

THE ROLE OF MORTGAGE FINANCE VIS-A-VIS OTHER PROGRAMMATIC
INTERVENTIONS IN LOW-INCOME HOUSING IN
DEVELOPING COUNTRIES

by

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The real bottom line, after you get through assembling all these different financial services and instruments, is still people's lives-- how all of this is affecting them, whether it just means providing those who have been forgotten or cast aside by society with a decent, affordable well-managed place they call home, or whether it even goes further than that in terms of the kind of empowerment that you're creating.

Daniel Leibsohn, Urban Land

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PREFACE

My four-year long interest in Zimbabwe started on an innocuous afternoon in 1983 at the Harvard Law School where a speech was being delivered by the Prime Minister of a recently independent Southern African state. He spoke candidly of the difficulties in making the political transition from an apartheid state to a socialist but reconciliatory style of state rule. While optimistic, his tone betrayed an apprehension, knowing that the path between socialism and economic pragmatism is often wrought with contradiction and conflict.

I visited Zimbabwe a year later in response to an invitation from a colleague at the Ministry of Public Construction and National Housing. As such, my first view of the housing issue was through the eyes of the government. The ministry officials were refreshingly candid about what they hoped to achieve through their housing program and the implementation problems they have encountered so far. They had been struggling for the past three years to define a housing policy which had not hitherto existed. It was a formidable task for the new government who felt the need to provide a basic need to the majority of its population who have been deprived of the right to live in urban areas prior to independence.

In the design of low-income housing projects, the government did not perceive either standards or land as an issue. The problem was how to mobilize the resources necessary to finance its ambitious housing program, given competing development objectives. At the other end of the housing market, the building societies were suffering from a decline in their traditional upper-income clientele as well as from regulatory reforms which reduced their deposit base. These two factors, backdropped against a fluid housing program, set the stage for the initial phase of the inquiry. There was a third factor, operating in the broader realm of development thinking, that affected the train of events in Zimbabwe. This was the trend towards private-public partnerships in housing, in general, and in housing finance, in particular.

At the time of my visit, the building societies-- taking advantage of the shortfall in public resources for housing --were in the process of negotiating for a more favorable tax rate as a quid pro quo for direct participation in the funding of low-income housing projects. It was a desperate move on the part of the societies, and a controversial one for the government. It reflected the fundamental conflict ingrained in pragmatic strains of socialism found in many developing countries. Newspapers headlined alleged histories of racial discrimination by the building societies while ministers debated the possibility of

creating a National Housing Corporation to administer all aspects of the housing program, including finance.

One factor, however, supported the building society movement. Their proposal to participate in the financing of housing occurred at a time of growing international interest in public-private partnerships in housing. The fluid state of housing policy in Zimbabwe was conducive to experimental housing projects which sought to bring standards within affordable reach of low-income families through variations in the long-term mortgage. Through a series of independent events, a building society became engaged to provide a graduate payment mortgage to low-income participants of two pilot schemes even prior to the conclusion of an agreement between the government and building societies on financial reform.

My first visit to Zimbabwe left me with several impressions on the housing issue. First, in spite of its acceptance of the "aided self-help" method, the government retained control of the housing delivery process through the project vehicle. Secondly, the housing problem was defined in terms of the need for finance by both the government, the building societies, and international lending agencies. Finance became a multi-faceted problem. For the government, it was a problem of financing competing development objectives; for the lending agencies, it was a problem of ensuring that projects reached lower-income households; for

building societies, it was an issue of maintaining financial viability; and for low-income household, it was a question of affordability. As I visited several projects, each was explained to me in terms of how its financial mechanism and institutional arrangement rectified the shortcomings of other projects preceding or following it. The focus was undoubtedly on finance.

Back at MIT, the issue of finance was turned around when my Ph.D. Committee posed the question of whether there was, in fact, a need for mortgage finance. Although implementing and financing agencies had assumed finance to be the critical bottleneck to construction, it was never really proven that this was the case. If it could be shown that finance was a major constraint, then technical innovations to improve the current performance of the projects are warranted. However, if this did not prove to be the case, what other types of interventions should project designers be looking at?

I could not answer this pivotal question based solely on project documents and interviews with ministry and lending agency officials. There was a need for a second and longer visit to Zimbabwe to understand the housing process from the perspective of the project participants themselves. To answer the question posed by the committee of whether a real need for finance existed, it was necessary to study how poor families constructed their homes in the absence of formal finance. In other countries,

this issue is best explored within the context of informal settlements. However, with its highly regulated land market, Zimbabwe did not have a quasi-legal land market or popular subdivisions. The government's vigorous anti-squatter policy, a continuation of colonial practice, has so far been able to successfully contain the mushrooming of squatter settlements.

Fortunately, the family I lived with was able to assist me in "discovering" an alternative but similar socio-economic system. My friend introduced me to her aunt who lived in St. Mary's Township, originally a relocation area for squatters displaced from the adjacent banks of the Hunyani River. Her aunt, a well-known community figure, traditional healer and entrepreneur, narrated to me how she and her son built their home themselves to save on construction costs; how she used her savings and earnings from hawking to finance the initial unit; how she designed and erected twelve lodging rooms on her 300 sq.m. serviced stand; and how these earnings were used to consolidate the house and capitalize the tuckshop she opened on the same stand. She also buys vegetables wholesale to sell retail at the gate of her property. Part of her income goes to her informal savings group whose members I was introduced to. In this way I gradually became acquainted with various aspects of life in St. Mary's, and comfortable enough to interview families on socio-economic situation and housing history.

When not interviewing, I did a literature search of existing studies on informal housing and finance in Zimbabwe. There is very little written. This was not altogether surprising given the country's recent colonial history. While the university setting was very useful for guidance and feedback, I found the local consulting firm associated with one of the projects highly defensive when questioned about their original data in spite of official clearance from the agencies concerned.

The impressions I had formed from my first visit were enriched by in-depth interviews with families living within the projects. Employing the case study approach, I learned about the housing process and the socio-economic background of each family, its history of accommodation, and housing preferences.

In the course of analyzing the data, however, there appeared to be several analytical gaps which could not be explained using solely the financing construct. For instance, the question of costs, i.e. the tangible and intangible price of building a 4-room core within 18-months, was never addressed. The focus was on how to pay for housing, and not whether the cost of housing was within the means of households, or even whether the housing solution offered was responsive to the needs of families. Would families apply for a loan in the absence of these program constraints, or are they being forced to take out the mortgage because of the need to comply with the 4-room within 18-months

requirement? The case studies indicated that families were generally reluctant to take out the loans, but in the absence of an alternative source of financing, such as a well developed informal finance market, they had little choice but to do so. In contrast, families residing in St. Mary's Township were able to consolidate their homes in the absence of mortgage finance as well as programmatic constraints, casting doubt on the necessity of long-term credit.

Meanwhile, in spite of the variety in financial innovations and increasing sophistication of institutional arrangements, the same implementation problems repeated themselves from one project to the next. Moreover, while local authorities as well as a couple of building societies had little choice but to participate in the projects, the interviews suggested that they assumed their new roles reluctantly, unsure of what to expect from each other.

Although the pieces to the puzzle fell into place during the writing period at Cambridge, the process really started in a bumpy bus ride back to Harare when my astute research assistant, raising his hands in frustration after having interviewed several families disgruntled with the mortgage program, asked point blank, "Should government be at all in the business of delivering houses?". In the context of aided self-help projects, the question really meant, should the government restrict the housing process to the project context? My Ph.D. Committee carried this

inquiry a step further by asking, if finance is not the critical constraint to housing, what is the appropriate form of housing intervention in Zimbabwe? To answer these questions, I had to ask, in what way did the government restrict the housing process to the project context? The answer became evident for the first time -- by controlling access to land.

Using this newly formulated theoretical framework, I re-examined the data and was struck at how strategic land was to the issues raised above. However, having seen the problem framed in terms of finance by both the government and the lending agencies, the initial focus of my inquiry had been on "how much financing" and "how to make it work", rather than asking, "why financing and not any other form of intervention"? Fortunately, by using the case study approach I was able to obtain in-depth information on a broad range of socio-economic issues, in addition to finance, which enabled me to re-examine the housing question in this new light and to arrive at conclusive evidence within the context of the projects examined. Nevertheless, the study would have been enriched by the inclusion of specific questions on land. For instance, such a modification would have yielded more precise recommendations on land intervention. This serendipitous process of field research demonstrates the difficulty of defining the research problem and categories of data to be collected before the actual field work. The truth is that it is far more realistic to simply identify a broad category of social, economic or

political issues prior to the investigation, and to let the field data speak for themselves.

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ABSTRACT

The study posits that the need for mortgage finance is artificially created by the enforcement of program constraints regulating building standards and rate of construction. The study presents two sets of evidence to support this hypothesis. First, evidence from studies of unregulated settlements in the Third World demonstrates that low-income families are able to build and consolidate their houses in the absence of formal finance. The case studies from the St. Mary Township-- a squatter relocation settlement established during the pre-independence period in Zimbabwe --indicate that Zimbabwe is no exception. Second, an analysis of the land tenure policy currently in place in Zimbabwe indicates that the sole mechanism for access to land for low-income housing is through participation in highly regulated government-sponsored housing schemes. This is evidenced by the absence of squatter settlements and other low-income private housing developments.

Given that access to land is the critical constraint to the housing process, focusing on financing strategies to increase affordability detracts from the real issue of who controls land and how that resource is allocated. The government's misconception that finance, not land, is the critical bottleneck to construction has led to institutional and implementation problems, and a general reluctance by households to avail themselves of the mortgage program.

The government's monopolistic control of land-- the result of a colonial tradition characterized by the government's dominant role as supplier of low-income housing --is an integral component of the country's socialist strategy to rectify inequalities of the past. However, due to increasing population trends and rising expectations, the thesis hypothesizes that it is unlikely that the government would be able to continue regulating the housing delivery process as rigidly as it has done in the past. Population growth is leading to the doubling up of families as the tightening rental market absorbs the brunt of unsatisfied

housing need. As post-independence expectations for better living standards accelerate, the demand for housing opportunities is likely to become transformed into political agitation which may force the government to eventually confront the issue of land allocation.

