

XD-ABH-303 A

| | | | |
|----------------------------------------------------------------------------------------|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET | | 1. TRANSACTION CODE <input checked="" type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete | Amendment Number _____ DOCUMENT CODE 3 |
| 2. COUNTRY/ENTITY ZIMBABWE | | 3. PROJECT NUMBER <input checked="" type="checkbox"/> 613-HG-004 <input type="checkbox"/> 613-0235 and <input type="checkbox"/> 613-0236 (NPA) | |
| 4. BUREAU/OFFICE AFRICA <input type="checkbox"/> 06 <input type="checkbox"/> | | 5. PROJECT TITLE (maximum 40 characters) ZIMBABWE PRIVATE SECTOR HOUSING HG <input type="checkbox"/> TECHNICAL ASSISTANCE & NPA PROJECTS <input type="checkbox"/> | |
| 6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 97 | | 7. ESTIMATED DATE OF OBLIGATION (Under "B:" below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 91 <input checked="" type="checkbox"/> 92 B. Quarter <input type="checkbox"/> 1 <input checked="" type="checkbox"/> 4 C. Final FY <input type="checkbox"/> 91 <input checked="" type="checkbox"/> 95 | |

8. COSTS (\$000 OR EQUIVALENT \$1 =)

| A. FUNDING SOURCE | FIRST FY <u>92</u> | | | LIFE OF PROJECT | | |
|------------------------|--------------------|--------|------------|-----------------|--------|------------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | 17,680 | | 17,680 | 52,680 | | 52,680 |
| (Grant) | (2,680) | () | (2,680) | (2,680) | () | (2,680) |
| (Loan) (HG) | (15,000) | () | (15,000) | (50,000) | () | (50,000) |
| Other U.S. | | | | | | |
| 1. Host Country | | 175 | 175 | | 890 | 890 |
| 2. Other Donor(s) | | | | | | |
| TOTALS | 17,680 | 175 | 17,855 | 52,680 | 890 | 53,570 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|------------------|-------------------------|-----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) DEA | | | | | | 2,680 | | 2,680 | |
| (2) HG | | | | | | | 50,000 | | 50,000 |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 2,680 | 50,000 | 2,680 | 50,000 |

| | |
|----------------------------------------------------------------------------|-----------------------------------|
| 10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) | 11. SECONDARY PURPOSE CODE |
| | |
| 12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) | |
| A. Code | |
| B. Amount | |

13. PROJECT PURPOSE (maximum 480 characters)

To increase low income household access to affordable shelter in urban areas, on a sustainable basis.

| | |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 14. SCHEDULED EVALUATIONS | 15. SOURCE/ORIGIN OF GOODS AND SERVICES |
| Interim MM YY <u>01 95</u> Mid YY <u> </u> Final MM YY <u>08 97</u> | <input type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify) <u>935</u> |

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

USAID/Zimbabwe Controller concurs with the proposed methods of implementation & financing.
 Clearance: M. Sewell 8/31/92

TOTAL PROGRAM/PROJECT RESOURCES

| | | | | |
|---------------|-----------------|--------------|-----------------|----------------------|
| Total Program | \$78,570,000.00 | 613-0236 | \$25,000,000.00 | Cash Grant |
| Loan Subsidy | 3,041,000 | 613-0235 | 2,680,000.00 | Technical Assistance |
| | | HG-004 | 50,000,000.00 | Housing Guarantee |
| | | Host Country | 890,000.00 | |

| | | |
|------------------------|---------------------------------|------------------------------------------------------------------------------------------|
| 17. APPROVED BY | Signature | 18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION |
| | Title Ted D. Morse, Director | |
| | | MM DD YY 02 11 93 |

PROJECT AUTHORIZATION

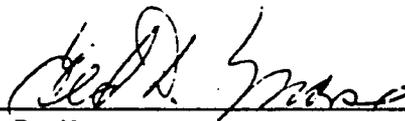
Name of Country: Republic of Zimbabwe
Name of Project: Zimbabwe Private Sector Housing Technical Assistance Support Project
Number of Project: 613-0235

1. Pursuant to the Foreign Assistance Act of 1961, as amended, the Foreign Operations, Export Financing and Related Programs Appropriations Act of 1990, as amended, and Africa Bureau Delegation of Authority (DOA) 551, as amended, I hereby authorize the Zimbabwe Private Sector Housing Project involving planned obligations of not to exceed two million six hundred and eighty thousand United States dollars (\$2,680,000) in grant funds over a period of five years from the date of authorization, subject to the availability of funds, in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the program. The planned life of the program is five years from the date of initial obligation.

