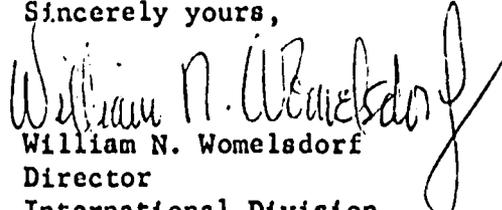

William N. Womelsdorf
Director
International Division

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SUMMARY, RECOMMENDATIONS AND CONDITIONS

A. SUMMARY

1. **INVESTORS:** Bankers Life Company, Des Moines, Iowa; Fidelity Mutual Life Insurance Company, Philadelphia, Pennsylvania.
2. **BUILDERS:** Development Corporation International Boston, Massachusetts.
3. **AMOUNT OF GUARANTY:** Not to exceed \$5,000,000.
4. **PURPOSE:** To guaranty the principal of loans by the investors for the construction of a private housing project located in Addis Ababa, Ethiopia.
5. **PROJECT DESCRIPTION:** The proposed housing development will consist of 740 detached and semi-detached 1-story single family dwelling units in Addis Ababa. The recommended selling prices range from \$6,897 to \$8,976. Purchases of the houses will be financed with 20-year mortgages and will require downpayments of 10 percent of the selling prices. The proposed interest rate for the long-term financing is 5 3/4 percent.

B. RECOMMENDATIONS:

Based on its review of the proposal, the Federal Housing Administration recommends that the Agency for International Development, pursuant to Section 221 of the Foreign Assistance Act, enter into a contract with the investors to guaranty 20-year loans in an amount not to exceed \$5,000,000 subject to the following conditions.

C. CONDITIONS:

That the sponsor-builder will:

1. Submit to AID acceptable assurance from the Ethiopian Government that it will guaranty the repayment in dollars of the dollar denominated loan made by the U. S. investor.
2. Submit to AID acceptable assurance from a lending institution that it will supply the required construction financing, indicating the amount, term, and interest rate.
3. Submit to AID an acceptable plan for a Property Owners Association, or an appropriate agreement with the city of Addis Ababa, that will assure the rights of the home owners in the project the unrestricted use of the proposed sewerage disposal system and provide for the proper maintenance and regulation thereof.

4. Acceptable assurance that adequate temporary school facilities will be made available to serve the estimated primary school population of the development until such time as permanent facilities are available.
5. Acceptable assurance that adequate neighborhood shopping facilities will be available to the initial occupants of the project.
6. Not begin construction of the houses or urbanization prior to specific authorization by AID.
7. Submit final drawings and specifications deemed necessary by FHA and acceptable to AID for contract purposes.

SECTION I - GENERAL PROJECT CHARACTERISTICS

A. General Description of the Project

The proposed project will consist of a subdivision containing approximately 77 acres situated in the BOLE DISTRICT of the city of Addis Ababa, approximately 3 1/2 miles from the principal commercial and governmental district of the city. Access to the site will be provided by the existing 4-lane Airport Highway and a proposed paved road running approximately one quarter mile from the Airport Highway to the site. The project will be located in the path of growth of the Addis Ababa metropolitan area.

The project will contain 740 detached 1-story single dwelling units with areas in the subdivision reserved for commercial, recreational and educational purposes. The development will be serviced by all the necessary utilities and facilities. Water for the proposed project will be supplied through the facilities of the Water Supply Administration of the municipality of Addis Ababa. In as much as there is no public sewage disposal system in Addis Ababa, a community sewage collector system and a sewage disposal facility is proposed to be installed to service this project. Electricity for public lighting and domestic service will be supplied by the Ethiopian Electric Light and Power Authority.

The recommended selling prices of the proposed houses range from \$6,897 to \$8,976. Purchases of the houses will be financed with 20-year mortgages and will require downpayments of 10 percent of the selling prices. The total of the estimated selling prices of the houses in the project is \$5,383,180. The estimated total amounts of mortgages, subject to AID guaranty, is \$4,844,580. The sponsor anticipates that the Ethiopian Government will guaranty the US dollar denominated long-term loan.

The application for guaranty in this project was prepared and submitted to AID by Mr. Haim S. Eliachar, President and Treasurer of the sponsor corporation, Development Corporation International (DCI), a Delaware Corporation. DCI has had much experience in the development, construction, sale, and financing of low cost housing in foreign countries. The capabilities of this corporation are well known to AID. DCI is the sponsor of a \$5,500,000 housing project in Lima, Peru, now in the final stages of completion under a Housing Guaranty Agreement with Bureau for Latin America.

B. Pilot Demonstration Features

This project will provide an excellent demonstration of how the requirements of a heretofore inadequately served income group can be satisfied through the introduction of long-term mortgages and small downpayments to finance the sales of houses in a housing project.

SECTION II - FINANCIAL ASPECTS

A. Guaranteed Investment

The proposed \$5,000,000, 20-year, 5 3/4 percent loan to be guaranteed by AID will be made jointly by the Bankers Life Company, Des Moines, Iowa, and the Fidelity Mutual Life Insurance Company, Philadelphia, Pennsylvania, to a local subsidiary to be formed by the Development Corporation International (DCI). The loan will be evidenced by the issuance of promissory notes and be secured by first mortgages held by the administrator. It is anticipated that the Government of Ethiopia will guaranty the U. S. dollar denominated loan. A proposal from the Imperial Ethiopian Government for such a guaranty has not been submitted by the sponsor. A condition that such a proposal, satisfactory to AID, be submitted is made a part of this guaranty recommendation.

AID will receive a fee of one percent per annum of the unpaid balance of mortgages held by the administrator. This fee is consistent with AID policy regarding guaranty fees to be charged when the host government guaranty is a full faith and credit obligation in U. S. dollars.

The U. S. dollar loan by the investor will be repayable in U. S. dollars in the United States by the administrator from Ethiopian dollars accumulated from monthly mortgage payments. A maintenance of value reserve fund is not required for this project providing the Imperial Ethiopian Government is prepared to guaranty the U. S. dollar denominated loan.

B. Administrator

The Imperial Savings and Home Ownership Public Association of Addis Ababa, Ethiopia, has indicated in writing its willingness to act as administrator for the proposed project. The Association was created by Charter in 1963 as a building society for the purpose of encouraging thrift and providing funds at reasonable rates of interest to promote home ownership. It is a governmental institution with incorporators appointed by the Emperor. The Association as of January 1966 reported 1,368 depositors and 72 home mortgage loans totaling \$543,000. Our field inspection revealed that the Association has the respect and confidence of the Imperial Ethiopian Government and the general public, and that its leadership is aggressive and sound. We believe that the Association, which is AID sponsored, is capable of performing the functions of administrator for the proposed project.

C. Interim Financing

The sponsor has been unable to obtain a suitable commitment for construction financing. A condition that the sponsor submit to AID acceptable assurance from a lending institution that it will supply the required construction financing, indicating the amount, term, and interest rate is made a part of this guaranty recommendation.

D. Downpayments

Downpayments will be required in the amount of 10 percent of the purchase price, and will be held in an escrow account by the administrator during the construction period.

E. Breakdown of Average Sales Prices, Closing Costs and Monthly Payments

The sponsor's proposed sales prices for each type of house are as follows: Forty units of Type A, \$8823; 80 units of Type B, \$8597; 180 units of Type C, \$7403; 440 units of Type D, \$7241, representing an aggregate total project sales price of \$5,559,596.

The sales prices shown below are those recommended by FHA based on our review of the plans, specifications and analysis of replacement cost.