For the reasons mentioned above, the study argues that the government's dominant control of land access for low-income housing may be a short-lived solution to its housing need. In this regard, the study provides a cursory review of the types of interventions that the government can undertake with regards to the allocation of land for low-income housing. One distinct form of intervention is a socialistic approach to landownership whereby land is owned and controlled by the public sector. This implies a continuation of the status quo which would be financially and politically costly for both the population and the government. In contrast, under a capitalist system, landownership is entirely private with land being allocated through market forces. Between these approaches lies a range of interventions with varying degrees of public-private control, supported by different forms of technical assistance and credit programs. Each intervention should be weighed in terms of its cost and political acceptability in the short- and long-term.

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CHAPTER I
THEORETICAL FRAMEWORK AND STRUCTURE

In the last decade, mortgage finance has played a major role in strategies to ameliorate the housing condition of the urban poor in developing countries. In this regard, Zimbabwe is no exception. The study hypothesizes that the government's strong project emphasis on mortgage finance is artificially created by the enforcement of building standards and the pace of construction. The government's misconception that finance, not land, is the critical constraint to the housing process may lead to implementation problems and a general reluctance by low-income households to apply for mortgage loans. Nevertheless, the latter may feel compelled to participate in government-sponsored schemes when such projects are the exclusive vehicle for access to land.

In this way, the Government of Zimbabwe's focus on finance is an example of what has come to be known in social theory as "problems with problem definition". In this instance, framing the housing problem as lack of finance may not only create institutional and affordability problems for project participants, it may also detract policymakers from addressing the need to facilitate access to land, and to increase the choice of affordable housing solutions for low-income families. This situation may not be unique to Zimbabwe. As other developing countries re-examine their limited success in ameliorating the

housing condition of the urban poor through projects that call for unaffordable standards, they may be convinced to explore other areas of policy reform. The thesis suggests that land presents the most strategic area for intervention given its fundamental importance to housing.

The Problem of Standards

At the heart of Zimbabwe's housing problem is the issue of standards. The government's insistence on high standards is a striking example of a misplaced but well-meaning attempt at social and economic reform inspired in part by the early social movements described in such works by Dickens, Hugo, Zola, and Engels. These works spearheaded proposals for minimum housing standards to ameliorate the deplorable condition of the urban poor.

In many developing countries, including Zimbabwe, the focus on standards has led to housing solutions which are beyond what low-income families are able and willing to pay. This does not only price new units out of the reach of poor families, it also endangers the existing housing stock by legitimizing the destruction of popular solutions that do not meet government specified standards. The latter has been demonstrated by widespread slum and squatter settlement eradication in both industrialized and developing countries. For instance, Peattie

(1987:75) describes the increasing number of homeless people on the city streets of the United States as the "unintended result" of the reform of housing by slum clearance as well as by the action of private developers. She adds, "Like the Bengalis who starved to death in 1943 because the price of rice had soared beyond what they could pay, people are in our streets because there is no longer a stock of housing they can afford." In developing countries the phenomenon of squatter and slum razing has been equally rampant. Given the magnitude of housing need and limited financial resources, these countries can ill afford the depletion of their housing stock through the unnecessary destruction of informal housing which account for the bulk of shelter in the Third World. In Bangkok, Angel (1977) observed that the shortage of housing is the result of the government's myopic view of housing which excluded structures that failed to conform to existing standards, and which, in turn, legitimized the destruction of popular solutions to the housing problem. Unfortunately, governments are typically unable to provide alternative standard dwelling units that are affordable to low-income families, much less deliver them at a pace commensurate to the burgeoning housing need.

The recognition of popular solutions as an alternative to conventional housing programs was first brought to the forefront of development thinking by seminal works by Abrams, Mangin and Turner. In Man's Struggle for Shelter in an Urbanizing World,

Abrams (1964) discusses the viability of progressive housing developments as an alternative to conventional housing programs. Rather than social blights, popular settlements were seen as a solution to the housing shortage. This progressive view of housing advocated for the acceptance and support of informal housing through such programs as roof loan schemes. Perlman (1976) similarly dispenses the myth of marginality associated with low-income settlements in her work on the favelas in Brazil. Arguing for progressive development and against "instant" development based on modern minimum standards, Turner (1967) states that "the imposition of standards on popular housing is an assault on the traditional function of housing as a source of social and economic security and stability...the average lower income family...wants secure land tenure, community facilities, an adequate dwelling, and utilities in that order. The state offers the exact opposite: a modern (but minimum) house in the first place, some community facilities (generally at later stages) and eventually, title to the property after the mortgage has been paid off (pp. 168-179)." In contrast to the standards-focused project approach, both Turner and Abrams, urge government to recognize popular housing and to support the struggles of families to house themselves by making the necessary resources available to them. Of these, land is the most fundamental.

The Project Approach to the Housing Problem:
Standards and the Need for Finance

Given the project focus on standards, and the inability of low-income families to pay for them, governments in developing countries have in recent times introduced mortgage finance programs to enable households to buy an acceptable housing on credit. This section will not only review the rationale for long-term credit, it will also examine the relevance of this finance instrument to the socio-economic conditions of the poor, and the role of mortgage finance vis-a-vis other programmatic interventions in housing, such as land management.

As a background, a brief review will be made of the role of mortgage finance in the United States during the first half of the century -- a system that has served as a model for mortgage finance programs in developing countries. This approach will be contrasted with the variety of financing mechanisms at work in informal settlements of developing countries. Within this context, the question will be asked why, although it appears at first glance that families stand to gain from a mortgage finance program, are they in fact reluctant to borrow? It is hypothesized that the problem of housing finance in Zimbabwe is an artificial need created by the government's insistence on high standards and a rapid rate of construction.

Mortgage Finance System: A Model from the United States

Advocates of mortgage finance programs in developing countries argue that long-term credit makes owning a home affordable to a larger number of low-income families who would otherwise rent by enabling them to spread the bulk of their investment over time, thereby allowing them to match their income stream with housing consumption flow, even before income has reached its peak. This position draws its merits largely from the experience of the United States where the development of the conventional long-term mortgage instrument increased the rate of homeownership from 49% to 63% of all households between 1930 and 1970 (U.S. Congressional Budget Office, 1983). Prior to the introduction of the long-term fixed mortgage, loans were not amortized, with balloon payments made at the end of the term. This schedule of payments, with its limited 5-year maturity and high interest rate, made it extremely difficult for families to fulfill their mortgage obligation. The problem was aggravated by the refusal of mortgage lenders to re-finance the mortgages coming due, thereby leaving the home mortgage industry in a state of virtual collapse.

In response to this crisis, the federal government intervened in the housing market in order to (a) mobilize long-term savings in housing financial institutions by providing the saver with reasonable security and rate of return; (b) reduce the

risk faced by lenders through a system of mortgage insurance; and, (c) make mortgage repayments more affordable to borrowers by spreading them over a 30-year maturity period.¹ The documented success of these interventions laid the foundation for the long-term amortized mortgage and demonstrated the potential of lending to households with moderate incomes, provided mortgage payments were equal to affordable rent. In turn, this accounted for the dramatic increase in the country's homeownership rate.

The success of the American housing finance system in increasing the rate of homeownership has inspired international lending agencies and policymakers to introduce long-term credit in low-income housing projects. It is, however, not clear that housing finance is the critical bottleneck to housing in developing countries where a dynamic building process is taking place in the absence of formal finance.

Housing Construction and Finance in the Informal Sector

Homeownership rates in developing countries do not only exceed those in the United States and other industrialized countries, but a substantial portion of this housing is being

¹ For a brief review of the history of the U.S. housing finance system see Melton Semer, et. al., "Evolution of Federal Legislative Policy in Housing: Housing Credits," Housing in the Seventies, U.S. H.U.D. Working Papers, Vol. 1, National Housing Policy Review (Washington, D.C.: Government Printing Office, 1976).

built without the benefit of formal mortgage finance on land under illegal or quasi-legal tenure.² The fact that a dynamic building process takes place in the absence of mortgage finance raises the issue of how construction by poor families is financed, and what the proper role of mortgage finance should be vis-a-vis other programmatic interventions in the housing process.

Research of housing construction among low-income families in Third World cities reveals that housing construction is undertaken in stages, a process which has been referred to as "brick-by-brick capitalization" (Doebele, 1985:2). This process is financed through a multitude of informal financing sources of which savings, loans and borrowing from relatives and friends, trade credit, and rental income are the most common methods of financing used (Christian, 1980; United Nations, 1978 and 1976; USAID, 1981, 1982, and 1986; Jorgenson, 1975 and 1976; Keyes and

² While Kuznets (1961, 1976) and others have found through time series and cross sectional analysis that housing investment in a country is positively correlated to income per capita, others like Strassman (1970) and Burns and Grebler (1977) note that the level of housing investment in developing countries is only low because most housing is produced outside the monetized sector of the economy. Moreover, Annez (1981) states that the under measurement of housing production by census data in developing countries is a widely acknowledged problem. This conclusion is supported by authors such Peattie (1969), Stokes (1962) and Ray (unpublished manuscript) whose studies of low-income housing in developing countries indicate that substantial amounts of housing are being created outside the public domain by individuals and groups in violation of building codes and frequently illegal or quasi-legal tenure.

Burcroff, 1975; Hoek-Smit, 1977; Brossard, 1975; Mazingira Institute, 1983; Naksook, 1987; Ishmael, 1988). Secondary sources include sale of assets, job compensation, lottery and gambling.³ The optimum combination of various sources differ in accordance with the particular socio-economic circumstances of each household.

Of the commonly held assumptions about informal savings and credit mechanisms, i.e. that loans are largely unsecured, costly and short-term, only the last applies to informal finance (Hamman, 1984; United Nations, 1976 and 1978). Credit available through informal channels is indeed short-term money with the maximum term rarely exceeding one year. More often than not, these loans are rarely available for more than one month. This was found to be preferable by both money-lenders and borrowers. Borrowers favored short-term loans because they can assume a known level of debt for a definite period of time, while lenders preferred such loans because they can be rolled over quickly, thereby increasing the volume of borrowers over a short period of time. Moreover, earnings can be compounded and the risk minimized.