2. The Project consists of technical assistance and training in support of the Private Sector Housing Program which is designed to increase low income household access to affordable shelter in urban areas, through increasing the role of the private sector and rationalizing the role of the public sector in the provision and facilitation of access to such shelter.

3. The Program Grant Agreement, which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. The source and origin of commodities and nationality of services (except ocean shipping) financed by A.I.D. under the Program with DFA funds shall be the United States, Zimbabwe or other countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. All reasonable efforts will be used to maximize U.S. procurement whenever practicable. Ocean shipping financed by A.I.D. under the Program shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States and countries included in A.I.D. Geographic Code 935.



Ted D. Morse
Director
USAID/Zimbabwe

Date: Aug. 31, 1992

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.

The proposed Program goal is to increase the level of home ownership for low income households in Zimbabwe's urban centers. The Program purpose is to increase low income household access to affordable shelter in urban areas.

A. Resource Tranching

The US\$10 million cash grant authorized herein will be complemented with US\$15 million in Housing Guaranty (HG) loan resources to comprise the first tranche of non-project resources for disbursement under the Program. It is planned that the second Program tranche, planned for authorization in FY 1993, will combine US\$5 million in cash grant resources with US\$20 million in HG loan resources; and the third Program tranche, planned for authorization in FY 1995, will combine US\$10 million in cash grant resources with US\$15 million in HG loan resources. Each tranche of Program resources will be committed subject to the availability of funds, the mutual agreement of the Parties to proceed with the Program, and upon the satisfactory compliance with the Conditions Precedent.

B. Uses of the U.S. Dollars

Unless otherwise agreed to by A.I.D. in writing, the U.S. dollar cash grant funds authorized herein will be allocated for general support of imports under the Open General Import License (OGIL). After satisfaction of the Conditions Precedent to Disbursement and receipt of a written request from the Grantee, A.I.D. will disburse the funds into an interest bearing Special U.S. Dollar Account to be established by the Grantee. Funds deposited into this account may not be commingled with any other funds from A.I.D. or any other source.

C. Uses of the Local Currency

The Grantee shall establish a separate, interest-bearing non-commingled Special Local Currency Account in the Reserve Bank of Zimbabwe or other Grantee-designated, A.I.D.-approved bank in Zimbabwe, in the name of the Grantee. Unless otherwise agreed to in writing by A.I.D., the Grantee shall deposit in the Special Local Currency Account 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 Special Local Currency Account shall be made 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 which, as of the date of the U.S. dollar disbursement, is not unlawful in Zimbabwe, unless A.I.D. otherwise agrees in writing.

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

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- The GOZ agrees that, over the life of the Program, local currency counter deposits equivalent to half the HG loan resources disbursed will be made available to the National Housing Fund, along with an agreed upon amount of budgetted 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 the HG loan resources disbursed will be made available, along with local currency counter deposits equivalent to the tranced U.S. dollar cash grant funds (less ten (10) percent for the A.I.D. administered Trust Fund Account), on a grant basis to Building Societies to be blended with "matching", commercially borrowed resources to be used for the exclusive purpose of low income mortgage financing.
- The GOZ agrees that ten (10) percent of the local currency counter deposits equivalent to the tranced U.S. dollar cash grant funds shall be immediately transferred into a Trust Fund Account designated, established and administered by A.I.D. to cover administrative and operational requirements of the A.I.D. program in Zimbabwe, pursuant to Trust Agreements and amendments thereto between the Parties.

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

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

1. Placed on the Restricted OGIL all items (primarily spare parts) as mutually agreed upon by the GOZ and A.I.D., to assist the building materials industry to (i) produce at full existing capacity; and (ii) expand production capacity (restricted to building materials industry).
2. Placed on the Restricted OGIL:
 - (i) Spare parts, as mutually agreed upon by the GOZ and A.I.D., for work on housing projects requiring earthmoving, road building, and the laying of water and sewage pipes (restricted to building and civil engineering contractors).
 - (ii) Mechanical components, as mutually agreed upon by the GOZ and A.I.D., required for the manufacture of concrete mixers and dumpers, which are made in Zimbabwe but require imported engines and other mechanical parts (restricted to manufacturers of such equipment).

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(iii) Equipment as mutually agreed upon by the GOZ and A.I.D. for the survey industry, and computer equipment (latter restricted to building societies).