1. Project Total (740 houses)

Sales Prices	\$5,383,180
Downpayments	538,600
Mortgage Amount	4,844,580
Amount of U. S. Guaranty (Maximum)	\$5,000,000

2. Individual Houses

	<u>Type A</u>	<u>Type B</u>	<u>Type C</u>	<u>Type D</u>
Sales Prices	\$8,976	\$8,549	\$7,253	\$6,897
Downpayment (10%)	898	855	726	690
Mortgage Amount	8,078	7,694	6,527	6,207
Number of Houses per Type	40	80	180	440

3. Approximate Schedule of Typical Closing Charges to Individual Purchasers

	<u>Type A</u>	<u>Type B</u>	<u>Type C</u>	<u>Type D</u>
Initial Administrator's Fee (1.5% of Mortgage Amount)	\$121.17	\$115.41	\$ 97.91	\$ 93.11
Transfer of Title (.000685 of Mortgage Amount)	5.53	5.27	4.47	4.25
Recording Deed (.000685 of Mortgage Amount)	5.53	5.27	4.47	4.25
Reserve for Default Fund	80.78	76.94	65.27	62.07
Real Estate Taxes (one year in advance)	.40	.40	.40	.40
Hazard Insurance (one year in advance)	28.27	26.93	22.84	21.72
Revenue Stamps (.0025 of original mortgage)	20.20	19.24	16.32	15.52
Recording Mortgage (.00075 of original mortgage)	6.06	5.77	4.90	4.66
Total Approx. Closing Costs	\$267.94	\$255.23	\$216.58	\$205.98

4. Monthly Payment (20 year mortgage term)

Composite Interest Rate:

Mortgage Interest	5.75%
AID Fee	<u>1.00%</u>
	6.75%

	<u>Type A</u>	<u>Type B</u>	<u>Type C</u>	<u>Type D</u>
Average Mortgage Amount	\$8,078	\$7,694	\$6,527	\$6,207
Monthly Payment Based on Composite Interest Rate of 6.75%	\$61.43	\$58.51	\$49.63	\$47.20
Administrator's Fee (0.75% of the monthly payment based on the composite interest rate of 6.75%)	.46	.44	.37	.35
Hazard Insurance Premium (\$3.50 annually per \$1,000 of original mortgage amount)	2.36	2.25	1.91	1.81
Real Estate Taxes (\$0.40 annually, on land only)	.04	.04	.04	.04
Reserve for Default Fund (0.75% annually on the average unpaid mortgage balance of the first year)	4.99	4.76	4.03	3.84
Exchange Commission (0.75% of the monthly remittance of interest, principal and AID fee)	.46	.44	.37	.35
Transfer of Funds Charge (1% of the monthly remittance of interest, principal and AID fee)	.61	.59	.50	.47
Monthly Payment First Year	<u>\$70.35</u>	<u>\$67.03</u>	<u>\$56.85</u>	<u>\$54.06</u>

F. Comments on Financial Charges

We have been advised that the Government of Ethiopia will not make a charge for the dollar guaranty.

The charge for the Reserve for Default Fund will continue until the equivalent of four monthly payments to interest, principal, fees, etc., have accrued.

G. Market

An analysis of the available statistics and other information pertaining to the housing supply in Addis Ababa, and to the incomes of the residents, indicates there is an adequate and active demand for the 740 houses proposed to be built in this project.

Addis Ababa, with its present population of 493,000, will have an estimated 542,000 inhabitants by 1968 based upon its present rate of annual growth of 3.2 percent. It is estimated that there is a current need for 10,660 houses of the type proposed for this project and there is the assurance that

there are a substantial number of potential purchasers with sufficient incomes to buy the houses. With the improving economy in Addis Ababa and the increasing population the housing deficit can only increase.

The long range outlook for the economy in Addis Ababa is considered good. Addis Ababa is the largest city in Ethiopia and the center of government. While the country as a whole is probably 98 percent agricultural, the principal offices of exporters and importers, banking institutions, business and professional organizations, diplomatic missions, and a small amount of industry represent the economic base of the city. The Ethiopian Airlines, with excellent servicing facilities, also contributes substantially to the economic infrastructure of Addis Ababa. A more detailed and comprehensive discussion of the adequacy of the market in Addis Ababa is set forth in our Feasibility Recommendation of August 18, 1965.

H. Sales Plan

The sponsor proposes a coordinated sales and promotion campaign. Houses will be constructed in groups of 70 to 100 and pre-sold from models. The sponsor corporation will maintain its own sales force.

SECTION III - TECHNICAL ASPECTS

A. Site

The proposed Addis Ababa project, containing approximately 77 acres of undeveloped land is situated in the Bole District of the southeast section of Addis Ababa, about 3½ miles from the central commercial and governmental districts of the city, and about one-half mile north from the Haile Selassie I International Airport.

The site is approximately rectangular in shape and is bounded by open country on all sides. Its northwest corner is approximately 300 meters from the existing four-lane Airport Highway. Direct access to the site will be provided from the highway by means of a paved road.

Topographic conditions are such that surface drainage should present only minor problems. The land has a uniform slope in a northwest-southeast direction and drains into an existing ditch east of the tract. The soil and subsoil conditions, consisting of approximately two meters of black cotton or gumbo soil overlaying approximately 1.50 meters of the same material with some small sandy pockets. Subsequent substratas consists of clay, silt, sand and vacular trachyte. This type of soil is normally impervious, gummy and expansive, with a tendency to form large and deep cracks when dry. Consequently, this soil condition requires special sub-base design for streets, as well as special considerations for building foundations.

There is an existing water supply line to the airport. Assurance has been obtained from local authorities that two additional mains will be available and in operation before initiation of construction.

Electric power for public lighting and domestic service is available through the recently completed hydroelectric plant facilities of the Ethiopian Electric Light and Power Authority.

Telephone service is available to the proposed project through the facilities of the Imperial Board of Telecommunications of Ethiopia.

Public transportation to the principal shopping and employment areas of the city is available at reasonable rates, \$0.06.

The existing primary school facilities are not adequate to absorb the increase in school population which will be created by the project. The Ministry of Education has indicated that the construction of primary schools is the responsibility of the community. Land for this purpose has been provided. The sponsor has not complied with the condition of AID's Letter of Reservation with respect to provisions for temporary school facilities. The condition that acceptable assurance that adequate temporary school facilities will be made available to serve the estimated primary school population of the development until such time as permanent facilities are available is made a part of this guaranty recommendation.

No shopping facilities exist within a radius of seven kilometers of the proposed site. The sponsor has not complied with the condition of AID's Letter of Reservation with respect to provisions for neighborhood shopping facilities. The condition that acceptable assurance that adequate neighborhood shopping facilities will be available to the initial occupants of the project is made a part of this guaranty recommendation.

B. Urbanization

The proposed street layout consists of four secondary streets connected to a ring collector street, which joins the access road leading to the Airport Highway at the northwest corner of the site. The street pattern forms trapezoidal blocks. The blocks are subdivided by cul de sacs and walks with the housing units arranged in a cluster pattern. Each unit abuts on a street or walkway, and allowances are made for open areas for school, parks, commercial and public facilities. A suitable number of parking spaces are provided for the houses abutting on walkways or footpaths. All the streets will be paved.

The public water supply system will consist of a looped distribution system. An elevated water tank, fed by a city water main will provide adequate pressure. Fire hydrants will be installed at reasonable and regulated intervals as required by local regulations. The system is considered suitable for the proposed development.

A gravity flow, community sanitary sewer system, with an off-site treatment facility is proposed by the sponsor. Exhibits submitted indicate that the system will adequately serve the project. The condition that the sponsor submit to AID an acceptable plan for a Property Owners Association, or an appropriate agreement with the city of Addis Ababa, that will assure the rights of the home owners in the project the unrestricted use of the proposed sewerage disposal system and provide for the proper maintenance and regulation thereof is made a part of this guaranty recommendation.

The proposed storm drainage system is considered satisfactory.

The proposed public and domestic electrical distribution system is considered satisfactory.

C. Unit Types and Construction

The sponsor proposes to construct 740 detached and semidetached, one-story, single-family dwellings. The following table shows the number of each unit type, the number of bedrooms and area of each dwelling type, the related lot area, and the proposed selling price of each house on a typical lot.

<u>House Type</u>	<u>No. of Bedrooms</u>	<u>No. of Units</u>	<u>Building Area</u>	<u>Lot Area</u>	<u>Selling Price of House & Lot</u>
A (det)	3	40	77.6	265.6	\$8,976
B (semidet)	3	80	77.4	233.6	8,549
C (det)	2	180	64.8	224	7,253
D (semidet)	2	440	64.4	199.2	6,897

The type A unit will be a detached house with a living room, three bedrooms, kitchen with dining space, bathroom with shower unit, an outside precast laundry tray at the rear, and a covered entry.

