

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, USAID/ZIMBABWE

FROM: Tina Dooley-Jones, Housing and Urban Development Officer

DATE: 18 September 1995

SUBJECT: Private Sector Housing Program (613-0236)
Incremental Obligation of Funds

ACTION REQUESTED: You are requested to increase authorized life of project funding for the subject activity by \$5.0 million and to approve obligation of these funds into the program via Amendment 2 to the Program Grant Agreement with the Government of Zimbabwe.

BACKGROUND: The Private Sector Housing Program is a non-project assistance (NPA) activity approved on August 30, 1992 with life of program (LOP) funding of \$77.68 million. This budget is comprised of \$25.0 million in non-project assistance, \$50 million in housing guaranty funds, and \$2.68 million for technical assistance over five years. The purpose of the program is to increase low-income household access to affordable shelter in urban areas, on a sustainable basis. Specifically, implementation of policy reforms under the program will result in:

- increased production of more affordable housing for low income households;
- increased levels of private financing for low income mortgages;
- an increased role for the private sector in housing construction finance;
- expanded production of lower cost building materials, generating more employment opportunities; and
- a broadening and deepening of the financial sector through the creation of new financial instruments.

An initial NPA tranche of \$10.0 million was authorized on August 30, 1992. Conditions precedent to the disbursement of these funds were met during the second quarter of FY 1994 and funds were disbursed on April 14, 1994. The first tranche of the housing guaranty loan was also authorized on August 30, 1992 for \$15.0 million, and the final documentation required for the loan was finalized on July 6, 1994. First tranche loan borrowing took place on July 9, 1994, and the loan funds were immediately disbursed to the Government of Zimbabwe.

A second NPA tranche of \$10.0 million was authorized on September 22, 1994 through Amendment No. 1 to the Program Grant Agreement. The conditions precedent to

disbursement of those funds were met on June 30, 1995, and funds were disbursed on August 1, 1995. The second tranche of the housing guaranty loan was also authorized on June 30, 1995.

DISCUSSION: In accordance with the mission's approved Country Program Strategic Plan and discussions with the GOZ as described in the Program Grant Agreement, USAID/Zimbabwe seeks to authorize and obligate the third and final tranche of non-project assistance funds for the Private Sector Housing Program in the amount of \$5.0 million. Although the GOZ requested a renegotiation of the Program Grant Agreement in July 1995, the GOZ has since withdrawn the request thereby allowing the Program to proceed as originally envisioned in the August 30, 1992 Agreements (see Attachment 1). The funds will be used to support further reforms in the provision of housing and housing finance. Prior to the USAID's disbursement of third tranche funds obligated via this amendment the GOZ must:

- Successfully move low-income mortgage lending to positive real interest rates;
- Agree in writing to a scope of work and time frame for a program financed analysis of the construction finance system;
- 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;
- Adopt a policy that off-site infrastructure costs for low-income housing projects are financed in a similar manner for both publicly and privately developed projects;
- Provide USAID with a written list of eligible expenditures for all HG resources previously borrowed in the first two tranches; and
- Budget resources totaling no less than the local currency equivalent of US \$5.0 million for the National Housing Fund 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 cash grant resources.

CONGRESSIONAL NOTIFICATION: Per State 195520, a hold on the congressional notification for this obligation has been lifted and obligation of funds may now occur.

AUTHORITY: Pursuant to Delegation of Authority 551, as director you have the authority to negotiate and execute loan and grant agreements, and amendments or modifications thereto, with respect to loans and grants authorized under the Foreign Assistance Act in accordance

with the terms of the authorization of such loans or grants. You also have the authority to amend authorizations and agreements for projects and programs up to \$100 million as long as there are no significant policy issues. The relevant documentation contains no issues of USAID policy and has been reviewed and cleared by the USAID Regional Legal Advisor.

RECOMMENDATION: (1) That you sign the attached PAAD facesheet to increase authorized funding for the Private Sector Housing Program by \$5.0 million to a new total of \$25.0 million; and, (2) That you sign the attached Grant Agreement Amendment Number 2, thereby obligating \$5.0 million in FY 1995 funds.