3. Budgetted resources totalling no less than the local currency equivalent of US\$5 million for the 1993/94 Zimbabwe Fiscal Year for the National Housing Fund (NHF) exclusively for the purpose of low income plot development. These budgetted resources are to be separate and distinct from the required counter deposits to the disbursements of the tranced A.I.D. HG and cash grant resources under the Program.
4. Confirmed in writing that the borrowing and lending rates for the counter deposits of local currencies made available to the Building Societies for low income mortgage financing will be structured to: (a) permit a spread to cover administrative costs (approximately 2.5 percent); and (b) require that interest earnings and benefits above administrative costs are recycled into mortgage lending for below the median income borrowers.
5. Provided written approval, as authorized under the Building Societies Act, to permit the Building Societies to issue Housing Negotiable Certificates for Deposit.
6. Authorized in writing the Building Societies to offer competitive returns on investment to the depositors of surplus funds.
7. Agreed in writing, and in accordance with its plan to deregulate the financial market by 1995, to a scope of work and time frame for a Program financed analysis of the financial sector with the objective of promoting increased competition within the sector.
8. Approved and announced the reduction of the minimum plot frontage for detached houses from 12 meters to 8.5 meters and the reduction of the minimum stand sizes for detached houses from 300 to 150 square meters.
9. Approved and announced the reduction of the minimum superstructure requirements to a wet block, comprised of a toilet and shower, and a one room slab (3 m x 3 m). If alternative minimum standards are deemed acceptable by the GOZ as a result of utilizing appropriate technology, the GOZ may substitute such minimum standards for the satisfaction of this condition, upon prior written agreement with A.I.D.
10. Approved, as documented in an update of the Ministry of Education and Culture circular on school sizes, a reduction in the minimum size of school sites by 15 percent.
11. Issued a written policy directive to Urban Local Authorities stating that wherever possible: (a) the sealing of roads will be limited to the bus routes and major connector roads; and (b) insitu granitic

materials will be used for wearing course on low volume plot access roads. This will be documented by a MPCNH/MLGRUD circular updating MPCNH's 1981 technical manual on "Design Approach to Roads and Storm Water Problems Relative to High Density Housing Development in Zimbabwe."

12. Established a separate, non-commingled, interest-bearing Special U.S. Dollar Account in the Reserve Bank of Zimbabwe or some other Grantee-designated, A.I.D. approved bank in Zimbabwe into which all U.S. dollar cash Grant funds under this Agreement are to be disbursed by A.I.D.
13. Established a separate, non-commingled, interest-bearing Special Local Currency Account in the Reserve Bank of Zimbabwe or some other Grantee-designated, A.I.D. approved bank in Zimbabwe, into which the local currency equivalent of the U.S. dollar disbursements under this Agreement will be deposited.
14. Provided to A.I.D. a written opinion of legal counsel acceptable to A.I.D. that the Agreement has been duly authorized by, and executed on behalf of, the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.
15. Provided to A.I.D. a written statement of name of the person(s) holding or acting in the office of the Grantee specified in Section 7.7 and of any additional representatives, together with a specimen signature of each person specified in such statement.

E. Conditions Precedent to Disbursement of Second Tranche of U.S. Dollar Grant Resources

Prior to the disbursement of the second tranche of U.S. dollar cash grant resources or the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that it has completed the actions below. This second tranche of cash grant resources also is subject to the availability of funds and the mutual agreement of the Parties hereto to proceed with the Program.

1. Agreed in writing to a scope of work and time frame for a Program financed analysis which will examine the feasibility of establishing a secondary mortgage market by examining the financial implications for all parties and specifically recommending changes that will enable the packaging and trading of mortgages on the secondary market.
 2. Agreed in writing to a scope of work and time frame for a Program financed analysis which will determine how the municipal bond market can be supported to provide additional resources to local
- 1

authorities, by determining the needs of potential Government savings, and the capability of local authorities to manage this new form of debt.

3. Agreed in writing to have the Ministry of Education and Culture, the Ministry of Local Government, Rural and Urban Development, and USAID undertake an analysis of the potential costs and benefits of further reductions in school site sizes in relation to possible cost savings for plots and the creation of additional stands for teacher housing.
4. Reaffirmed in a circular to all local authorities that local authorities may use private town planners to prepare layout and local development plans for more timely housing land delivery.
5. Deregulated prescribed fees for land surveyors, as documented in an amendment to Statutory Instrument No. 200/90.
6. Provided USAID with eligible expenditures for at least 50 percent of the first tranche of HG resources and a detailed plan for the liquidation of the remaining HG resources.
7. Budgetted resources totalling no less than the local currency equivalent of US\$5 million for the NHF exclusively for the purpose of low income plot development for each Zimbabwean Fiscal Year from Program inception to the date of disbursement of the second tranche of U.S. dollar grant resources. These budgetted resources are to be separate and distinct from the required counter deposits to the tranchised disbursements of the A.I.D. HG and cash grant resources under the Program.