The type B unit will be a semidetached house with a living room, three bedrooms, kitchen with dining space, bathroom with shower unit, an outside precast laundry tray at the rear, and a covered entry.

The type C unit will be a detached house with a living room, two bedrooms, kitchen with dining space, bathroom with shower unit, and a precast concrete laundry tray at the rear.

The type D unit will be a semidetached house with a living room, two bedrooms, kitchen with dining space, bathroom with shower unit, and a precast concrete laundry tub at the rear.

The structural system is to be a reinforced concrete frame consisting of horizontal tie beams and vertical wall ties on a heavily reinforced raft type foundation and floor, designed especially for prevailing soil conditions. The finished floor will be cement tiles with cement tile baseboard. Interior and exterior walls will be hollow concrete block finished on the exterior with a colored stucco and the interior walls with plaster. The ceiling throughout is to be whitewashed chipboard. The roof will be timber trusses with galvanized iron roofing.

The plumbing installation and fixtures are considered adequate.

The layout of the units, method of construction, and use of materials are considered appropriate for the market to which the housing development is directed.

D. Cost Breakdown

The cost and recommended selling prices listed below are based on FHA's estimated urbanization and building construction replacement costs. On the basis of our review, which has included FHA's field verification of direct cost of construction and other charges, these selling prices are considered reasonable.

Entire Project

Total Direct Cost of House Construction	\$3,500,360
*Other Costs	658,320
Cost of Urbanized Land	<u>782,320</u>
Total Cost	\$4,941,000
Profit	<u>442,180</u>
Selling Price	\$5,383,180

Individual Houses

House Type A

Total Direct Cost of House Construction	\$5,819
*Other Costs	1,099
Cost of Urbanized Land	<u>1,321</u>
Total Cost	\$8,239
Profit	<u>737</u>
Selling Price	\$8,976

House Type B

Total Direct Cost of House Construction	\$5,633
*Other Costs	1,049
Cost of Urbanized Land	<u>1,161</u>
Total Cost	\$7,843
Profit	<u>706</u>
Selling Price	\$8,549

House Type C

Total Direct Cost of House Construction	\$4,662
*Other Costs	884
Cost of Urbanized Land	<u>1,114</u>
Total Cost	\$6,660
Profit	<u>593</u>
Selling Price	\$7,253

House Type D

Total Direct Cost of House Construction	\$4,495
*Other Costs	844
Cost of Urbanized Land	<u>991</u>
Total Cost	\$6,330
Profit	<u>567</u>
Selling Price	\$6,897

*Other costs include builder's overhead, legal and organizational fees, financing and marketing expense.

The amount of profit shown has been estimated in accordance with standard procedures. A cost estimate cannot reflect the efficiency of the sponsor's organization; therefore the exact profit realized by the sponsor may be more or less than the dollar amount indicated.

E, Local Regulations

The proposed method of construction is in compliance with local regulatory agencies. Water supply, sanitary sewer and drainage systems will comply with local regulations. The house plans will comply with local regulations. The local regulations are considered to include reasonably high standards.

SUBJECT: Statutory Check-List for Ethiopia Housing Guaranty Project

- (1.) Section 221(a). Compliance with requirement that the cooperating country government shall have agreed to institute the guaranty program. Satisfied; A bilateral agreement covering investment guaranties is in effect in Ethiopia.
- (2.) Section 221(a). Compliance with requirement that each project shall be approved by the President. Satisfied; Authority to approve has been delegated to the Regional Assistant Administrator by Executive Order 10973, State Department Delegation No. 104, and A.I.D. Delegation No. 39. The Assistant Administrator for Africa has approved the project.
- (3.) Section 221(b) and Section 223(c). Compliance with requirement that investment guaranties may be issued only to eligible United States investors. Satisfied; The guaranty agreement will cover only lenders who are "eligible United States investors" within the meaning of the statute at the time the guaranty is issued.
- (4.) Section 221(b)(2). Existence of a determination that assuring this loan investment against loss with appropriate participation by the private investors in the loan risk is important to the furtherance of the purposes of the Investment Guaranties title and in accordance with the foreign and financial policies of the United States. Satisfied; Determination made by Assistant Administrator for Africa pursuant to his delegated authorities as in Section 221(a) above.
- (5.) Section 221(b)(2). Compliance with requirement that guaranties under this paragraph shall emphasize economic development projects furthering social progress and the development of small independent business enterprises. Satisfied; Determination made by Assistant Administrator for Africa pursuant to his delegated authorities as in Section 221(a) above.
- (6.) Section 221(b)(2). Total outstanding guaranties made under this paragraph shall not exceed \$300,000,000. Satisfied; A timely reservation of issuing authority will be made upon approval of this guaranty to assure that the statutory limits on the face amount of guaranties outstanding will not be exceeded.

- (7.) Section 221(b)(2). Compliance with requirement that no payment may be made under this paragraph for any loss arising out of fraud or misconduct for which investor is responsible. Satisfied; The guaranty agreement will provide that no payment will be made for any loss arising out of fraud or misconduct for which the investor is responsible.
- (8.) Section 221(c). Compliance with requirement that no guaranty may exceed the dollar value, as of the date of the investment, of the investment made in the project with the approval of the President plus earnings or profits actually accrued on said investment to the extent provided by such guaranty. Satisfied; The terms of the guaranty agreement will preclude the coverage exceeding the dollar value of the investment plus earnings actually accrued thereon.
- (9.) Section 221(d). Compliance with requirement that suitable arrangements shall be made for protecting the interests of the United States Government in connection with the guaranty, including arrangements with respect to the ownership, use and disposition of the currency, credits, assets or investment on account of which payment under such guaranty is to be made, and any right, title, claim, or cause of action existing in connection therewith. Satisfied; Suitable arrangements and adequate protection will be made through the guaranty agreement and by agreement with the Imperial Ethiopian Government.
- (10.) Section 222(a). Compliance with requirement that a fee be charged for each guaranty. Satisfied; A fee will be provided for in the guaranty agreement.
- (11.) Section 222(g). Information and conclusion as to the possible adverse effect of the dollar investment under such guaranty upon the balance of payments of the United States. Satisfied; Consideration has been given to the balance of payments effect. While there will be some procurement from U.S. sources, the net effect, in the short run, will be a dollar drain. However, this statutory provision was not intended as establishing such a conclusion as preclusive.

September 26, 1966

EXHIBIT III

AID-ILC/P-484/A Draft

GUARANTY AUTHORIZATION

Provided from: Investment Guaranty Authority Section 221 (b) (2),
Foreign Assistance Act

Ethiopia: Development Corporation International of Ethiopia

Pursuant to the authority vested in the Assistant Administration for Africa, Agency for International Development (hereinafter referred to as "A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Part I, Chapter 2, Title III, Section 221 (b) (2) of that Act, assuring against loss of any loan investment of not to exceed Five Million Dollars (\$5,000,000) by Bankers Life Company, Des Moines, Iowa, and Fidelity Mutual Life Insurance Company, Philadelphia, Pennsylvania ("Investors") for the purpose of providing long-term financing of a private housing project in Addis Ababa, Ethiopia, such guaranty to be subject to the following terms and conditions:

1. Term of Guaranty

The guaranty shall extend for a period of up to twenty (20) years from the date of each disbursement under the loan.

2. Fee

The Investors shall pay or cause to be paid to A.I.D. in United States dollars a fee of one percent (1%) per annum on the outstanding guaranteed amount of the investment.

3. Interest Rate

The interest rate to the Investors shall not exceed five and three-quarters percent (5 3/4%) per annum.

4. Obligation of the Imperial Ethiopian Government

The obligation to guarantee the convertibility of Ethiopian dollars, at the highest legal rate of exchange prevailing on the date of issuance of each eligible note under the guaranty, for the payment of principal and interest in United States dollars due on such notes under the loan to be made by Investors, shall be a full faith and credit obligation of the Imperial Ethiopian Government.

5. Other Terms and Conditions

The guaranty shall be subject to such other terms and conditions as the Agency for International Development shall deem advisable.