In contrast, while it is widely believed that security for informal loans stems from mutual confidence and social pressures

³ Appendix A complements the literature review on informal financial mechanisms discussed in chapter 3.

to repay, in reality many informal lenders require some form of risk-reducing guarantees such as co-signers, guarantors, and when possible, titles to property. Thus, although personal knowledge may be the ultimate guarantee, loans were often backed up by some form of security, such as a savings account with the lender (Hamman, 1984).

In regard to risk, the relationship between the money-lender and borrower often involves a personal knowledge and continuous contact. Unlike banks, informal lenders may not always have any interest in knowing the specific use for the loan, but they do have a knowledge of, and a keen interest in the overall financial position of the borrower's family and friends as well. In the absence of such information, guarantees based on "personal knowledge" of third parties have become the more accepted forms of collateral. As a result, repayment of loans becomes both an economic and a social necessity (Hamman,1984).

Although substantial amounts of housing are being created outside the public domain without the benefit of formal finance, the informal finance sector is still commonly typified as being highly inefficient. The informal market is widely characterized by the presence of usurious money-lenders and/or friends and relatives who are too poor to offer significant financial assistance.

Housing finance obtained from organized informal sources (as contrasted with other informal sources such as family or friends) may not serve as an acceptable substitute for expanded formal financing. The informal system may be much less efficient, thereby imposing a higher price for borrowed funds. A key feature of informal borrowing is the uncertainty of obtaining an initial loan, typically of short duration, and of being able to roll it over if necessary. Access to such financing may be uneven and the underwriting criteria employed may not correspond to reasonable ability-to-pay standards, in part because of the often limited collateral provided by the borrower (Struyk and Turner, 1986:3).

The above characterization results in part from institutional inertia and the lack of understanding regarding the nature of the informal finance market. While field research in the recent past have accumulated knowledge contradicting some of these negative characterization, this information and its policy repercussions are still in the process of being slowly integrated into mainstream theories of housing finance.

Supporters of formal finance argue that access to long-term mortgage finance would enable a family to shift from renting to homeownership faster than typically possible using informal finance. In turn, this would enable households to accelerate the rate of return on the economic use of space through the

letting out of rooms or initiation of home-based economic enterprises.⁴

Given these advantages, the demand for mortgage finance should be overwhelming. However, there is anecdotal evidence to suggest the contrary. The thesis hypothesizes that families would be reluctant to commit to a long-term mortgage. This reluctance may stem from two sets of factors. The first set relates to the structure of the mortgage instrument and its incompatibility with the erratic nature of the cash flow stream of low-income families. The second set of factors relates to the hierarchy of household priorities in which housing need is ranked differently at various stages of a family's life cycle.

Housing investments by families residing in squatter settlements, in private land subdivisions, and more recently, in sites-and-service projects, do not even superficially resemble affordable rent. Conventional mortgage theory is predicated on the assumption that families are able to allocate what is normally spent on rent to mortgage payments, thereby converting

⁴ For a discussion of home-based enterprises, see Paul Strassman, "Types of Neighborhoods and Home-Based Enterprises from Lima, Peru, " (East Lansing Michigan: Michigan State University), undated draft. For rental income, see N.O. Jorgenson, et.al., "Informal Sector Housing Finance: A Survey of Two Informal Settlements Combined with A Review of Recent Literature," draft report prepared for the U.S. Agency for International Development, Regional Housing and Urban Development Office, Kenya, 1986.

rent into investment or savings for housing. However, most low-income families either live rent-free in squatter accommodation. Depending on the demand for rental accommodation, lodgers can pay very little, or exorbitantly high rents.

, Moreover, relative to the period of time, the bulk of the family's spending is concentrated in a series of short phases, and is more often than not erratic, not only in the sense that month-to-month and year-to-year spending fluctuates compared to regular downpayments and credit installments, but also in the sense that the length of the spending period itself is not prefixed by contractual obligation and probably differs markedly among families at the same income level (Rodell, 1987). Together these factors make compliance with the amortization schedule difficult.

The problem is exacerbated within a project context where the pace and standards of construction are highly regulated, and households are expected to mobilize a substantial portion of resources on their own. Given their income levels, poor families typically qualify for low loan-to-value mortgage values, and are forced to raise the bulk of the construction finance informally over a relatively short period of time compared to the incremental building process practiced in informal settlements. In this sense, low-income families are worse off than middle-income households whose housing costs are largely met by the

mortgage loan, and informal settlers who, while not having access to formal finance, are able to build incrementally according to their ability to pay. While advocates of mortgage finance programs posit the existence of substantial "hidden" savings that can be mobilized to complement the initial loan, relatively little research has been done to determine the potential of low-income households to accumulate savings.

Given these constraints, households are likely to be reluctant to apply for long-term mortgage financing. However, the degree of long-term risk aversion is often contingent on the family's hierarchy of needs at different phases of its life cycle, and the importance of housing relative to those needs. The degree of aversion to long-term financial risk is related to the reasons for investing in a house, or more precisely, on whether families are building themselves just a place to live and accumulate wealth for old age security and an inheritance for their children, or whether they are also building additional rooms to rent or use for some other business purpose on a permanent and long-term basis. In the context of this life cycle analysis, the distinction between the owner-investor and the owner-occupant may not be entirely relevant. Given the variety of motives for housing investment, it would be unrealistic to attribute a single motive for ownership to families whose socio-economic situation can change from one day to the next, from one season to the other.

Given the fact that a dynamic construction sector thrives in the absence of formal credit in the low-income settlements of the developing world, and the inapplicability of the conventional fixed term mortgage to poor families, there is a need to re-think the role of finance vis-a-vis other programmatic interventions in the housing process. Subsequent chapters will demonstrate that the real constraint to housing in Zimbabwe is access to land, and that there is a need for the government to encourage a variety of affordable housing solutions.

The Structure of the Thesis

The thesis argues that the need for mortgage finance is artificially created by the government's strong project emphasis on standards and rate of construction. It will trace this argument through, and present evidence for it in the following way:

Chapter 2 describes the context of the housing issue in Zimbabwe. It argues that the government is not conscious that its housing problem is attributable to the way in which land is being presently controlled. The government's monopolistic control of land-- the result of a colonial tradition characterized by the government's dominant role as supplier of low-income housing --is an integral component of the country's socialist strategy to rectify inequalities of the past. However, due to increasing

population trends and rising expectations, the thesis hypothesizes that it is unlikely for the government to continue regulating the housing delivery process as rigidly as it had done in the past. Population growth is leading to families doubling up with the rental market absorbing the brunt of unsatisfied housing need. As post-independence expectations for better living standards accelerate, the demand for housing opportunities is likely to become transformed into political agitation which may force the government to eventually re-examine its approach to housing.

Chapter 3 reviews the literature on informal housing finance in developing countries, and provides evidence from case histories collected at St. Mary's Township in Zimbabwe, indicating that low-income households are able to construct and consolidate their dwellings in the absence of formal finance. These support the hypothesis that lack of financing is not the critical constraint to the construction process.

Chapter 4 demonstrates that access to land in Zimbabwe is only possible through participation in government-sponsored projects. Squatters dwellings are regularly demolished, and the only existing low-income settlements are those executed under government sponsorship. Since Chapter 3 has demonstrated that households are able to build in the absence of formal finance, it

becomes clear in the discussion that the critical constraint to construction is access to land.

Chapter 5 argues that, by emphasizing standards and rate of construction, the government makes it more difficult for families to participate in housing programs. This chapter examines the rationale for standards and its impact on project participants and implementing agencies. In particular, it will argue that rather than being a management problem, difficulties in project implementation are rooted in the nature of the intervention itself.

Chapter 6 argues that the need for mortgage finance is artificially created by the government as a result of its project orientation. The government's misconception that finance, not land, is the critical bottleneck to construction has led to a general reluctance by households to avail of the mortgage loan.

Chapter 7 examines the strategies used by households, borrowers and non-borrowers, to reduce construction costs as well as mobilize supplementary resources to finance housing construction. It highlights the sacrifices undertaken by families struggling to comply with existing standards.

Chapter 8 argues that the government's project emphasis on finance has led to institutional and coordination problems which

exacerbate the difficulties faced by project participants. Drawing heavily on interviews with officials of implementing and lending institutions, this chapter will demonstrate that local authorities and building societies are equally reluctant to participate in long-term credit program for the urban poor. However, like the latter, they have little choice but to participate.

The last Chapter states that since it is unlikely for the government to continue regulating the housing delivery process as rigidly as it had done in the past. Due to population trends and rising expectations, it may have to eventually confront the issue of land allocation. This chapter very briefly touches on a range of interventions that the government can take with regards to the allocation of land for low-income families.

CHAPTER II

HOUSING POLICY IN ZIMBABWE: AN OVERVIEW

Housing policy in Zimbabwe is characterized by the dominant role of the government as supplier of low-income housing. Even with the acceptance of the site-and-service approach to housing, the government continues to exercise control over the housing delivery process. The thesis argues that by situating the government's land tenure policy in the context of its socialist ideology, the public sector's monopolistic control of the land allocation process should not be seen as a conscious and deliberate attempt by the government to restrict housing opportunities for the urban poor. On the contrary, the government perceives its dominant rule in the housing delivery process as an intrinsic and necessary part of its strategy to rectify past socio-economic inequalities. Ironically, however, by insisting on unrealistic standards and pace of construction, it is making homeownership increasingly more difficult for the neediest members of its population who are forced, in the absence of alternative housing solutions, into the rental market.

Within this context, the inability of households to afford a standard dwelling unit is perceived as a financing problem. Since the government is unable to bear the investment costs of providing each individual family with the standard house, it has chosen to shift part of the burden of financing to the building

societies, and ultimately to low-income households through its implicit acceptance of the rental practice. In this way, The fundamental issue of access to land is over shadowed by the importance given to finance by the government.