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

Prior to the disbursement of the third tranche of U.S. dollar cash grant resources or the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that it has completed the actions below. This third tranche of grant resources is subject to the availability of funds and the mutual agreement of the Parties hereto to proceed with the Program.

1. Successfully, and in conformance with the GOZ Framework for Economic Reform Program, moved low income mortgage lending to positive real interest rates.
2. Agreed in writing to the scope of work and time frame for a Program financed analysis of the construction finance system to determine how it could be utilized to supplement the needs of the National Housing Fund, recommending additional or alternative sources of construction financing, as appropriate.

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3. Issued 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.
4. Adopted a policy, as documented in a Conference Resolution of the Urban Council Association, that off-site infrastructure costs for low income housing projects are financed in a similar manner for both publicly and privately developed projects.
5. Provided A.I.D. with a written list of eligible expenditures for all HG resources previously borrowed in the first two tranches.
6. Budgetted resources totalling no less than the local currency equivalent of US\$5 million for the NHF exclusively for the purpose of low income plot development for each Zimbabwean Fiscal Year from Program inception to the date of disbursement of the third tranche of U.S. dollar grant resources. These budgetted resources are to be separate and distinct from the required counter deposits to the tranced disbursements of the A.I.D. HG and cash grant resources under the Program.

G. 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 A.I.D. of the ceiling for tax free shares in light of GOZ fiscal targets and real effective demand for low income housing with the objective of modifying these ceilings, as economic conditions permit, to support structural adjustment.
3. Over the life of the Program, provide GOZ budgetted resources totaling not less than the local currency equivalent of US\$25 million for the National Housing Fund. These budgetted resources are to be separate and distinct from the counter deposits to the tranced A.I.D. HG and grant resource disbursements required under this Agreement and the Program.
4. Provide to A.I.D., on a semi-annual basis, a written list of incurred eligible expenditures to be attributed to the local currency equivalent of disbursed HG resources.

5. Place the proceeds of the HG loan in a Special U.S. Dollar Account at the Reserve Bank, or such other bank as may be agreed to in writing by the Parties hereto. Disbursements from the account shall only be made with the concurrence of A.I.D., which shall be given on the basis of: (a) evidence of eligible expenditures; and/or (b) contracts or such other documentation which shall be agreed upon between A.I.D. and the GOZ evidencing progress on the development of eligible expenditures.
- H. A detailed presentation of this Non-Project Assistance and related Housing Guarantee (613-HG-004) and Technical Assistance Project (613-0235) is found in the integrated Program/Project Document.

Clearances:

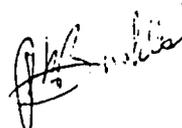
| | | | | |
|-------|-------------|------------|------|----------------|
| RLA | :D.Keene: | <u>OK</u> | date | <u>8/6/92</u> |
| RHUDO | :J.Kolker | <u>JK</u> | date | <u>8/31/92</u> |
| PROG | :M.Ellis | <u>ME</u> | date | <u>8/25/92</u> |
| CONT | :M.Lewellen | <u>ML</u> | date | <u>8/31/92</u> |
| PDIS | :P.Buckles | <u>PSA</u> | date | <u>8/25/92</u> |
| DDIR | :S.Spielman | <u>SS</u> | date | <u>8/11/92</u> |

Zimbabwe Private Sector Housing Technical Assistance
Support Project (613-0235)

Clearances:

RLA :D. Keene: (DRAFT) date 6 AUG 92
RHUDO:J. Kolker: J date 31 AUG 92
PROG :M. Ellis : MS date 31 AUG 92
CONT :M. Lewellen: MS date 8/31/92
PDIS :P.K. Buckles: MS date 31 AUG 92
DDIR :S. Spielman : MS date 31 AUG 92

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/ZIMBABWE

FROM : Patricia K. Buckles, Chief, PDIS 
SUBJECT : Zimbabwe Private Sector Housing Program
Approval and Authorization

Action Requested: You are requested to (1) approve the Zimbabwe Private Sector Housing Program; and (2) authorize obligation of FY 1992 resources for the Program. Over the five year life of the Program and subject to the availability of funds, the mutual agreement of the Parties to proceed with the Program, and satisfaction of conditionality, the Mission plans to commit: US\$50 million in Housing Guaranty Loan resources (613-HC-004); US\$25 million in tranching cash grant resources (613-0236); and US\$2.68 million in grant resources for technical assistance and training (613-0235). The resources will be used to support housing sector policy reform initiatives required to create a more supportive economic policy environment for sustainable low income shelter delivery.