Assistant Administrator for Africa

Date

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Housing Requirements and Effective Demand--Addis Ababa *

Measurement of housing requirements in any given housing market area is a difficult and precarious exercise at best. The validity of the answers derived will depend largely on the availability and the validity of the data and the information necessarily employed to make the analysis, as well as the validity of assumptions, or judgments, that may have to be applied when full and firm data are not available. The type of answers sought may include estimates as to the total housing need, that is, a measure of all families who are inadequately housed in relation to some present minimum standards as to housing quality and density of occupancy; preferably broken down by income groups and indicating the ability of such families to pay for the provision of "standard" housing to meet their needs. In addition, it is desirable to try to measure effective demand in terms of the number of units required by families in various income groups and the prices at which they can afford to acquire the needed housing. Finally, consideration must be given to an estimate of immediate, or near-term, market demand which is limited to that portion of effective demand which can be supplied by private enterprise. This portion must usually be discounted by the number of families who, for one reason or another, may be expected not to enter the market or to delay their entry.

The type of information needed to determine housing requirements and effective demand includes. (1) reliable and up-to-date data on population and family characteristics and trends, (2) data on migration, (3) thoroughgoing data on wages and salaries paid and a percentage distribution by income groups of total family, or household, incomes, (4) information on the level and trends of economic activity and employment, (5) a reasonably current survey of housing conditions (quantity, quality, size and density of occupancy of the existing stock of housing), (6) the rate and trend of "standard" residential construction, (7) a concept of accepted minimum standards of accommodation, and (8) financing terms available, or that can become available, in the market area. A considerable amount of data of these types was found to be available for Addis Ababa--albeit not as complete or timely as might be desired, but sufficient to provide the framework for analysis.

For other Ethiopian cities, the availability of such data is limited. Given sufficient time, an analyst might be able to construct reasonable estimates with respect to the data needed for cities other than Addis Ababa through observation, intensive interviews with numerous informed secondary sources of information, and piecemeal construction of the needed indices. This has not been possible within the time limits of this survey, and only general observations are possible for these other cities.

The effective demand for housing in Addis Ababa was estimated by Burton O. Young, Deputy Assistant Administrator, Office of Country Programs, H.U.D. during the course of an A.I.D. sponsored "Survey of Housing" in Ethiopia" in June, 1965.

A rather thorough analysis of total housing need and effective demand was constructed for Addis Ababa, where, without doubt, the greatest and most urgent needs exist. What follows is a description, explanation and the results of that analysis.

Analysis of Total Housing Need in Addis Ababa

The Housing Market Area

A housing market is defined as the area within which the population normally lives and works. This would usually consist of the central city which contains the principal population and employment concentrations and the adjacent suburban areas. In the case of Addis Ababa, such suburban development as exists is within the limits of the city proper which, without adjustment either outward or inward, makes up an appropriate area for housing market analysis. It should be borne in mind, however, particularly in consideration of market demand, that some of the outlying areas within the city, while not great in distance from the central area, are not adequately served with roads, public transportation, water or other facilities and would not, therefore, be attractive to home-seekers unless, and until, such facilities are provided.

Trend of Economic Activity

Economic activity (production, trade and employment) has been, and undoubtedly will continue, increasing at a fairly vigorous rate. Most of the published and available data on economic activity covers the country as a whole, but Addis Ababa, playing a very large role in the total economy, undoubtedly shares or exceeds the overall rates of growth.

The index for industrial production for the Empire of Ethiopia (1955=100) increased from 123 in 1958 to 226 in 1963, an average annual rate of change of about 16.4 percent.^{10/} It seems reasonable to predict a continuing rate of increase of 10-15 percent a year or greater. Employment in manufacturing industries increased from 19,998 in 1958 to 32,589 in 1962 ^{11/} and to 43,000 in 1964 according to preliminary figures ^{12/}, for a percentage increase similar to that for industrial production.

The assumed growth rate of gross national product in Ethiopia for 1962-67 is 4.3 percent per annum and the rate for per capita GNP 2.5 percent.^{13/} These rather vigorous rates are confirmed, approximately, by studies made by the USAID Mission. Information obtained from several of the larger private employers in Addis Ababa shows an increasing trend of employment from 1961 to 1965.

Prices, wages and salaries, while relatively stable, have shown some tendency to move upward in recent years. The wholesale price

index--export (Addis Ababa), major commodity groups (1958 = 100), stood at 85.5 for 1961, declined in 1962 (80.6), held stable in 1963 (81.2) and increased in 1964 (98.6 in 2nd quarter).^{14/} The index for "other goods" (Addis Ababa), the nearest available to a "Consumer's Price Index", also based on 1958 as 100, stood at 96.2 in 1961 and gradually increased to 98.4 by the 2nd quarter 1964.^{14/}

Average pay per operative and other employees in manufacturing industries throughout the Empire increased from Eth.\$418 in 1959 to Eth.\$486 in 1962, an increase of 16 percent in three years. Employment and income data were obtained from four major employers in Addis Ababa. One showed about a 15 percent decline in the average of wages and salaries paid in the four year period 1961-65, attributed to the spreading of a rather fixed number of managerial employees over a growing number of low-skilled workers (total employment increased from 144 to 245). Another reported a 3-4 percent per year increase in average wages and salaries paid. The third reported a 5 percent per year increase, and the fourth an accelerating 5 to 10 percent per year increase.

It would appear that wages and salaries have been generally moving up at an increasing rate while prices have been rather stable, or with lower rates of increase, thus resulting in an increased standard of living with an increasing number and proportion of workers entering the "middle class."

Population and Households

Addis Ababa is one of the many African capitals which grew up in a remarkable way during the past twenty years. The 1961 census recorded 449,000 inhabitants, while previous estimates were of 35,000 in 1908, 70,000 in 1928, 105,000 in 1938, and 400,000 in 1952.^{15/} It is now the largest city in Africa between Cairo and Johannesburg, and the 5th ranking in population of all African cities.

The 1961 census ^{16/}reported 435,016 population in private households, exclusive of institutional population and homeless, with 123,755 households--defined as a group of people who slept in the same or related quarters and who had common arrangements for meals. The average size of household was 3.51 persons (median 2.39).

The estimated rate of natural increase in population for Ethiopia as a whole is 1.6 percent per annum.^{17/} Addis Ababa, the capital city, is of course a magnet for in-migration from other parts of the country as well as from outside the country. No official estimates of the current rate of total population increase for the city were discovered by the survey team. A number of informal, unofficial estimates were obtained which ranged from 3.8 to 7 percent increase per annum. For several reasons the survey team has discounted these estimates and for

purposes of analysis has chosen a rate of 3.2 percent per annum, cumulative, to estimate the increase from 1961 to the present and to project population (and households) to 1968.

One reason for selecting this rate is based upon the increase between 1952, when a "count" of sorts was made showing 400,000 and 1961 when the census showed 449,000--a rate of increase much lower than current unofficial estimates and even lower than the rate chosen. (Some opinions with respect to the methods of enumeration in both of these years indicate that there may well have been some over-enumeration). However, on the basis of informed opinions and observation, it seems apparent that the rate has accelerated somewhat in recent years.

Another reason for choosing a lower rate than those from unofficial estimates is that Government policy toward decentralization of industry, improvement of educational and agricultural opportunities in the hinterland, and programs for new towns and community development should have the effect of diminishing the amount of migration to the capital city which might otherwise take place.

Using the rate of increase of 3.2 percent, compounded annually, and the average number of persons per household of 3.51, we arrive at the following estimates of population and households for 1965 and 1968:

	<u>1961</u> <u>Census</u>	<u>1965</u>	<u>1968</u>
Population in			
Households	435,016	493,400	542,300
Households	123,755	140,000	154,500

Interestingly, the estimated total population for 1965 approximates the 500,000 which those with informed opinions most frequently cite as an estimate of current population.