Approved: *Patricia J. Palmer*

Disapproved: _____

Date: *4/21/95*

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613-023

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ACTION: AID

INFO: ECON AMB

DISSEMINATION: AID

CHARGE: AID

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E.O. 12356: N/A

TAGS:

SUBJECT: PRIVATE SECTOR HOUSING PROGRAM (613-T609/0236)

CONGRESS RELEASED ITS HOLD ON THE CONGRESSIONAL NOTIFICATION FOR THE ABOVE PROJECT. THE CN FOR U.S. DOLS 5,000,000 EXPIRED ON JULY 13, 1995. OBLIGATION MAY NOW BE INCURRED.

CHRISTOPHER

BT

#6650

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DATE	ACTION	INFO
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LIP		
CHRON		✓
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DUE DATE	08/21/95	
ACTION TAKEN		
INITIALS/DATE		

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CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)		1. PAAD Number 613-0236 (NPA) 613-T-609C	
		2. Country Zimbabwe	
		3. Category Zimbabwe Private Sector Housing	
		4. Date	
5. To Carole Palma, Acting Dir., USAID/Zimbabwe		6. OYB Change Number	
7. From Tina Dooley-Jones, RHUDO USAID/Zimbabwe		8. OYB Increase: US \$ 5,000,000 To be taken from: DFA	
9. Approval Requested for Commitment of US \$ 5,000,000		10. Appropriation Budget Plan Code 72X1014 GSSX-95-31613-KG39	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input checked="" type="checkbox"/> Formal <input type="checkbox"/> None	13. Estimated Delivery Period FY 95	14. Transaction Eligibility Date

15. Commodities Financed

16. Permitted Source U.S. only N/A Limited F.W. Free World Cash US \$5,000,000	17. Estimated Source U.S. N/A Industrialized Countries Local Other US \$5,000,000
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18. Summary Description

A US \$5,000,000 million non-project assistance cash grant is hereby authorized in FY 1995 as a part of a proposed US \$77.68 million Zimbabwe Private Sector Housing program (US \$50 million U.S. Housing Guaranty (HG) Loan; US \$25 million cash grant; and US \$ 2.68 million in grant resources for technical assistance). This \$5.0 million authorization brings total authorized to date to \$ 25.0 million in Non Project Assistance.

Under the Program, the cash grant resources will be combined with HG loan funds and complemented with technical assistance resources to support housing sector policy reform initiatives required to create a more supportive economic policy environment for sustainable low-income shelter delivery.

Implementation of the policy reforms is expected to result in : (a) increased production of more affordable housing for low-income households; (b) increased levels of private financing for low-income mortgages; (c) an increased role for private sector housing construction finance; (d) expanded production of lower cost building materials, generating more employment opportunities; 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. (see continuation sheets)

19. Clearances	Date	20. Action
RLA: M. Alexander	<i>[Signature]</i> 9/21/95	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
RHUDO: T. Dooley-Jones	<i>[Signature]</i> 9/21/95	
RMS: M. Williams <i>[Signature]</i>	9/21/95	Authorization Signature
RMS: C. Doggett <i>[Signature]</i>	5/21	Date 9/27/95
CONT: C. Brooks <i>[Signature]</i>	9/22	Title Carole Palma, Acting Director USAID/Zimbabwe <i>[Signature]</i>

The 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, on a sustainable basis.

A. Resource Tranching

The US \$5 million cash grant authorized herein is anticipated to be complemented with US \$20 million in Housing Guaranty (HG) loan resources to comprise the third and final tranche of non-project resources for disbursement under the Program. The first tranche was authorized in FY 1992 and the second tranche in FY 1994. After the third tranche no further funds will be authorized.

B. Uses of the U.S. Dollars

As agreed upon in writing by USAID and the Government of Zimbabwe (GOZ), the U.S. dollar cash grant funds authorized herein will be sold on the interbank market to support the Government's new liberalized, market-based currency exchange system. After satisfaction of the Conditions Precedent to Disbursement and receipt of a written request from the Grantee, USAID will disburse the funds into the interest bearing Special U.S. Dollar Account No. 01-033363-31 that the Reserve Bank has established at Chemical Bank, London for the purpose of this Program. Funds deposited into this account may not be commingled with any other funds from USAID or any other source.

C. Uses of the Local Currency

Unless otherwise agreed to in writing by USAID, the Grantee shall deposit in the Special Local Currency Account No. 10-37499, called USAID Special Account Housing, at the Reserve Bank, the local currency equivalent of the U.S. Dollar cash grant resources authorized herein. Over the life of the Program, the counter deposits into the Local Currency Special Account shall be simultaneous with (or within 10 days of) the disbursement of each tranche of the U.S. dollar cash grant. The local currency counter deposit will be calculated using the highest rate of exchange available in the interbank market as of the date of the U.S. dollar disbursement, unless USAID otherwise agrees in writing.