Housing Policy in Zimbabwe: A Brief Overview

The tenure status of blacks in urban areas has always been the most controversial aspect of colonial housing policy. The migrant labor system, which envisaged the black worker as a temporary dweller in urban commercial areas, and the land tenure policy, which severely restricted the areas in which blacks could own property, led to the shortage of low-income housing at the time of independence.

The blueprint of land development in Zimbabwe was laid out during the colonial settlement period which started in 1890, following the granting of a royal charter to the British South African Company by the British government in 1889. Soon after their arrival in 'Rhodesia', the colonialists adopted a policy of land apportionment on the basis of race as embodied in the Land Apportionment Act (No.30 of 1930). This Act was subsequently amended to permit blacks to acquire freehold tenure in designated townships outside the municipal boundaries. In 1969 it was replaced by the Land Tenure Act which created African townships within the European Area. Even with the advent of independence

the imprint of this spatial pattern of urban development has remained largely intact.

Although tenure policy has limited the stabilization of the black population in the urban areas, it was the provision of accommodation or rather the lack thereof, that has been instrumental in curbing rural-urban migration. As background, the following section presents a brief historical overview of housing policy during the pre-independence period.

Historical Overview

In 1984, the government imposed a hut tax on the inhabitants of rural reserves to force the indigenous population to enter the cash economy. In order to obtain a salary which would allow them to pay the tax, males were forced to hire themselves out as farm labor, urban workers, or domestic servants. Later it would be pressure on land and higher wages, as well as job opportunities that would draw the population into the urban areas.

Initially black workers were accommodated on their employers' premises in the European preserves. As the flood of job seekers from the rural areas grew, the government established black worker townships or locations separate from the European residential areas. The settlement of blacks in the urban areas was first brought under control by the Native Locations Ordinance

(1906) which tied urban residence to gainful employment. By the 1930s the size of the population in the locations, as well as the number of new job seekers, outgrew the amount of accommodation provided by the government, forcing it to initiate the development of black townships on farms at the periphery of urban areas to absorb and regulate the growth of squatters.

While the administration of worker housing schemes rested on the Central Government, this situation changed in 1946 with the enactment of the Native (Urban Areas) Accommodation and Registration Act (No.8 of 1951) which required local authorities to finance and administer urban black townships. It also made local authorities responsible for the operation of pass laws which restricted black residence in towns to land set aside for the purpose and duration of employment. The 1960 Vagrancy Act likewise empowered local authorities to repatriate back to the rural areas blacks who could not prove that they were gainfully employed or formally registered as urban residents. Legal occupiers of accommodation in the townships were required to register their visitors whose period of stay was limited to two weeks. This requirement was enforced by authorities through surveillance, usually in the form of periodic night raids.

The Land Apportionment Act of 1941, which stated "that no native shall acquire, lease or occupy land in the European area", was amended in 1960 to enable blacks to own or lease land on

terms decided by the Governor in areas described as African Townships. This was done to stabilize the work force and thwart the political activism that was becoming increasingly violent at that time. With the intensification of the war of liberation, the implementation of influx control measures broke down.⁵ As the number of migrants surged, the government created "transitional" settlements--temporary transit camps located near bus terminals and markets at the periphery of the city where residents rented plastic tents for a minimum amount. The government intended to phase out these transitional squatter settlements as soon as the inhabitants could be relocated to municipal rental housing consisting of low-cost, 2-room rental married and single accommodations. Allocation was done from the municipal housing waiting list.⁶ Many squatters were unemployed, or if employed, did not earn sufficient wages to afford the housing solutions provided by the government. Faced with a tremendous housing backlog and increasing demand, the government considered the

⁵ Those working in Salisbury brought their families to live with them in the city. The war further disrupted the rural economy in part because of the movement of people into protected villages. An estimated 600,000 people migrated to the urban areas in search of a means of subsistence during a period of increasing unemployment brought about by the state of economic recession.

⁶ In a typical transitional settlement at Zengeza, 28 km from the center of Salisbury, the government provided 2,637 stands of 9.5m x 10m on to which the people, with the assistance of municipal transport, moved their belongings and building materials and constructed their own dwellings. Communal taps, community pit latrines and a refuse collection service were provided. There was a charge for the rent of the plot to cover services and wages for extra staff employed by the Zengeza Township.

acceptance of the site-and-service approach in the late 1970s as an alternative to conventional subsidized rental housing.

The government introduced the first major site-and-service scheme in 1979 at Glenview in Harare. The Glenview project, implemented during a period of uncertainty and political upheaval, offered 7,347 serviced plots with a toilet/shower and standpipe on-site. These were sold at a cost of Z\$582. The project offered a maximum loan of Z\$200 repayable over a period of one, two or three years. Once the loan, either in the form of cash or materials, was repaid, the borrower could renew the loan. The City of Harare also offered owners small home improvement loans.

The Glenview scheme represented a radical departure from prior housing projects in Zimbabwe. To avoid paying double rent, beneficiaries were permitted for the first time to move on-site and live in temporary shelter while building their permanent homes. The first permanent room had to be completed during the first three years. Critics of the project feared that the area would develop into a slum that would eventually have to be upgraded. In reality, most of the Glenview participants had never been squatters. Most were employed and had been lodgers with a long experience in urban life. Moreover, unlike the St. Mary relocation site Chitungwiza, Glenview was located within

the city boundaries, thereby enabling low-income households to have easy access to places of employment.

Anti-Squatter Policy

Throughout the evolution of housing policy in Zimbabwe, the government consistently opposed the development of squatter settlements. The term of Housing Minister Zvogo in the early 1980s is best remembered by Zimbabweans for its aggressive anti-squatter campaigns. Immediately after the new government took office, Zvogo eradicated the squatter camp in Mbare Musika in Harare. The government exhorted squatters to return to the rural areas. However, although a few went, most considered they had nothing to return to that was economically viable. Some families were accommodated in over crowded condition in former 'single' men's hostels, while other families were moved further away from the road, out of sight of the main public highway in the area. Another large squatter settlement Chirambuyo in Chitungwiza, housing some 30,000 people was also demolished . The self-built houses were razed down without any compensation paid to the occupants. The new squatter settlements that sprang from the demolition of Chirambuyo were bulldozed to the ground. Under "Operation Clean-Up" initiated by the Zimbabwe African National Union Central Committee, the police and army arrested squatters throughout the cities in late-night and dawn raids, bulldozing or burning down houses. The government insisted that squatters

return to the rural areas through rural-resettlement schemes, including those squatters who were long-term urban dwellers unable to afford the government-sponsored housing solutions.

The above discussion demonstrate that prior to independence tenure and housing restrictions were used by the colonial regime as a tool for regulating rural-urban migration into designated white areas. It is striking to note that the post-independence government has turned this approach around by utilizing housing and land as a mechanism for rectifying past socio-economic and geographical inequalities. In both instances, government has remained in control of the housing delivery process, and has used housing to effect specific policy objectives. For the colonial government, the goals were founded on racial segregation; for the current regime, on socio-economic equality. The ideological climate of the post-independence period is particularly conducive to government control of the housing process, as will be explained in the following section.

The Role of Housing in Zimbabwe's Socialist Transformation

Zimbabwe inherited from its colonial past a highly dualistic economy characterized by a small modern sector and an impoverished rural peasant sector. Highly inequitable patterns of land distribution, and past neglect of the urban sector lie at the root of the country's development problem. Partly as a

result of these factors, there has been a large disparity in labor productivity between these two sectors, giving rise, in turn, to gross inequalities in living standards and income-generating opportunities.

Development Objectives and Strategy: Growth with Equity

The development goals of the new government are outlined in its Transitional National Development Plan (1982/83-1984/85) hereafter referred to as the Plan. On the one hand, the government is concerned with improving the existing productive base to sustain self-sufficiency in food, a rapid rate of growth in gross domestic product, and significant increases in employment. On the other hand, it is also anxious to ensure a more equitable distribution of growth. The Plan states that the primary objective of the government is to remove historical distortions, and to,

advance the interests of the broad masses of the people and of the nation as a whole, and to lay down the foundation for the creation of a free, democratic and independent socialist nation...the underlying philosophy of the Transitional National Development Plan is that the structure of property relationship has to be transformed in Zimbabwe in order to create the basis for a socialist order...(with)... the Plan (as) the

first step in the direction of this socialist transformation.⁷

The provision of adequate housing is an essential element of Zimbabwe's social development program. The country's urbanization rate is expected to increase rapidly due to the repeal of migration controls, rural-urban income disparities, and impoverished living conditions in the communal lands. The demand for low-income housing is expected to increase as a result of continuing migration and high population growth rates. Within this context, the housing "problem" manifested in severe overcrowding is perceived by the government not only as a shortage in the supply of affordable housing, but more fundamentally, as a manifestation of the inequitable allocation of resources that has historically divided socio-economic and racial groups, and promoted rural-urban dichotomies. In particular, the migrant labor system, which envisaged the black worker as a temporary dweller in urban commercial areas, and the Land Apportionment Act which severely restricted the areas in which blacks could own property, contributed to the shortage of low-income housing at the time of independence. In this context, the government perceives housing as both a goal of, and vehicle for, development. This is reflected in its Plan which stresses the role of housing as a tool for the redistribution of wealth,

⁷ The Transitional National Development 1982/83-1984/85, Republic of Zimbabwe, May 1983.

and for the creation of a more balanced human settlements system. Accordingly, the government has shifted away from the colonial policy of constructing rental housing for migrant labor towards more widespread homeownership schemes for a growing class of urban migrants.

Volume 2 of the Transitional National Development Plan outlines the main components of the new government's housing strategy, stating explicitly its commitment to the delivery of serviced sites, hand in hand with the strict enforcement of housing standards in both urban and rural areas. This imposition of rigid program standards distinguishes post-independence projects from the Glenview Model. Moreover, in contrast to the small construction and home improvement loans offered at Glenview, these latter schemes offered larger, long-term mortgage finance. This departure from the Glenview model can be explained by the government's view of housing as a visible sign of its efforts to provide the population with a standard of living comparable to that enjoyed by the privileged colonial class.