Family Income Estimates

Family income, as a determinant of ability-to-pay for housing, is a crucial factor in housing market analysis. The 1961 census did not report on incomes. Two published reports were found which were helpful in constructing a picture of incomes and income distribution by various income groups. One was a table on "Civilian Employment Paid by the Head Offices of the Government Ministries and Departments in Addis Ababa by Level of Income", ¹⁸ as of January 1962, excluding the Defense Ministry, but including the Municipality of Addis Ababa. The incomes of 19,812 employees were reported in a detailed distribution by income groups. The other was a joint study in April 1960 ¹⁹ by the University College

of Addis Ababa, the UN Economic Commission for Africa and the Municipality of Addis Ababa of the social structure of some 600 families in six diverse areas of the city. Incomes of 588 households, and an income distribution by income groups, were reported.

Advices from many persons interviewed inside and outside of government were that government salaries are somewhat lower than those in the private sector. To gain more information on incomes in the private sector, data on wages and salaries were obtained from four of the major employers in Addis Ababa. An income distribution was constructed for the private sector which included a total of 2,735 employees (also including the 588 from the UNECA survey presumed to be employed mostly in the private sector). It was recognized that the distribution constructed in this manner was probably weighted on the high side because the larger, progressive employers pay higher wages and the coverage excluded the many tradesmen and individual entrepreneurs whose remuneration was indicated to be lower. It was decided to select an income distribution curve halfway between that of the public sector and that of the private sector, as constructed, as being reasonably representative of incomes from all types of employment.

An adjustment was then made for secondary sources of income in the form of earnings of secondary workers in the family, bonuses and other employment benefits, rents received, and any other extra income in cash or in kind. In the absence of any reliable published data on this factor, reliance had to be placed upon the opinions of many informed persons interviewed. An arbitrary adjustment factor was derived to the effect that secondary sources would, on the average, increase family income by 10 percent in the less than Eth.\$200 a month group, 15 percent in the Eth.\$200 to \$500 a month group and 20 percent for families receiving over Eth.\$500 per month of primary income. The resulting income distribution is shown in Table 3.

Backlog of Housing Requirements in 1961

The 1961 census reported on housing conditions and housing facilities as well as population. Four types of construction were reported. (See Table 2, p. 41). The census report states that "If the first two classes of construction can be regarded as providing reasonably complete protection from the weather then it would appear that 43 percent of households were living under these conditions." It follows that the remaining 57 percent were living in conditions below this standard of weather protection.

Setting minimum standards of acceptable livability in an economy such as that of Addis Ababa is an extremely difficult thing to do. No such minimum standards have been pronounced, or suggested, either officially or unofficially, unless the census classification by type of construction may be taken as a suggestion. Since the setting of such a

Percentage Distribution of Total Family Incomes

<u>Family Income</u> <u>Monthly, Eth.\$</u>	<u>By Class</u>	<u>Percent</u>	<u>Cumulative</u>
Less than 50	35.0		35.0
50-100	14.7		49.7
100-200	15.4		65.1
200-300	12.5		77.6
300-400	7.5		85.1
400-500	4.8		89.9
500-600	2.6		92.5
600-700	1.8		94.3
700-800	1.2		95.5
800-1000	1.8		97.3
1000 and more	2.7		100.0

standard is essential to the analysis of housing requirement, it is concluded that the census figure of 57 percent non-weather proof construction--and also giving account to the considerable lack of facilities and to the high density and overcrowding,-described in Chapter V--is an appropriate bench mark for present purposes of analysis. This properly leaves to the future, and to local determination, the more specific definitions of what should be considered to be minimum standards of construction and occupancy in the interest of safety, health and livability.

If we apply to the total number of households of 123,755 in 1961 the 57 percent figure of those considered to be below minimum standards of livability, we derive 70,600 units of a substandard or overcrowded condition. Informed opinion has been received to the effect that such units are found among all income groups. They have been apportioned, therefore, among all income groups in accordance with the percentage of families in each, as shown in Table 4.

Adjusted Housing Requirements 1965 and 1968

To determine the current housing requirements, and to project them three years in advance for 1968, it is necessary to take into account new family formations and new, standard, residential construction over these periods. Ordinarily vacancies in "standard" housing, if they existed in significant numbers, would also be taken into account. It appears that vacancies occurring in standard housing are immediately snapped up by those seeking and waiting for such housing. Vacancies, therefore, are a negligible factor in the supply of housing in this market.

Based upon the assumed annual rate of increase in population and households of 3.2 percent, there would have been 16,000 additional households created in the period 1961-1965 and an additional 13,900 to be formed in the period 1965-1968.

It is not possible to find accurate and complete statistics on new residential construction from 1961 to the present, to say nothing of the extent to which units built were of "standard" quality. Figures on building permits issued are acknowledged to be faulty with respect to the extent and variation of coverage. However, with the help of informed opinion and estimates, particularly from the Planning Department of the Municipality, an attempt has been made to draw up estimates of such construction, to project these estimates into the 1965-68 period, and to prorate the numbers among the various income groups. The effect of these adjustments showing the total housing requirements in 1965 and 1968 may be seen in Table 5.

Backlog of Substandard and Overcrowded Housing 1961

<u>Monthly Income</u> <u>Eth.\$</u>	<u>Percent of</u> <u>Families</u>	<u>Substandard and</u> <u>Overcrowded Housing</u>
<u>Totals</u>	100.0	70,600
Less than 50	35.0	24,710
50-100	14.7	10,380
100-200	15.4	10,870
200-300	12.5	8,820
300-400	7.5	5,290
400-500	4.8	3,390
500-600	2.6	1,840
600-700	1.8	1,270
700-800	1.2	850
800-1000	1.8	1,270
1000 or more	2.7	1,910

Total Housing Requirements 1965 and 1968

(1) Monthly Income (Eth.\$)	(2) Total Housing Requirements 1961	(3) New Family Formations 1961-1965	(4) "Standard" Residential Construction 1961-65	(5) Total Require- ments 1965 (2)+(3)-(4)	(6) New Family Formations 1965-1968	(7) "Standard" Residential Construction 1965-1968	(8) Total Housing Requirements 1968 (5)+(6)-(7)
<u>Totals</u>	<u>70,600</u>	<u>16,800</u>	<u>5,400</u>	<u>82,000</u>	<u>13,900</u>	<u>5,000</u>	<u>90,900</u>
Less than 50	24,710	5,880		30,590	4,860		35,450
50-- 100	10,380	2,470		12,850	2,040		14,890
100 - 200	10,870	2,590	270	13,190	2,140	250	15,080
200 - 300	8,820	2,100	270	10,660	1,740	250	12,150
300 - 400	5,290	1,260	540	6,010	1,040	500	6,550
400 - 500	3,390	800	540	3,660	670	500	3,830
500 - 600	1,840	440	540	1,730	360	500	1,590
600 - 700	1,270	300	540	1,030	250	500	780
700 - 800	850	200	540	510	170	500	180
800 - 1000	1,270	300	810	1,060	250	750	260
1000 and more	1,910	450	1,350	1,010	380	1,250	140

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The requirements figures shown for 1965 and 1968 represent the quantitative need by various income groups for housing to overcome the deficiencies in the present inventory as to quality of construction and high density of occupancy and to satisfy the requirements of the population expansion. It may be observed that the housing situation for families with incomes over \$500 per month has been gradually improving and may be expected slowly to improve further without major change in present construction and financing methods, costs and terms. However, the situation for families with incomes below \$500 per month is seen to be worsening as their numbers increase and provision of standard housing under present means of construction and financing does not keep pace with the growing needs. A further factor, mostly affecting, and aggravating, the situation for the lower income families, is the expropriation and demolition of numerous, mostly substandard, dwellings in the central area of the city to make room for large scale construction of public and commercial buildings.

It will obviously take a long-range program over many years, seeking all possible means to reduce the costs of construction and financing, to reverse the trend of further deterioration of the housing situation for lower income families and to hasten the satisfaction of housing needs on the part of the middle and higher income families. From and beyond this picture of total needs and requirements, it will be useful to develop a picture of effective demand for housing; that is, what families in all income groups can reasonably afford to pay for improved housing, and effective market demand on the part of those in the middle and higher income range whose needs and desires may be expected to be met by private enterprise.