Background: The Zimbabwe Private Sector Housing Program is designed to alleviate the major policy constraints inhibiting the sustainable production and delivery of low cost shelter in urban areas within Zimbabwe, specifically:

- A shortage of foreign exchange for plant and equipment in the building materials industry which has resulted in limited quantities of high priced materials available only after long delays, thereby increasing the cost of housing construction;
- A lack of private sector housing finance due to inadequate incentives for attracting financial resources into low income mortgage lending; and
- A number of binding regulations in the land delivery system, particularly infrastructure and building standards, which make shelter unaffordable to the majority of low income wage earners and discourage private sector participation in housing production.

It is imperative that measures be taken to address the above cited constraints in all three sub-sectors simultaneously, as resolution in only one or two of the areas, while necessary, will not be sufficient to achieve Program objectives.

A. Objectives

The Proposed program will contribute toward increasing the level of home ownership for low income households in Zimbabwe's urban centers. To achieve the goal, the Program purpose is to increase low income household access to affordable shelter in urban areas. These objectives are supportive of Zimbabwe's Economic Structural Adjustment Program (ESAP) goal of rationalizing the role of Government and increasing reliance on market forces, while stimulating employment.

Achievement of the Program purpose will be evident from existence of the following conditions at the end of the Program:

- (a) Increased production of more affordable housing for low income households, as a result of reducing building and site development standards;
- (b) Increased levels of private financing for low income mortgages, as a result of the introduction of new financial instruments and a modified financing incentive structure;
- (c) An increased role for the private sector in housing construction finance, as a result of greater reliance on private developers, planners, and builders;
- (d) Expanded production of lower cost building materials and more employment opportunities, as a result of increased efficiency and capacity in the private construction and building materials industries; and
- (e) A broadening and deepening of the financial sector through the creation of new financial instruments and competition that will facilitate expanded investment and growth.

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

B. Program Design Strategy

There are three key aspects to the Program's planned financial sector assistance strategy. The first aspect relates to the policy environment. Program resources will be disbursed based upon completion of key policy and regulatory changes required to improve the enabling environment for sustainable low income shelter production, financing, and delivery. Technical assistance will be provided in concert with policy reviews to examine the merits of introducing new financial instruments and systematic financial sector changes in the medium term that will optimize the investment of private sector savings and investment into low income housing.

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

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

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

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

C. Financial Plan

As shown below, it is planned that, subject to the availability of funds and mutual agreement of the Parties to proceed with the Program, A.I.D. program resources totalling US\$75 million and project resources totalling US\$2.68 million will be released in three tranches over the five year life of the Program, based upon Government of Zimbabwe (GOZ) implementation of proposed policy changes affecting the low income shelter sector.

Planned Obligations

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

As shown, it is expected that Program loan resources from a US\$50 million HG will be released in three tranches (US\$15 million in Year 1, US\$20 million in Year 2, and US\$15 million in Year 4) over the five year life of the Program. The Program also plans to provide US\$25 million in cash grant funds to be disbursed simultaneously with the loan funds in three tranches (US\$10 million in Year 1, US\$5 million in Year 2, and US\$10 million in year 4) over the five year life of the Program.

The table below shows the U.S. dollar resource commitment plan and the local currency counter deposit commitment plan, based on an illustrative currency exchange rate of US\$1.00 = Z\$5.00.

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

The cash grant funds will be matched with a counter deposit of local currency to be used -- along with GOZ counter deposits from the HG loan, and in combination with matching Building Society resources -- to fund low income mortgages, and to fund a USAID established and administered Trust Fund. US\$2.68 million in grant resources also will be provided under a separate Project Grant Agreement for technical assistance and training.