To increase the affordability of this housing solution, the government adopted a two-pronged approach. The first component consists of strategies to reduce housing costs, notably through direct government involvement in the production of building materials and construction of houses using building brigades--a concept borrowed from Cuba. The organization of housing brigades

is an integral component of the government's strategy to overcome housing shortage. These brigades are under the jurisdiction of local authorities or district councils. The government has launched a vigorous campaign to register anyone with building skills, whether they are qualified or not, for possible inclusion in the brigades. In this way, the government hopes to reduce building costs, and thereby make the house more affordable. Ironically, in practice brigades are the most expensive mode of construction compared to both the aided self-help and cooperative methods.

The second approach focuses on the development of a financing strategy which would enable low-income households to have greater access to mortgage financing from building societies. This latter approach has been at the core of the multitude of donor-sponsored housing projects in Zimbabwe, implemented through various sophisticated institutional arrangements and marked by greater private sector participation. Of these projects, three have been selected for in-depth analysis in the thesis: the Kuwadzana site-and-service scheme sponsored by the U.S. Agency for International Development (USAID), Nketa low-income pilot project in Kwekwe sponsored by USAID and the U.N. Centre for Human Settlements (UNCHS), and the Sunningdale housing

scheme in Harare, one of four projects sponsored by the World Bank.⁸

In looking back at its performance vis-a-vis the housing goals contained in its Transitional National Development Plan (1982/83-1984/85), the government acknowledges that it had fallen short of its quota (Five Year National Development Plan 1986-1990).⁹ Rather than re-examining the focus of its housing delivery approach, the government attributes this shortfall to escalating material and labor costs. It maintains a dominant control of the process by restricting access to land, in spite of its acceptance of the aided self-help approach. Given this perspective, its failure to meet its housing goals is attributed to rising costs of production, rather than from the nature of the intervention itself. Thus, it explicitly states in the 1986/90 Plan that it intends to reduce labor and material costs through increased government involvement in these activities through the creation of the National Housing Corporation. Moreover, the Plan indicates that in spite of the shortage of resources, the

⁸ Details of the projects are provided in Appendix B. The basis for the selection of the projects, as well as the methodology for the case study approach are presented in Appendix C.

⁹ The Transitional Development Plan had set a target of 115,000 housing units to be constructed over the three-year period, but only 13,500 were completed at the end of the third year.

government intends to further raise the standards of urban and rural housing.

Thus, the transition from a colonial to a socialist regime has left essentially unchanged the public sector's role as supplier of housing ¹⁰ and regulator of the housing delivery process. Private and individual initiatives in housing remains subject to the larger political process regulating the housing delivery process. The following statement made by the Permanent Secretary in the Ministry of Housing indicates, in broad terms, the government's housing policy objectives--a policy basically concerned with the transition from capitalism to socialism:

Ours being a people-oriented Government bent on achieving socialist goals, our housing policy is a redistributive mechanism for redressing colonial income and wealth inequalities. The geographic polarization of the nation according to race and income, reminiscent of the colonial days is being dismantled (Sunday Mail, February 6, 1983)."

A critical condition for the dismantling of the colonial segregationist policy is the government's control of the housing delivery process. However, the achievement of the national housing goals, as stated in the development plans, calls for a larger government involvement, particularly in the financing of new housing construction. Given the shortfall in available

¹⁰ Used in the broad sense to include control of access to land for low-income housing development.

resources for housing investment, the Government of Zimbabwe, upon the urging of international donor agencies, has entered into a reluctant partnership with building societies in the expectation that the latter would assume part of the burden for low-income housing finance. The following section discusses the uneasy alliance between the government, the building societies, and ultimately, the participants in the financing of housing--bearing in mind that the need for finance is more artificial than real, and is the result of standards and other housing programmatic constraints.

Housing Finance System: A Case of Uneasy Alliances

The present housing finance system in Zimbabwe is predicated on the tenuous alliance between a government committed to a socialist ideology and control of the housing delivery process, and private financial institutions with no prior involvement in direct mortgage lending to low-income families. These unlikely partners are drawn together by social and economic exigencies which consist, on one hand, of the government's commitment to deliver an ambitious housing program it cannot afford, and on the other hand, of the building societies' precarious financial state brought about by a highly regulated financial environment.

An important goal of the government is to raise living standards through greater participation by the public sector in the economy as a whole, and in the housing delivery system, in particular. To finance the revenue shortfall arising from its large scale social and infrastructure programs as well as the growth of state-owned enterprises, the government has drawn upon the resources of the financial sector using a myriad of operational controls. Drawing on domestic savings, this financial intervention has significantly constrained the ability of building societies to mobilize resources for housing finance (Coleman and Lintz, 1985).

The greatest challenge to the building societies comes from the government-operated Post Office Savings Bank. Regulated ceilings on taxable interest rates paid on deposits is the major bottleneck in attracting deposits especially in the light of tax-free competition from the Post Office Savings Bank. Without a high level of deposits, the amount of mortgage that can be provided through the use of recycled capital is extremely limited.

The prospect for the building societies to survive financially is contingent on the government. If the government allows them to compete fairly with other financial institutions and earn a fair return on investments, the societies will be able to resume their active role in the housing market. Recently, the

societies have expressed a willingness to serve lower-income families as quid pro quo for concessions from the government on matters of fair competition and improved earnings. For instance, as a show of good faith or perhaps desperation, one of the three building societies participated in the pilot housing scheme in Kwekwe even before the government had ruled on their request for concessions. For its part, the government has reluctantly agreed to relax restrictions provided that twenty-five percent of earnings generated from the introduction of more favorable tax rates would be earmarked for low-income mortgage finance.

However, this uneasy alliance does not resolve the fundamental issue of affordability of government-sponsored housing solutions by low-income families, which, in turn, brings to question the long-term financial viability of building society involvement in the low-income housing market. The problems that have resulted from the Kwekwe experimental project can be attributed not only to the premature participation by the building society concerned but, more fundamentally, to excessive standards which price the housing solutions beyond what households are able to pay, even with mortgage financing due to low loan-to-value ratios dictated by the participants' income profile. The problems of institutional coordination lie only second to this affordability issue in importance. Similarly, government will not have to divert funds away from the building society to finance its housing program if access to land was

opened up to other more flexible and affordable forms of public-private arrangements. Instead, the societies could concentrate in building houses for the growing class of middle-income black families, thereby easing the competition for low-income housing solutions.

CHAPTER III
INFORMAL CONSTRUCTION AND FINANCE

The fact that a dynamic building process takes place in the absence of formal finance raises the issue of how construction by low-income households is financed, and questions the belief held by international experts and donors that lack of finance is a major constraint to the building process. The reality is that substantial amounts of housing are being created in developing countries outside the public domain. Most housing is built by individuals and groups without the benefit of public housing finance, frequently in violation of building codes, on land whose tenure arrangements are haphazard and frequently illegal.¹¹

Given the government of Zimbabwe's effective policy of squatter eradication, there are currently no squatter settlements in Zimbabwe.¹² To investigate how families finance construction

¹¹ United Nations, Non-Conventional Financing of Housing for Low-Income Households, (New York, 1978), 37-41.

¹² This situation is not entirely unique. For example, in Kenya, there is very little squatting in the sense of families building on public or private land for owner occupation without any form of title. The common practice is for either a landlord, a land-buying company, a cooperative, or the owner-occupier to have some form of legal claim to the land. In Zimbabwe, the only known settlement that is generally labelled as a squatter settlement is Epworth. However, legally speaking it is not. Epworth was the property of a Methodist mission which was founded in the last part of the 19th century by Cecil Rhodes. The Methodist Mission followers settled and farmed the land, and over the years, bought two more farms, bringing the area to 3,817 hectares. The area is presently populated by over 5,800 families who were tenants of the mission until the late 1982 when the

in the absence of formal credit and program restrictions, the thesis selected a squatter relocation area for families evicted from the banks of the Hunyani River. Since the relocation was executed prior to independence, families were neither subject to program requirements regarding the structure and pace of construction, nor were they eligible for construction loans. Interviews of the relocated families are a testimony to the ability of low-income households to build and consolidate their homes given access to land.

Characterization of Informal Financial Systems

Informal financial circuits exist primarily because of the large body of households with no access to either formal credit or to subsidized housing. Lack of access results from the incompatibility of finance institutional requirements and the ability of low-income groups to meet them. Most government programs are intended to serve the needs of this group but fall short of expectation because of ineffective targeting or lack of public funds. This gap is filled in by the informal sector.

The strength of the informal system lies in its ability to conform to standards which are appropriate to those of the market. It is based on the family or group which people feel some

government took over the majority of the land (USAID, 1984).

identity, rather than a somewhat anonymous financial institution. It does not require formality in the application of the loan, and considerable flexibility is exercised in the choice of collateral. As they are community-based, informal financial circuits are able to recover loans through personal pressure. In her study of West African countries, Hamman (1985) describes informal financing mechanisms as being highly localized and able to respond to a diversity of needs within a social context. Although transactions may be formalized, personal knowledge of the borrower is important to the lender. Applying for credit and repaying loans then becomes a social obligation as well as an economic necessity. Informal finance systems also link voluntary savings with access to credit. Many poor families in developing countries are distrustful of formal institutions and prefer to put their savings into jewelry. Access to credit has been found to be a strong motivator for savings in the informal sector of West Africa (Hamman, 1984). While informal savings and credit groups are known to exist worldwide, their potential as finance institutions capable of serving a broader range of financial services has often been overlooked.