Effective Demand for Housing

To determine effective demand it is necessary to estimate the prices which families at various income ranges will normally pay for housing. The development of such estimates assumes that families at various income levels are able and willing to allocate certain proportions of their income to pay for the amortization and interest charges on a mortgage or to make rental payments. The first step is to convert income into the maximum amount a family is able to pay for monthly charges. For sales housing, this latter amount may be translated into a mortgage amount (assuming certain terms as to interest, period of amortization and amount of down payment) which, in turn, may be converted into the price of a house. While this analysis concentrates on the effective demand for sales housing, the total demand may be divided between sales and rental housing, and rental payments which families can afford may be equated with maximum mortgage payments. To pursue this analysis of effective demand there is need to develop (1) appropriate ratios of mortgage payment to income, and (2) the most appropriate financing (mortgage) terms.

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Ratio of mortgage payment to income

Very little assembled information is available in Addis Ababa on present, or customary, payments being made for rent, or for housing loan amortization, in relation to income. The UNECA, et al, 1960 survey of Addis Ababa social structure, previously cited, which covered 600 families in six diverse areas of the city, gives some clue to this. It found that the percentage of income paid for rent by various income groups ranged as follows:

<u>Monthly Income (Eth.\$)</u>	<u>Percentage of Income for Rent</u>
0 - 25	12.8
26 - 50	11.6
51 - 150	7.5
151 - 300	4.9
301 - 500	5.8
501 -1000	5.8

These are unusually small rent-to-income ratios. Reaction to this by informed persons was that this was not typical, particularly in the higher income brackets; that rents have risen substantially since 1960 because of the extreme shortage of housing; that many families, particularly in the higher income brackets, are paying 20-25 percent of income or even higher, in order to obtain better quality housing. One knowledgeable source reported that rents of Eth.\$10 per room were quite common for lower quality housing occupied by families with incomes of Eth.\$50-\$60 per month, although rents as low as Eth.\$2.35 were revealed by surveys conducted by the Building College.

Higher cost (Eth.\$20-50,000) single-family, villas (rented mostly to foreigners) demand rents of Eth.\$500 to \$1,000 per month, which rental income is widely reported to amortize total investment in 3-5 years. Similarly, recently built modern apartments, occupied in considerable part by Ethiopians, and with long waiting lists, rent from Eth.\$125 for small efficiency units to Eth.\$250 for 1½ bedroom units, which rental income is again reported to amortize investment in 3-5 years.

The motivation for home ownership, and for obtaining "good" housing is widely reported to be very strong. The Imperial Savings and Home Ownership Public Association reports from its experience that most of its clients (and these are mostly in income ranges exceeding Eth.\$700 per month) were paying an average of 20 percent of income at time of application and are quite willing to make monthly payments of 25 percent or more for the opportunity to own a modern house. This same view was expressed by a number of government officials and large private employers. An official of one large private company

said that while employees in the Eth.\$300 to \$700 income bracket were now paying 10-15 percent of income for very poor housing, they would be willing and able to pay 20-25 percent for good housing if it were available. The Director General of the Chamber of Commerce estimated that most families in the Eth.\$200 to \$400 income group now pay Eth.\$30 to \$75 a month, or higher, for houses that are not worth it and would be willing and able to pay more for good quality housing.

Based upon the information indicated, a schedule of ratios of mortgage payments (or rents) to income was constructed as follows:

<u>Income Groups</u> (Eth.\$)	<u>Ratio of Monthly</u> <u>Payment to Income</u>
Less than 300	15%
300 - 400	17½%
400 - 700	20%
700 - 800	22½%
800 and more	25%

From this is derived a table of maximum monthly mortgage payments (or rents) by income groups. See table 6.

Financing Terms

Except for the very exceptional case of the individual who has large enough assets and income to finance the construction of a house entirely with his own resources, there are presently only two, rather limited, sources for obtaining the means to finance house construction and ownership. One is through the commercial banks, and the other through the Imperial Savings and Home Ownership Public Association.

The only commercial bank which makes loans for the construction of housing is the Commercial Bank of Ethiopia, whose shares are wholly owned by the Imperial Ethiopian Government. The Addis Ababa Bank (Share Company) is relatively new and does not now make loans for this purpose. The Commercial Bank has three categories of loans supporting either the construction of housing (in which case the interest rate is 7½ percent) or the purchase of existing housing (interest at 8½%): (1) for loans up to Eth.\$20,000 the bank may finance the full value providing that satisfactory collateral up to twice the amount of the loan is pledged; (2) loans between Eth.\$20,000 and \$30,000 are limited to not in excess of 50 percent of the cost or value of the property involved; and (3) loans over Eth.\$30,000 are limited to not over 30 percent of the cost or value of the property, exclusive of land. The maximum time period is five years. These loans are made mostly by investors who have sizeable assets in land and/or cash; not for the purpose of building and owning a home in which to live, but to construct one or more houses of a "villa" type (Eth.\$20,000 to \$50,000) for rent, mostly to foreign families, at rents of Eth.\$500 to \$1000 per month or more.

Estimated Maximum Mortgage Payments by Income Groups

<u>Estimated Family Income (Th.\$)</u>	<u>Ratio of Monthly Payment to Income (Percent)</u>	<u>Estimated Maximum Mortgage (or Rental) Payment (Th.\$)</u>
Less than 50	15	Less than 7.50
50 - 100	15	7.50 - 15.00
100 - 200	15	15.00 - 30.00
200 - 300	15	30.00 - 45.00
300 - 400	17.50	52.50 - 70.00
400 - 500	20	80.00 - 100.00
500 - 600	20	100.00 - 120.00
600 - 700	20	120.00 - 140.00
700 - 800	22.50	157.50 - 180.00
800 - 1000	25	200.00 - 250.00
1000 and more	25	250.00 and more

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This type of "marginal" financing does not, and cannot be expected to, serve the vast majority of the general public in meeting its housing needs. Very few families may be expected to have, or to accumulate in advance, assets amounting to 50 percent, or more, of the cost or value of a house. Furthermore, this type of individual "custom" construction, which is costly, cannot take advantage of large cost reductions possible through building in large numbers.

The Imperial Savings and Home Ownership Public Association makes mortgage loans for housing at maximum terms of 16 years, 6% interest on individual homes and 7% on duplexes, and 25 percent down payment or equity. The maximum mortgage amount is Eth.\$20,000 for a single house and Eth.\$30,000 for a duplex. In practice, the Association has generally required a higher equity than the 25 percent minimum and has reduced the term of the loans somewhat below the 16 year maximum (average 13 years). These terms make it possible for many families to acquire a house who would otherwise be unable to do so. The Association has more applicants and eligible borrowers than it is able to accommodate because of its limited capital and the limited volume of savings which it has been able to attract. It has made 45 loans to date (22 houses have been completed and 21 are under construction) and an additional 15 eligible families are on the "active" waiting list. Others would be eligible but have been discouraged from making formal application because of the known long delay before a loan would be possible.

It is obvious that the Association is at present a very limited financing facility. This is partly because of its limited capital and deposits and partly because it has been unable to find a secondary market for its mortgages. Also the 25 percent equity requirement and 16 year term (particularly as more severely administered) are difficult for many potential home-seekers to meet.

There is in prospect one or more Investment Guaranty projects for construction of some considerable volume of housing at prices and financing terms within the reach of middle income families. The financial terms in prospect for one of these would be about 8½% interest, 20 year amortization and 10 percent down payment.

These terms, which are both realistic and reasonable, have been selected for this analysis in determining mortgage amounts and prices of houses which families in the different income groups can afford. It should be realistically possible for Ethiopian financial institutions to approach these terms in the near future. Using these terms Table 7 has been constructed to indicate the estimated mortgage amounts and sales prices which families in various income groups could afford.

The effective demand for housing may now be constructed by relating the number of families in each income group to the number of units needed by each group and the prices of housing which its members are able to afford. This has been done in Table 8.