D. Uses and Flow of Funds

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

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

(1) U.S. Dollar Funds

As shown in box 2a, once disbursed, the U.S. dollar loan and cash grant funds will be placed in non-commingled, interest bearing Special U.S. Dollar Accounts to generally support imports on the Open General Import License (OGIL). As shown in Box 3, simultaneously with each of the U.S. dollar disbursements, the GOZ will make counter deposits of the local currency equivalent into non-commingled, interest bearing Special Local Currency Accounts.

(2) GOZ Local Currency Counter Deposit to the HG Loan Funds

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

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

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

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

(3) GOZ Local Currency Counter Deposit to the Cash Grant Funds

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

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

(4) Building Societies' Resources

The GOZ local currency counter deposit resources made available to the Building Societies as a result of disbursement of the HG and cash grant resources combined (Z\$85 million in Year 1, Z\$72.5 million in Year 2, and Z\$80 million in Year 4) are to be blended with the Building Societies' "matching" resources (Z\$237.5 million) borrowed at market rates (presently 25 percent) to bring the average cost of funds to the Societies to half the market rate (currently 12.5 percent).

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

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

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

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

Other concerns raised in the ECPR related to windfall profits and real positive interest rates. Both concerns are satisfactorily addressed in the Program conditionality and covenants. In STATE 279565, A.I.D./Washington approved the Mission's clarifications submission (HARARE 008510) and authorized the Mission to proceed with Program approval and authorization in the field.

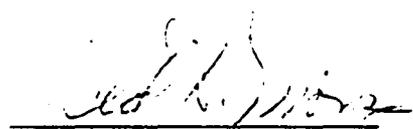
The Program justification document has been amended to incorporate all modifications resulting from the above referenced changes. It also has been updated to reflect the current economic situation. Furthermore, the implementation plan has been revised to identify responsible implementing agencies as well as actions. The Mission Executive Committee members have reviewed all documentation, including this Action Memorandum and confirm that the analyses in the Program document demonstrate that the Program as designed is well conceived, economically justified, and that the technical and financial plans are adequate to carry out the Program, as required by Section 611(a) of the Foreign Assistance Act of 1961, as amended.

Congressional Notification: The Congressional Notification was forwarded to Congress, and the waiting period expired without objection on August 25, 1992.

Authority: In STATE 279565, dated August 28, 1992, the Assistant Administrator of the Africa Bureau delegated to you the authority to approve and authorize the subject Program at an LOP level of US\$50 million for the Housing Guaranty component and US\$25 million for the Cash Grant component. For these program components, only the funds available this fiscal year will be authorized this fiscal year, i.e., US\$15 million for the Housing Guaranty component (and US\$3.041 million to cover the subsidy cost) and US\$10 million for the Cash Grant component. Pursuant to Section 4 of DOA 551, as amended, you have authority to authorize the US\$2.68 million technical assistance and training project component of the program. Pursuant to Section 5 of DOA 551, you have authority to negotiate and execute the Program and Project Grant Agreements.

Recommendation: That you sign: (i) this Action Memorandum approving the subject Program for a Life of Program amount of US\$77.68 million; (ii) the attached Authorization for the Housing Guaranty for US\$15 million (and the US\$3.041 million subsidy); (iii) the Letter of Advice and accompanying Information Sheet for the Housing Guaranty; (iv) the Program Assistance Approval Document (PAAD) sheet authorizing US\$10 million for the first year of the Cash Grant component; and (v) the attached Project Data Sheet and Project Authorization for the US\$2.68 million technical assistance and training component, thereby (a) approving the Zimbabwe Private Sector Housing Program's three components in the life of program amount of US\$77.68 million, and (b) authorizing the resources to be made available in Fiscal Year 1992.

Approve: _____


Ted D. Morse, Director

Disapprove: _____

Ted D. Morse, Director

Date: _____

Attachments:

1. ECPR Guidance Cable (STATE 216149)
2. Delegation of Authority for Program Approval and Authorization (STATE 279565)
3. Authorization for the Housing Guaranty (HG)
4. Letter of Advice and accompanying Information Sheet for the HG
5. PAAD Facesheet
6. Project Data Sheet
7. Project Authorization
8. Program Document

SUBJECT : Zimbabwe Private Sector Housing Program
Approval and Authorization

Drafted: PDIS/PKBuckles/6AUG92/DOC.0665M

Clearances:

RLA : DKeene AKT date 24 Aug 92
CONT : MLewellen ML date 8/31/92
RHUDO : JKoelker JK date 8/31/92
DDIR : SSpielman SS date 9/2/92

B. Sibanda, Director, World Vision International.

H.A. Mushonga, Managing Director, Source Construction.

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