Indigenous informal financial circuits supply most of the credit needed for the operation of the informal sector of the economy in developing countries. These informal mechanisms operate outside regulatory controls on lending and borrowing rates. While they depend largely on local resources for credit

funds, some maintain links to formal sector institutions. Although some are simple, mutual assistance groups, other are quite complex organizations, such as the tontines of Cameroon and the susu clubs of Liberia, which are capable of mobilizing fairly large amounts of cash and providing specialized financial services. However, a study of informal financial circuits in five West African countries reveal that although a very large percentage of credit and savings activity operate outside the framework of financial institutions, findings from the Ivory Coast, Liberia, Senegal, Niger and Togo revealed that only a relatively small proportion of this credit is channeled towards housing (Hamman, 1985). Housing is frequently self-financed. For instance, it is rare for Thai families to buy a plot and finance a house at the same time, but quite common for families to move their houses from other locations and reconstruct them or simply build a temporary house at minimal cost. Thus very little of commercial credit is utilized for housing construction.

In recent years, a growing interest on the informal sector has led to a number of field research whose findings have contributed to a better understanding of the dynamics of informal land and housing markets.¹³ Unfortunately, recent findings on

¹³ So far unpublished field studies include such works as "Towards Responsive Projects and Programs: Lessons from a Site and Services Project" by Solomon Benjamin which examines informal construction and financing processes at work in the Navagamgoda project in Colombo; "Housing Finance of the Reconstruction Projects' Dwellers" by Charin Naksook which describes informal financing mechanisms used by households in several squatter

informal housing finance are still to be incorporated into mainstream financial theory, and more so into housing policy interventions. Due in part to institutional inertia, programs have focused largely on the introduction of mortgage finance to low-income housing projects. These interventions are based on the misconception that lack of finance discourages investment in housing and that informal finance mechanisms are generally inefficient and costly. This has, in turn, resulted in the perpetuation of myths about the informal financial market which, among other things, argue for the substitution of informal mechanisms by formal institutions. Boleat (1987:163) suggests that governments should not aim to prevent the informal system from working, but to provide it with competition to make it more effective. This would, in turn, require a better understanding of how families finance housing and their preferred financial terms.

There exist a wide variety of informal and quasi-formal financing mechanisms in the developing world. A literature review is provided in Appendix A. Of these, savings, loans and borrowings are the most common methods of financing used. For instance, Christian (1972) observed the universal existence of informal savings and credit groups in developing countries. These groups are known under a variety of names: tontine in West

relocation sites; and "Dynamics of Informal Sector Factor Mobilization: The Process by which Poor People Shelter Themselves with a Focus on the Caribbean - St. Vincent and Dominica " by Len Ishmael.

Africa, esusu in Nigeria, harambee or obilima in Kenya, ekub in Ethiopia, sanduk in the Sudan, gamiya in Egypt, char in Thailand, kye in Korea, ooi in Hongkong and sociedad mutuales in Latin America. Another common form of financing in some parts of the Third World is the extension of credit by small contractors and suppliers of building materials who are usually financed by formal sector financial institutions. In addition, quasi-legal sources of finance are also tapped for housing construction.¹⁴ Secondary sources include the sale of land and other assets, compensation for being dismissed from jobs, lottery and gambling (Nansook, 1987). The optimum combination of various sources differs in accordance with the particular socio-economic circumstances of each household. The letting out of rooms likewise plays a decisive role in enabling a household to convert surplus earnings into housing as dramatically demonstrated by cases from St. Mary's Township.¹⁵

There is no one-to-one relationship between the type of housing finance intermediary or system, and the type of land

¹⁴ An informal finance study of Kenya (USAID, 1986) describes how one credit union successfully administered a small loan program to low-income families, lending monies for such items as the roof and the downpayment for the land.

¹⁵ This is also evident in the World Bank-sponsored site and service project in Dandora, Kenya, where rental income constituted a significant portion of household income. This process is described in a report entitled "Formal and Informal Financing in a Sites and Service Project in Kenya (Dandora)" prepared by the Mazingira Institute in Kenya for the United Nations Centre for Human Settlements (Habitat) on August 1983.

tenure and quality of housing built. Thus, an individual obtaining a plot of land in Kenya's 'Thika corridor" may finance a part of the house using building society loans with a short-term savings and credit society loan to cover the downpayment, and inter-family transfers to cover the extensions. Again, an individual wishing to build rental housing in an informal settlement may use income from other business, such as a matatu (small bus) business, a savings and credit loan, and income from the rent of a partially constructed structure to finish the construction.¹⁶ These examples illustrate the complex nature of these financial mechanisms.

Of the commonly held assumptions about savings and credit mechanisms, i.e. that loans are largely unsecured, risky, costly, and short-term, only the last applied to informal mechanisms (Hamman, 1985). Credit available through informal channels, particularly to low-income groups, is indeed very short-term money with the maximum term rarely exceeding one year. More often than not, these loans are rarely available for more than one month. This was preferable to both lenders and borrowers. The latter preferred short terms because they can assume a known level of debt for a definite short period of time while lenders

¹⁶ Taken from preliminary communications between RHUDO/USAID Kenya and consulting associates Mbugua, Jorgenson and Mwaniki regarding an informal sector finance study to be done on Kenya, 1985.

likewise favored such loans because they can be rolled-over quickly, permitting lending to a larger number of borrowers over a short period of time. Moreover, earnings can be compounded and the risk minimized.

In contrast, while it is widely believed that security for informal loans stems from mutual confidence and social pressures to repay, in reality, many informal lenders require some form of risk-reducing guarantees such as co-signers, guarantors, and when possible, titles to property. Thus, although personal knowledge may be the ultimate guarantee, loans were often backed up by some form of security such as a savings account with the lender. In Lome, moneylenders called gadiga require conventional guarantees, such as land titles, personal property or a co-signer. Liberian mutual assistance groups require that loans to outsiders be guaranteed by a member of the group.

In regard to risk, the relationship between the money-lender and borrower often involves personal knowledge and continuous contact. Unlike bankers, informal lenders may not always have any interest in knowing the specific use for the loan but they do have a knowledge of, and a keen interest in the overall financial position of the borrower's family and friends as well. In the absence of such information, guarantees based on "personal knowledge" of third parties have become more accepted forms of collateral. As a result, repayment of loans becomes both an

economic and social necessity. Informal lenders are also known to be very persistent about collecting debts.

Moreover, Christian (1972) notes that the commonly perceived dichotomy between the formal and informal financial systems is not entirely true since certain processes within the informal financial market are known to have a direct link to the formal system. Moreover, the distinction between self-finance versus other forms of finance is often unclear. In theory, there is a very clear distinction between what is paid from savings and that which is paid from borrowings. However, in reality, as demonstrated by the study on the Thai household economy by Nansook (1986), households are able to survive even though expenditures are higher than income by using a cycle of debt accumulation which is paid off through various informal financing methods.

The preceding discussion demonstrates the variety and complexity of informal finance mechanisms used by households in housing construction. The following stories by the residents of St. Mary's Township will reinforce the evidence collected from other countries, testifying to the ability of families to consolidate their homes without formal finance.

Informal Housing Finance in Zimbabwe: Case Studies
from St. Mary's Township

Studies of unregulated settlements in the Third World demonstrate that low-income families are able to build and consolidate their houses in the absence of formal finance. The case studies from St. Mary's Township-- a squatter relocation settlement established during the pre-independence period in Zimbabwe --indicate that Zimbabwe is no exception. Located outside the Harare boundary and some 20km from the city center, St. Mary's was originally founded by the Rhodesian government in 1956 to house black employees of the former Salisbury airport. In 1962, some 2,000 people formed a squatter settlement on the banks of the Hunyani River near St. Mary's. The government feared pollution of the river and Salisbury's water supply. Over a period of two years, it moved the blacks from this area to stands which were individually serviced with running water and latrines.

Twelve in-depth interviews of St. Mary residents were carried out as part of this study to understand how they built their homes in the absence of formal finance, and to ascertain their attitude regarding credit programs. Since the project started before independence, construction took place in the absence of both program requirements and housing finance.

Analysis of the case studies is divided into two sections. The first section on construction demonstrates that unlike project participants who are required to complete a standard unit within a shorter period of time, residents of St. Mary's built their houses incrementally over a longer period of time -- consolidating and extending the unit to meet their changing needs and changing cash flow situation. The second section on finance indicates that unlike mortgage holders in the United States, St. Mary residents did not purchase or build a complete unit upfront, nor were they bound to the rigidity of the mortgage instrument. Thus families were able to housing consumption with their unpredictable economic situation.

Construction Process

The most common mode of construction used was auto-construction. Many female household heads, mostly war widows from the liberation struggle, constructed the basic core themselves over a long period of time with little assistance from builders. Grown-up children were expected to extend the house -- a process which can take place from two to ten years. Of those who hired informal builders, at least a fourth complained of unreliable builders. In one case, at least five builders were involved in one stage or another in the construction of his 4-room house.

All interviewees stated that their first priority in construction was to complete a minimum habitable unit to avoid having to pay rent elsewhere during construction. The initial number of rooms varied according to family need and size, ranging from one to seven rooms. In one case, the owner started with a temporary 3-room shack which he tore down after the completion of the permanent 4-room house. Table 1 summarizes the major features of the construction activity as revealed through the in-depth interviews.

With the completion of the initial core, the next priority is to extend the core for rental purposes. New rooms are either added incrementally to the existing unit or a separate rental "block" is constructed behind or alongside the house. Most plots had several structures. Besides the main house there is often another unit for use by another family or families, either as lodgers or relatives. The latter is rectangular in shape and is divided into rows of room. The construction of a separate lodging unit is intended to preserve the family's privacy, despite the presence of lodgers. Even when the rental section is attached to the main house, it usually has a separate entry way for privacy. The occupants share a common kitchen, toilet and shower. In general, the quality of the rental units depended on how much the owner is able to invest, or is willing to invest based on anticipated rental income. In one instance, the owner resided in a 1-room shack behind a 4-room rental unit.