Estimated Mortgage Amounts and Sales Prices
(8 $\frac{1}{2}$ % interest, 20 years, 10% down payment)

<u>Estimated Family Income (Eth.\$)</u>	<u>Estimated Maximum Amount of Mortgage (Eth.\$)</u>	<u>Estimated Sales Price of House (Eth.\$)</u>
Less than 50	Less than \$900	Less than 1000
50 - 100	900 - 1700	1000 - 1900
100 - 200	1700 - 3400	1900 - 3800
200 - 300	3400 - 5200	3800 - 5800
300 - 400	5200 - 8100	5800 - 9000
400 - 500	8100 - 11,500	9000 - 12,800
500 - 600	11,500 - 13,800	12,800 - 15,300
600 - 700	13,800 - 16,100	15,300 - 18,000
700 - 800	16,100 - 20,700	18,000 - 23,000
800 - 1000	20,700 - 28,800	23,000 - 32,000
1000 and more	28,800 and more	32,000 and more

Effective Demand for Housing 1965

<u>Monthly Income</u> (Eth.\$)	<u>Estimated Housing</u> <u>Units Needed</u>	<u>Estimated Sales</u> <u>Prices (Eth.\$)</u>
Less than 50	30,500	Less than 1000
50 - 100	12,850	1000 - 1900
100 - 200	13,190	1900 - 3800
200 - 300	10,660	3800 - 5800
300 - 400	6,010	5800 - 9000
400 - 500	3,660	9000 - 12800
500 - 600	1,730	12,800 - 15,300
600 - 700	1,030	15,300 - 18,000
700 - 800	510	18,000 - 23,000
800 -1000	1,060	23,000 - 32,000
1000 and more	1,010	32,000 and more

Market Demand for Housing

Effective demand is only the potential of market demand which is limited in two respects: (1) the lowest level of cost or price at which private enterprise can be expected to construct a house or apartment of minimum but adequate standards of quality, space and sanitary facilities on developed land suitably located with regard to community amenities and; (2) the extent to which families needing and able to pay for improved housing will actually have the will and desire -- the motivation-- to purchase or rent new housing made available on the terms indicated. With respect to sales housing this includes the willingness and ability to make, or to quickly save and accumulate, the down payment of 10 percent of the purchase price plus the amount of closing costs.

As to the first limitation the survey team estimates that the current level at which a 2-bedroom house of minimum but adequate standards can be built for sale is approximately Eth.\$6,000. This would be a house of some 45 square meters in area of brick wall construction with living-dining room combination, 2 bedrooms, Ethiopian kitchen with sink, flush toilet and shower. Without land, and including a contractor's customary overhead and profit, it is estimated that such a house can be built for Eth.\$5,200. Allowing for a 200 square meter plot of land at \$4 per square meter, or Eth.\$800, brings the total to Eth.\$6,000. A one-bedroom house of somewhat smaller size could be built for less. At this minimum level private enterprise should be able to reach down into the lower segment of the Eth.\$300 to \$400 income range.

The second limitation is more difficult to deal with since it has to do with a number of intangibles and the many value judgments that a family considers and makes decisions on before it makes up its collective mind on whether or not to purchase or rent a new house. The limitation will be less--and the market demand maximized--to the extent that the housing is attractive and appealing to Ethiopian families and is considered to be a good value for the money. This means a challenge to contractors, builders, developers and financial institutions to provide the best possible in quality of construction and design appealing to Ethiopian families (with particular consideration to the traditional "injera" kitchen and the desire for courtyard or other outdoor space), the provision of sanitary facilities and basic utilities of water and electricity, with location served by improved roads and public transportation and reasonably convenient to places of work, shopping, churches, schools, etc.

The survey team has polled the opinion of many of the government officials and other persons interviewed on this question of the desire and motivation of families now living in poor housing to purchase or rent new housing if it were made available at prices and terms within their ability to pay. The general response has been that the motivation

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is very strong; particularly for home ownership and among middle income families. Most respondents felt that a down payment of 10% would be little, if any, obstacle to those so motivated. The amount of closing costs, if high, might make some difference. It was indicated, however, that many families do feel satisfied with their present housing and would not choose to pay more for better housing. Some would not want to be among the first to go into new project-type housing, but would wait to learn from the experience of the first occupants.

Based upon all the information received it is the judgment of the survey team that immediate or near-term market demand amounts to at least one-third to one-half of the effective demand in the income ranges which can be served by private enterprise. Applying these ratios to effective demand by income groups above the minimum which private enterprise can reach results in the schedule of numbers of units of market demand with related sales price ranges shown in Table 9.

Considerations with Respect to Rental Housing

According to the 1961 census only 23 percent of all households occupied their own homes. Of the remaining 77 percent, 67 percent rented and 10% had other arrangements. The largest proportion of home ownership occurs in houses of the poorest type of construction and the smallest proportion in houses of the best type of construction. The survey team was assured by almost all respondents that the vast majority of families wanting and seeking improved housing are desirous of owning a home of their own. Some, however, indicated that a portion of new housing should be made available for rental to meet the needs and circumstances of families who would not wish to make the commitments involved in home purchase.

In spite of the indications of strong Ethiopian preference for home ownership, rental apartments appear to have a strong demand. Apartments in a 60-70 unit project built some 10 years ago having four small rooms, kitchen and shower rent for 7th. \$150. A recently built 82-unit apartment building near Africa Hall offers efficiency units of 30 square meters for 7th. \$125, one-bedroom units for 7th. \$200 and two bedroom units of 60 square meters for 7th. \$250 and has a long waiting list. Most tenants of both projects mentioned are Ethiopians.

These considerations point to a need for a certain proportion of rental housing within the market demand. It is the judgment of the survey team that this proportion should be at least 20 percent of the total.

The total market demand for both sales and rental housing with indicated sales price and rental ranges is shown in Table 10.

Units of Market Demand with Related Sales Price Ranges

<u>Monthly Income (Eth.\$)</u>	<u>Units of Effective Demand, 1965</u>	<u>Units of Market Demand, 1965 (rounded)</u>	<u>Price of House (Eth.\$)</u>
300 - 400	5,050	1900 - 2850	86,000 - 9,000
400 - 500	3,600	1250 - 1850	9,000 -12,800
500 - 600	1,730	600 - 900	12,800 -15,300
600 - 700	1,030	350 - 550	15,300 -18,000
700 - 800	510	300 - 375	18,000 -23,000
800 -1000	1,000	350 - 550	23,000 -32,000
1000 and more	<u>1,010</u>	<u>350 - 525</u>	<u>32,000 and more</u>
Totals	14,050	5,000 -7,500	

Units of Market Demand with Related Sales and Rental Prices

<u>Units of Market Demand for Sales Housing</u>	<u>Sales Price Ranges (Th. \$)</u>	<u>Units of Market Demand for Rental Housing</u>		<u>Rental Ranges (Eth. \$)</u>
		<u>Min.</u>	<u>Max.</u>	
1500 - 2280	6000 - 9000	380	580	55 - 70
1000 - 1480	9000 -12800	250	370	70 -100
480 - 720	12800 -15300	120	180	100 -120
280 - 440	15300 -18000	70	110	120 -140
160 - 220	18000 -23000	40	50	140 -180
280 - 440	23000 -32000	70	110	200 -250
<u>280 - 420</u>	32000 -and more	<u>70</u>	<u>100</u>	250 and more
<u>4000 - 6000</u>		<u>1,000</u>	<u>- 1,500</u>	

It should be emphasized that these final figures are, at best, approximations. Housing market analysis is by no means an exact science. Any impression that the use of exact figures through the various stages of the analysis lends exactitude to the final results should be dispelled. They should be used as a guide only.

Decisions to purchase or rent a new home are individual decisions based upon a large variety of considerations. There might, for example, be quite a transference as between the indicated income groups and price, or rental, ranges. Some families of relatively low income might choose to pay a higher proportion of income for housing than is imputed to them on the average and thus enter the market at a higher level than indicated. Some may also have significantly higher secondary income, and thus be able to pay more for housing than is indicated in the analysis for their income level. Families of higher income may be satisfied with less in the way of a house than they can actually afford and thus enter the market at a lower level than that imputed from the analysis. The market is actually a fluid thing with great variety in the individual choices made and the reasons for those choices.

The survey team has diligently endeavored to develop all pertinent information for the analysis. Much of such information is less extensive and factual than would be desired. Much reliance has had to be placed upon informed opinion and judgment and it has been necessary to make assumptions based upon piecemeal information and opinion. Every effort has been made to be as objective as possible and to deal with all factors realistically and rather conservatively. In a market which has never had the benefit of large scale construction and ready financing on reasonable terms, much will depend upon the results of such innovations and their acceptance in the market place.