Except as otherwise agreed in writing by USAID, the local currency counter deposits shall be disbursed, used, and accounted for as set forth below.

- The GOZ agrees that, over the life of the Program, local currency counter deposits equivalent to half of the HG loan resources disbursed will be made available to the National Housing Fund, along with an agreed upon amount of budgeted GOZ resources, to be used for the exclusive purpose of low income plot development.
- The GOZ agrees that, over the life of the Program, local currency counter deposits equivalent to half of the HG loan resources disbursed will be made available, along with local currency counter deposits equivalent to the tranching U.S. dollar cash grant funds (less ten (10) percent for the USAID administered Trust Fund Account), on a grant basis to Building Societies to be blended with matching commercially raised resources to be used for the exclusive purpose of low income mortgage financing.

- The GOZ agrees that ten (10) percent of the local currency counter deposits equivalent to the tranch U.S. dollar cash grant funds shall be immediately transferred into a Trust Fund Account designated, established and administered by USAID to cover administrative and operational requirements of the USAID program in Zimbabwe, pursuant to Trust Agreements and amendments thereto between the Parties.

D. Conditions Precedent to Disbursement of the Third Tranche of U.S. Dollar Grant Resources

Prior to the disbursement of the third tranche of the U.S. dollar cash grant resources or issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to USAID, in form and substance satisfactory to USAID, evidence that it has completed the actions below.

1. Successfully, and in conformance with the GOZ Framework for Economic Reform Program, moved low income mortgage lending to positive real interest rates.
2. Agreed in writing to a 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 1991 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.
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 USAID with a written list of eligible expenditures for all HG resources previously borrowed in the first two tranches.
6. Budgeted resources totaling no less than the local currency equivalent of US \$5 million for the National Housing Fund 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 cash grant resources. These budgeted resources are to be separate and distinct from the required counter deposits to the tranch disbursements of the USAID HG and cash grant resources under the Program.

E. Special Covenants

The Grantee covenants that it shall:

1. 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 Economic Structural Adjustment Program (ESAP) Plan, consistent with targets in effect at the time of the planned disbursement.
2. Over the life of the ESAP, on a semi-annual basis, review and advise USAID 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.
3. Over the life of the Program, provide GOZ-budgeted resources totaling not less than the local currency equivalent of US \$25 million for the National Housing Fund. These budgeted resources are to be separate and distinct from the counter deposits to the tranching USAID HG and grant resource disbursements required under this Agreement and the Program.
4. Provide to USAID, on a semi-annual basis, a written list of incurred eligible expenditures to be attributed to the local currency equivalent of the disbursed HG resources.
5. The proceeds of the Program grant funds disbursed to the Special U.S. Dollar Account No. 01-33363-31 established by the Reserve Bank at Chemical Bank, London, shall be placed in the Reserve Bank Special Housing local currency account number 10-37499. Disbursements from the local currency account shall be made only with the concurrence of USAID, which shall be given on the basis of: (a) evidence of eligible expenditures; and/or, (b) contracts or other such documentation which shall be agreed between USAID and the GOZ as evidencing progress on the development of eligible expenditures.

F. Other Reference Sources

A detailed presentation of this Non-Project Assistance and related Housing Guarantee (612-HG-004) and Technical Assistance Project (613-0235) is found in the integrated Program/Project Document.

USAID Project Number : 613-0236.00
USAID PAAD Number : 613-T-609C
Dollar Appropriation No. : 72X1014
Budget Plan Code : GSSX-95-31613-KG39
Obligation Document No. : 613-0236-G-00-2062
Reservation Control No. : G502360
Amount : \$5,000,000

PROGRAM GRANT AGREEMENT

AMENDMENT NUMBER 2

BETWEEN

THE REPUBLIC OF ZIMBABWE

AND

THE GOVERNMENT OF THE UNITED STATES OF AMERICA
ACTING THROUGH
THE AGENCY FOR INTERNATIONAL DEVELOPMENT

FOR

ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM

Dated: September 27, 1995

ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM
USAID PROJECT NO. 613-0235

PROGRAM GRANT AGREEMENT AMENDMENT NUMBER 2

AMENDMENT Number 2, dated September 17, 1995, between the United States of America, acting through the Agency for International Development ("USAID"), and the Republic of Zimbabwe ("Grantee"):