Most houses are in relatively good condition. Most are built of sun dried brick, which is often plastered and painted. Some are built of concrete block or burnt brick made on the site. Roofs are either corrugated iron or asbestos cement, and are in good condition. Most residents used a combination of old and new materials in the construction of their houses. More durable materials, such as window and door frames, were frequently salvaged from former houses along the Hunyani River while new materials are bought from local suppliers within the site. The most popular local materials were bricks which are manufactured using sand and clay from the banks of the nearby river. In one case, the household manufactured the bricks themselves due to lack of funds to purchase new materials. This is described in the excerpt below:

The Tailor's Story

A migrant from Malawi, Said was allocated his 300 sq.m. stand in 1969. He has completed four rooms and is in the process of adding three more rooms to his house. He has no intention of taking in lodgers. His house is built of sun-dried bricks with the roof consisting of gumpoles as rafters and zinc/metal sheets. The windows and door frames are wooden and the floor has a smooth cement finish. Said's family uses two rooms for sleeping, one as a living/dining room and the other as a kitchen. The house has a small veranda which Said uses for his "after hours" tailoring activities.

Because of lack of finance to buy conventional building materials, viz. bricks, Said and his family molded the bricks, sun-dried them, and used them for house construction. He bought cement, zinc/metal

sheets for the roof, gum poles, and stone for the foundation. He had to dig up the sand along the river and carried it himself to the construction site.

While the use of sun-dried bricks has not met opposition from the Municipality in the above example, the municipality may, on occasion, insist on the use of more durable materials. In the following case, the household was forced to destroy and rebuild the original 6-room house after municipal inspectors disapproved of the quality of the materials used. This somewhat arbitrary decision caused the family a great loss in time and money.

The Second Tailor's Story

The household head is a migrant from Malawi. He lives with his family in his present 7-room house which has a separate 3-room lodger unit behind it. Six rooms in the main unit are used as bedrooms, while the seventh room is used as a combined living and dining room. One of the bedrooms doubles up as a tailoring area where the owner receives orders from the local clientele. The kitchen is built separately since it is communally shared. The veranda, originally open, has since been incorporated with the living room to increase floor space. The roof is built with asbestos and timber salvaged from his previous house. The walls are built of burnt bricks; the floor cemented with a red-oxide polish. The house is fenced in with wire mesh and has a gate for entry. There is an elaborate finish on the main entrance of the house with steps leading into an elevated sitting room. In addition to a small lawn, the house is surrounded by a variety of flowers and fruit trees such as guavas, lemons, mangoes and avocados. On an empty lot across the road, the owner operates a tuckshop and cultivates a vegetable garden alongside it.

He was allocated his 300 sq.m. stand in 1967 after being evicted from the swampy area of St. Mary's. Two months later he started to develop his stand and incrementally built his first 6-room house and rental unit over a period of four years. The first house, built by local builders, was made of asbestos under sun-dried bricks. Unfortunately, he was forced to tear it down after the municipality indicated that the materials were below standard, and the house, unsafe. He had paid the builder Z\$400 in cash into payments, and bought the materials from local suppliers.

With much effort, he started building his second house a few months later, salvaging as much of the roofing materials as he could. He would like to rebuild the roof with new materials when resources become available.

With the exception of the roof, he used all new materials. He put up the roof himself and did the plumbing to reduce costs. He paid the builder in stages, totalling to Z\$1,336 for seven rooms, over a period of five years. He never took out any loan to build his house.

In spite of the difficulties of rebuilding his old house, the tailor succeeded in constructing a house that is structurally comparable to that found in the newer government-sponsored projects. This shows that given time, households are able to construct housing using their own resources, bringing to question that finance is a critical constraint to construction and the fear held by policymakers that without strict programmatic constraints, such projects turn into slums. The following section examines the informal financing strategies used by households to build their houses.

Table 1. -- Summary of Construction Characteristics:
St. Mary's Township

Characteristics	Respondents (N=12)
Construction Mode	
Self-help	1
Cooperative	1
Builder	6
Self-help & builder	4
Building Materials	
Old	1
New	5
Old & New	4
Home-Made & New/Old	2
Initial Unit	
1 room	2
2 rooms	2
3 rooms	6
4 rooms	1
5 rooms	1
Present Number of Rooms in Main House	
1-3 rooms	2
4-5 rooms	2
6-8 rooms	8
Number of Rooms Rented in Main House	
1-2 rooms	1
3-4 rooms	3
4 rooms	-
Number of Rooms in Separate Rental Unit	
1-2 rooms	-
3-4 rooms	8
4 + rooms	1

Alternative Financing Mechanisms

Since the respondents were not eligible for financial assistance from the municipality, they were asked how they financed the construction of their houses. The response revealed a variety of financing sources, including savings, employer loan, rental income, material credit, and assistance from religious groups. In addition, families reported having to adjust their consumption patterns to meet building costs as well as having lived on-site to avoid paying double rents.

Income and Savings

Since the St. Mary allottees were not eligible for loans, they relied on monthly income and savings, if any, to finance a major portion of their housing construction. Vegetable gardens, no matter how small, served the important economic function of reducing family food expenditures during this critical start-up period. Rural assets did not play a major role in this settlement primarily because of the nature of the population. Many are migrants from the neighboring countries who had severed ties with their families. Those who were from Zimbabwe were either too poor to own rural assets, or were entrenched urbanites who had severed their rural ties. There is also a large religious sect which relied on their community's resources rather than on rural kinship ties.

Savings with Material Suppliers

This mechanism functions as a savings account families opened an account with a private supplier towards the future purchase of building materials. In this way, respondents disciplined themselves from spending the money on other expense items. This is a variation on the practice of buying materials incrementally, storing them on-site, until a sufficient quantity is accumulated to construct the new portion of the house.

Rental Income

Of the financing strategies adopted by residents to cope with inadequate capital, renting was the most important. The widespread presence of separate rental blocks within the stand indicates the importance of rent as an income source. Rental income was used primarily to construct additional rooms, and later, to pay for plot and service charges, as well as food. Many owners claim that most of their renters had been with them for several years, which reflect the continuing shortage of housing in Harare. The following excerpt illustrates the importance of rental income to housing construction.

The Tailor/Landlord's Story

The owner is seventy-two years old. He runs his small tailoring business from the veranda

of his 4-room house. The house is rented out to four sets of lodgers, while the owner resides in a separate 1-room shack behind the main unit. There is a very small vegetable garden on the stand which is cultivated by the lodgers for their and the old man's consumption.

The owner built the initial room from his earnings as a tailor for an Indian shop in the City. The materials were the cheapest he could find. After the completion of the second room, he took in his first set of lodgers. Using this rental income, he expanded the house to the third room. He took in a second set of lodgers and used the income to complete the fourth room. To maximize rental income, he rented out the fourth room, living in a small shack behind the house. With rental income from four rooms, he resigned from his job, and started sewing from his stand.

The walls of the main house are made of unburnt bricks with paint falling off the plaster. The floors have been cemented; the roof is built of galvanized iron roof sheets; and the window frames are wooden. There is no fence around the property; a huge rock separates the house from the adjacent property. It took him almost ten years to complete the four rooms. He has no plans to extend the main house.

The owner earns very little from sewing and does not keep a running account of his earning. Income derived from sewing is used on daily expenses. His steady income comes from his lodgers who each pay Z\$10 per room. His only expenditure is plot rent which is Z\$13 monthly. His food is provided by his children, and the renters pay for water charges as well. He has no savings.

In the above excerpt, the tailor used the rental income to expand the house one room at a time. When rent was approximately

equal to what he earned from his employment, he resigned from his job and become partially self-employed. Thus, rental income substituted for his salary as a steady source of funds. The following interview excerpt reinforces the importance of rental income, particularly for the unemployed and those with irregular and limited income.

The Second Landlord's Story

The owner is a migrant from Mozambique who supports himself from the renting of rooms. His house has eight rooms with a separate lodging unit alongside it. At present he is renting out six rooms at Z\$15.

He was allocated his present 300 sq.m. stand in 1969. He first built two rooms with the help of a small builder, and gradually extended it to the present eight rooms as resources became available. At present his family occupies four rooms while the remaining six rooms are rented out. Rental income is used to meet living expenses and plot charges. Occasionally, his renters fail to pay their rent on time. With his current unemployment and dependence on rental income, any delay in payments causes him cash flow problems.

Employer Loan

For those employed in the formal sector, interest-free loans from one's employer is another important source of financing. Although the sums borrowed and the proportion of the loan to the total cost of the dwelling were small, the importance of this

type of financing cannot be underestimated. In the case below, the employer not only assumed all the initial cost of constructing the initial 3-room core, but also undertook the "contractual work" of buying the materials and hiring the builder.

The Domestics' Story

Both the owner and his wife worked as domestic help. Prior to moving to their 3-room house, they lived on their employer's premises rent-free. Their employer worked for a construction company which, at that time, was hired by the municipality to construct the drainage system at St. Mary's. In this way, he came to know of the relocation project and asked the couple if they would be interested in owning a house at St. Mary's. The couple stated their interest but expressed the problem of finance. Their employer assured them that he would "arrange everything". The latter acquired the 200 sq.m. stand on their behalf, and arranged for the construction of the house over a 2-month period. He only required them to repay him for costs of the materials through monthly salary deductions at no interest.

The couple themselves were not involved in the construction of the house. The employer acquired the stand for them, bought the building materials, and hired the builder. The couple moved in when the 3-room house was ready. The walls, built of burnt bricks, are plastered and painted; the cement floor has a red polish; the roof consist of galvanized iron and painted black; and the windows are made of steel frames with glass panes. The stand has a wire mesh fence. The couple have added three rooms from their joint savings using building materials they had incrementally collected over the years. With the materials ready, the builder completed the 3-room rental unit within two weeks.

Rotating Saving and Credit Societies

At least two respondents indicated that they participated in some form of savings and credit group. Group meetings were held regularly each month during which members contributed a fixed amount. At the inception of the group in the 1960s, the contribution was \$25 but this has since risen to \$200 per month. Credit, equivalent to the month's total collection, was allocated by lottery, with the group ensuring that the money was used for the purpose stated by the borrower. One member stated that she used the loan to purchase building materials. The group, which retains much of its original members, has since expanded its activities to include other socio-political functions in the community. She claims that this type of informal group is common in the township, especially among women. This is not surprising due to the large number of female-headed households, mostly widows, at St. Mary's.