Considerations with Respect to Unit Size

Something should be said as to what has been learned that would give some guidance to the proper distribution of housing provided by size of unit. The average (3.51 persons) and median (2.39 persons) size of household have been cited and they are, obviously, on the small side. The median is pulled down by the large proportion of single-person (19.9 percent) 2-person (23.1 percent) and 3-person (18.2 percent) households. Four and five person households amount to 22.4 percent, 6-3 person households 13.7 percent, and 10 and over, 2.7 percent.

This suggests that the need is for a distribution of units by size somewhat more heavily proportioned in the smaller sizes than is usual. There are some offsetting factors. Some of the single-person households are undoubtedly made up of young men who have postponed marriage partly because good housing was not available at a price they could afford to pay. Many Ethiopian families not only aspire for home ownership, but also a home where they may have room for relatives or for servants living in. Houses with too little space will not appeal to such families.

The opinion and advices of a prominent builder, the chief city planner, and others, were obtained on the question of size distribution. There was agreement that apartments or rental units should, as is generally the case, have a higher proportion of smaller units, and none of the larger units, as compared with sales housing. Also that sales housing should have a higher proportion of smaller units, and fewer larger units than is the case in the U.S. or most countries.

Based upon the information developed, the survey team suggests, as a general guide only, the following unit-size distributions for sales and for rental housing:

Suggested Unit-Size Distribution for Sales Housing

1 bedroom	30%
2 bedroom	50%
3 bedroom	15%
4 bedroom	5%

Suggested Unit-Size Distribution for Rental Housing

Efficiency	25%
1 bedroom	40%
2 bedroom	25%
3 bedroom	10%

Letters to Investors:

Subject: Housing Guaranty Project
Ethiopia: 663-HG-002

Dear Mr. _____:

I am pleased to inform you that the Agency for International Development has authorized the issuance within a reasonable period of time a guaranty to the Bankers Life Company of Des Moines, Iowa and the Fidelity Mutual Life Insurance Company of Philadelphia, Pennsylvania in the amount not to exceed \$5,000,000 assuring against loss of one hundred per centum (100%) of a loan investment for the purpose of providing long-term financing for a housing project in Addis Ababa, Ethiopia.

A guaranty agreement will describe more fully the purpose and method of utilization of the guaranty. The authorized guaranty is subject to the following terms and conditions:

1. The guaranty shall extend for a period of up to twenty (20) years from the dates of disbursement of the respective installments of the loan.
2. The obligation to repay the loan shall be a full faith and credit obligation of the Government of Ethiopia.
3. The interest rate to the Investor shall not exceed five and three quarters (5 3/4) percent per annum.
4. The fee of the United States shall be payable in dollars and shall be one percent (1%) per annum of the outstanding guaranteed amount of the investment.
5. Final drawings and exhibits requested by FHA shall be submitted, reviewed, and recommended by FHA for approval by AID.
6. Construction of the houses shall not begin prior to specific authorization by AID.
7. Inspection shall be in accordance with AID's policy.
8. Provision satisfactory to AID shall be made for materials testing and payment thereof in conjunction with the project inspection.

9. The Builder-Sponsor shall agree that down payments will not be accepted in the form of secondary financing.
10. The guaranty shall be subject to such other terms and conditions as AID may deem advisable.

It is not intended that any information about the terms of the guaranty agreement be released to the public at this time. We shall be pleased to coordinate with you and other participants in the project the release of information about the project at a later date. However, we are ready to proceed with this proposal as rapidly as possible and we are prepared to pursue contract negotiations at your earliest convenience.

Sincerely yours,

Norman R. Vander Clute
Director
Office of Private Enterprise
Bureau for Africa

AID-DLC/P-484

EXHIBIT VI

October 21, 1966

In lieu of receipt of requested formal endorsement cable from Mission indicating concurrence and acceptance by Mission and host country, this statement is being inserted in anticipation of requested endorsement. This substitution is being made in order that the project may be approved and authorized by the October 31 expiration date of the long term investment commitment. Should this commitment expire, the interest on the necessary funds will increase from 5 3/4% to 6 1/2% which would considerably raise the monthly mortgage payments to the home buyers.

Norman R. Vander Clute
Director
Office of Private Enterprise

AID-DLC/P-484

EXHIBIT VI

October 21, 1966

In lieu of receipt of requested formal endorsement cable from Mission indicating concurrence and acceptance by Mission and host country, this statement is being inserted in anticipation of requested endorsement. This substitution is being made in order that the project may be approved and authorized by the October 31 expiration date of the long term investment commitment. Should this commitment expire, the interest on the necessary funds will increase from 5 3/4% to 6% which would considerably raise the monthly mortgage payments to the home buyers.

Norman R. Vander Clute
Director
Office of Private Enterprise

AID-ILC/P-484

EXHIBIT VII

JUL 1 1965

Development Corporation International
1330 Boylston Street
Chestnut Hill, Massachusetts

Re: Case No. 663-HI-002
Addis Ababa, Ethiopia
Letter of Reservation

Gentlemen:

We have completed the preliminary review of your application dated April 6, 1965, for the guaranty of a loan investment by the ultimate United States investor to finance a housing project in Ethiopia.

The essential elements of the proposed project appear to be sound and feasible. Accordingly, we have reserved from our authorization an amount not to exceed five million dollars (\$5,000,000) for the purpose of guarantying pursuant to Section 221 (b) (2) of the Foreign Assistance Act of 1961, as amended, 100% of the principal of the loan to be made by the ultimate United States investor. Under current rules the maximum permissible interest rate to be charged by the ultimate United States investor and which A.I.D. will approve is five per cent (5%) per annum. The investor may charge a commitment fee not greater than one per cent (1%) of the principal amount of the loan or a brokerage fee may be paid that does not exceed one per cent. If both a commitment fee and a brokerage fee must be paid by the borrower, the total thereof may not exceed one per cent of the principal amount. This reservation will terminate on December 31, 1965, unless by that date you have submitted to the Federal Housing Administration (FHA) in form and substance satisfactory to A.I.D. the following:

1. A written statement from the Imperial Ethiopian Government referring therein specifically to this project, assuring that the Imperial Ethiopian Government will guaranty the repayment in dollars of the dollar denominated loan made by the ultimate United States investor.
2. Acceptable assurance that the proposed paved access road to the existing airport highway will be completed and dedicated as a public right-of-way prior to occupancy of the houses.

3. Acceptable assurance that the necessary adjoining acreage has been secured to accommodate the proposed additional 34 housing units.

4. Acceptable assurance that the necessary off-site acreage has been secured for a sewerage treatment plant to serve the subject project. Also required is acceptable assurance that the municipality of Addis Ababa will accept and maintain the proposed sewerage treatment plant.

5. Complete details of a proposed foundation design, together with all relative architectural and engineering data, to assure against structural failure due to unstable soil conditions.

6. Acceptable assurance that adequate temporary school facilities will be made available to serve the estimated primary school population of the development until such time as permanent facilities are available.

7. Acceptable assurance from the Government of Ethiopia that Development Corporation International, as a foreign corporation, has been granted special permission for the purchase of land comprising the site for this project.

8. Acceptable assurance that adequate neighborhood shopping facilities will be available to the initial occupants of the project.

9. Those additional exhibits which are essential to a more intensive review of the application and which will be itemized in a letter to be subsequently directed to the sponsor by FHA.

In the event that these conditions are met by December 31, 1965, this reservation will continue until such time as (i) a contract of guaranty is entered into between the United States of America and the ultimate United States investor; (ii) the application is withdrawn or (iii) the application is rejected by A.I.D. as a result of final processing.

You understand, of course, that this letter is intended solely to inform you that we have found the proposed project to be generally feasible and that, should the project be approved after final review, the guaranty authorization required will be available.

Construction of houses may not begin under any circumstances unless and until specific authorization to commence construction has been given by A.I.D.

We request that if you decide not to proceed with this project, you notify us immediately so that the authorization may be available for other projects.

Sincerely yours,

Edmond C. Hutchinson
Edmond C. Hutchinson
Assistant Administrator for Africa