WHEREAS, the Grantee and USAID entered into a Program Grant agreement dated August 31, 1992 ("Agreement");

WHEREAS, the Grantee and USAID amended the Agreement on September 22, 1994, to provide additional resources under the Agreement;

WHEREAS, the Grantee and USAID desire to amend the Agreement for a second time to provide further additional resources under the Agreement;

NOW THEREFORE, the Parties hereto hereby agree that the Agreement shall be amended as follows:

1. Article I. Section 1.2 is modified by deleting the words and figures:

"twenty million United States Dollars (\$20,000,000)". It is planned that the cash Grant will be made available in two equal disbursements of ten million United States Dollars (\$10,000,000) first upon satisfaction of the Conditions Precedent set forth in Article V, Section 5.1., hereunder, and second upon satisfaction of the Conditions Precedent set forth in Article V, Section 5.2, hereunder."

and substituting the words and figures:

"twenty-five million United States Dollars (\$25,000,000). It is planned that the cash grant will be made available in three separate disbursements, two of which shall consist of ten million United States Dollars (\$10,000,000), and the third of which shall consist of five million United States Dollars (\$5,000,000) first upon satisfaction of the Conditions Precedent set forth in Article V, Section 5.1 hereunder, second upon satisfaction of the Conditions Precedent set forth in Article V, Section 5.2, hereunder, and third, upon satisfaction of the Conditions Precedent set forth in Article V, Section 5.3, hereunder."

2. Article I. Section 1.3 is modified by deleting the words and figures:

"the first and second tranches of which are provided for in Section 1.2, above."

and substituting in lieu thereof the words and figures:

"the first, second and third tranches of which are provided for in Section 1.2, above."

Except as amended herein, the Agreement between the Republic of Zimbabwe and USAID, dated August 31, 1992, and previously amended on September 22, 1994, remains in full force and effect.

IN WITNESS THEREOF, the Republic of Zimbabwe and the United States of America, each acting through its duly authorized representative, have caused this amendment to be signed in their names and delivered as of the day and date first written above.

UNITED STATES OF AMERICA

REPUBLIC OF ZIMBABWE

By: Carole Palma
Carole Palma
Acting Director, USAID/Zimbabwe
United States Agency for
International Development
(USAID)

By: Charles T. Kuwaza
Charles T. Kuwaza
Senior Secretary
Ministry of Finance

Date: 9/27/95

Date: 28/9/95

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: 1994/5	(a) US \$15 m. in HG Loan Resources, (b) US \$10 m. in Cash Grant Resources
TRANCHE 3: 1995/6	(a) US \$20 m. in HG Loan Resources, (b) US \$ 5 m. in Cash Grant Resources

The table below shows for the HG Loan and Cash Grant resources, the US Dollar and local currency counter deposit (c.d.) commitment plan, based on an illustrative currency exchange rate of US \$1.00 = Z \$8.00. Throughout the life of the program, the local currency requirements will be calculated using the highest rate of exchange on the interbank market which, as of the date of the US Dollar disbursement, is not unlawful in Zimbabwe, unless USAID otherwise agrees in writing.

YEAR	1 1992	2 1993	3 1994	4 1995	5 1996	TOTAL
<u>US \$ (000,000) through interbank market:</u>						
USAID HG Loan:	15.0			15.0	20.0	50.0
USAID Cash Grant:	10.0		10.0	5.0		25.0
<u>Z \$ (000,000) through National Housing Fund (NHF):</u>						
GOZ HG c.d.	60.0			60.0	80.0	200.0
GOZ Budget	40.0	40.0	40.0	40.0	40.0	200.0
Sub-total	100.0	40.0	40.0	100.0	120.0	400.0
<u>Z \$ (000,000) through Building Societies:</u>						
GOZ HG c.d.	60.0			60.0	80.0	200.0
GOZ CG c.d.	72.0		72.0	36.0		180.0
Bldg. Soc.	132.0		72.0	96.0	80.0	380.0
Sub-total	264.0		144.0	192.0	160.0	760.0
<u>Z \$ (000,000) to USAID Management Trust Fund:</u>						
GOZ CG c.d.	8.0		8.0	4.0		20.0
Sub-total	8.0		8.0	4.0		20.0
TOTAL Z \$	372.0	40.0	192.0	296.0	280.0	1,180.0