Religious Organizations

Another important source of financing at St. Mary's is a religious sect, the Apostolic Sabbath Church of God (Masowe Church), one of the growing independent religious sects in Zimbabwe.¹⁷ The story is told of how Masowe and his followers

¹⁷ The members of this Church are referred to as the 'maPostoris' (Apostles) of Johane Masowe or simply the Korsten basket-weavers. The Church emphasizes the influence and power of

sold all their property in Rhodesia and settled in Korsten, a slum in Port Elizabeth on the South African coast where they became noted for their industry in producing for sale goods manufactured both by hand and by machine. Masowe believed that the only way to protect the group from the corroding influence of the outside world was to become self-reliant and self-sufficient with regards to the fulfillment of one's material needs. The maPostoris thus developed a variety of manual skills which they brought with them from Southern Rhodesia. By 1955, they operated a small furniture factory of their own in Korsten, and they were transporting furniture for sale to districts far away from Port Elizabeth as well as in the city itself. They were also very enterprising in the production of tinware and baskets, hence the famous name Korsten basket-weavers.¹⁸ In 1962 the implementation of the South African Group Areas Act forced those who were not native to South Africa to return home. Johane travelled to Zambia and Kenya where he made further converts, but many of his followers returned to Rhodesia where a large group settled in the Seki Tribal Trust Land near present-day Harare and St. Mary's

the Holy Spirit in such practices as faith-healing, prophecy and speaking in tongues.

¹⁸ Although basket-making was by no means their most important or profitable form of industry, it was the one which drew the most public attention as women and children, as well as men, wove baskets around the Korsten village and hawked them on the streets of Port Elizabeth at very reasonable prices.

Township.

This sect has a substantial membership, accounting for as much as one-fourth of the total number of residents. While the residents take in lodgers from outside the religious community, it is very much a closed social group based on mutual help. Members assist each other in building each other's houses, not unlike a cooperative.¹⁹

The Story of a Former MaPostori

The standowner was a former member of the MaPastori sect. Prior to building his own house, he rented a room with a sect member in St. Mary's. As a lodger, he found the community very cohesive; this negated the need for "too many house rules".

He financed the construction of his house from a combination of savings and income from secondary activities, notably, those associated with the sect. As a lodger, he learned how to weld tin into various household items which he then sold around the community. Sect members also assisted him in constructing his initial 3-room house.

The owner initially built three rooms of mediocre quality to give his family a place to live rent-free. Around the same time, he decided to leave the sect. A few months after they moved on-site, he started building another four rooms using a registered builder and new materials. When the four rooms were completed, he moved in and destroyed the initial three rooms. Shortly thereafter, he

¹⁹ The community is a very close organization not easily accessible to outside interviewers. The only case study of financing from this source was an interview with a former member of the Church who continued to reside in St. Mary's.

started construction on another four rooms which he rented out.

Self-Help Methods: Labor & Material Savings

Another strategy used by households to reduce the cost of construction is to build the houses themselves and/or to manufacture their own building materials. The use of both methods is illustrated in the excerpt below:

The Widow's Story

The owner of the stand is a widow who relies on rental income from one room for her family's subsistence. The eldest daughter, deserted by her husband, and her five children reside with her mother. The widow sells clothes occasionally to augment the family income. She says that the only expenditure that needs to met on a regular basis every month is the plot rent of Z\$13.06. For food, the family cultivates a small vegetable garden and the grandchildren gather firewood. They also fish in the river.

The 4-room house and the separate 3-room rental unit are poorly finished. The material used to build the house were home made and second hand. The bricks were made by the family, and the door and window frames were salvaged from the various farms she used to worked in. The roofing sheets and timber were also second hand. Cement was purchased from local suppliers. The glass for the windows were new.

She started with three rooms with the help of her son-in-law and grandchildren. During construction the family lived on-site in temporary shack. After the three rooms were completed, the family moved into the house but continued building the fourth room. She

later built the separate 3-room rental unit. However, the quality of the construction was so poor that she was only able to rent out one room.

She spent only Z\$160 for the purchase of cement and glass. These were paid for in cash. Labor and the rest of the materials were free. As her economic situation improves, she would like to replace the wooden window and door frames with steel ones, and replaster and refinish the house. She would also like to demolish the existing lodger unit, and rebuild it to a higher standard so that she may charge a higher rent for it. This would, in turn, constitute her source of steady income.

Lengthening the Construction Period

Due to the lack of resources, most households built their houses incrementally over an extended period of time. In the case below, the standowner resided in a shack on-site while gathering enough materials to initiate construction. She built her house room by room over ten years until her eldest son started working and could take over the expenses associated with the consolidation of the house.

The Divorcee's Story

Mrs. F first lived on a farm in Ruwa where her husband worked as a laborer. Later the family moved to another farm before finally settling in St. Mary's in 1962. Her husband abandoned the family and she had to raise the family on her own. She heard of the St. Mary housing scheme at St. Mary's which was open to widows and divorcees as well. She applied

for a stand and was first allocated a site close to the Hunyani River Bank. Fearing pollution of the river, the government relocated her and other residents to the present site of the township.

She built an 8-room house on her 300 sq.m. stand. This unit is used exclusively by the family. Alongside the house is an 8-room rental structure. All the occupants of the main house and the rental unit share one kitchen, toilet and bathroom. Both units are built of burnt bricks and roofed with asbestos sheets. The stand is fenced in with a gate entry way.

Mrs. F considers herself lucky that at the time of construction there was no time limit within which to complete any size dwelling. This provided her with enough time to gather materials while she lived in a shack on-site.

She complained of shortage of funds during construction. She never had enough money to complete at least one room at once. It has taken her more than ten years to complete the house to its present level. Only when her eldest son started working, has her financial burden been relieved.

The Widow's Story

Mrs. R arrived in Harare in 1978 during the liberation struggle. She first resided as a lodger in Highfield but was eventually able to buy a stand from an allottee who had to return to the rural area. She paid for the municipality Z\$40 to obtain title to the land.

Together with her children, Mrs. R lived on-site for two years before starting construction on her initial 3-room core unit. During construction, the family suffered from lack of food because most of their resources were used for the construction of the house and education of the children. She feels fortunate not to be bound by a time constraint given her erratic income sources. It took her an additional four years to complete the three rooms on her income from

informal activities. She is presently unemployed and relies on her two sons to support the family and extend the house to seven room. So far six of the seven rooms are roofed, but the plastering and flooring on the last two rooms are not yet finished, and the doors and window frames have not yet been installed. When completed she plans to rent out three rooms. She does not feel the need for a loan if given the freedom to build without a time constraint. If offered a loan, she would have turned it down because she does not want to burden her children with a long-term debt.

A trend that is evident from these cases is a reluctance by households to borrow for either new construction or renovation. Instead families prefer to spread out the construction activity over several years to enable them to pay for the expenditures in cash.

Attitudes About Credit Programs

In addition to financing sources, households also indicated their attitudes about current standards and project requirements as well as their opinion on mortgage terms. They were also asked if they would have applied for a loan, if offered one. Since they themselves were never eligible for such loans, it is interesting to learn how these families felt programs should be designed to best assist those in the informal sector.

The Printer's Story

Mr. N works at a printing shop in Harare. He resides with his family of seven children in his 7-room house in St. Mary's. There is a separate 3-room rental unit alongside his

house. Unlike most of the respondents, N was born in Highfield in Salisbury where his parents used to own a 4-room house. With the death of his father, the expenditures in maintaining the house became too burdensome for him, and he sold the house. He squatted on the banks of the Hunyani River while his mother returned to their rural homestead where she supervises the cultivation of his six acre land. During 1985/86 she earned Z\$1000 worth of maize. All the money was used for subsistence and purchase of farm inputs.

N earns Z\$500 monthly from his job, while his wife averages Z\$100 from her knitting activities. She owns a knitting machine and runs her business from their house. Her earnings are used to meet daily household expenses. They also maintain a small vegetable garden for family consumption.

He first built a 2-room house along the river, using corrugated iron sheets as roofing. He obtained most of his materials from a businessman friend in exchange for looking after the latter's accounts. He complained that sanitation was a big problem in the settlement. Four years later, he was allocated his present 300 sq.m. stand in St. Mary's. He started building his first 5-room house two months later. He bought the bricks from the local brick makers, and salvaged the roofing material from his old house. For the windows and doors, he got a loan of Z\$300 from his employer. He repaid this loan through a Z\$4 monthly salary deduction. It was interest-free. The builder charged him Z\$150 for constructing five rooms. He paid the builder cash upon completion. He brought in two lodgers whose rental payments were used to pay for plot charges and food.

Six years later, he started the final extension of his house. The builder charged him Z\$750 for the extension and renovation. N and his wife painted the house themselves. The materials for the 3-room extension were Z\$486, and were paid in cash from his wage earnings. He spent another Z\$260 for the fence, and Z\$45 for the title deed. Two months later, he hired another builder to

construct the 3-room rental unit on the same stand. The builder charged Z\$300 and the materials cost him Z\$320. All were paid for in cash from his earnings. Each of his five sets of lodgers pay Z\$16 per month for rent. This money is used for food and plot rent.

He feels that the government should provide interest-free loans since the public already pay sales tax on building materials. If he were eligible for loans, he would prefer materials rather than cash. If cash loans are to be made available, they should be paid directly by the municipality to the builder. He commented that personally, he is against long repayment periods because he realizes that the longer the amortization period, the more one would have to pay in interest payments.

He wishes that employers assist their employers in the construction of their houses so that loans administered by the municipality could be targeted to those in the informal sector. He disagrees with projects that provide low-income households with only a serviced site and particularly the restriction against on-site residence during construction because these exacerbates their financial burden by requiring them to pay rent elsewhere while saving for construction.

The interviewee felt the need to divide housing finance programs between wage-earners and the self-employed, with employers catering to the needs of the former, and the municipal responding to the needs of the latter. In this way, he felt the loan program can cater to the specific economic situation of each category of borrowers, and invariably save the self-employed from being penalized by affordability criteria that apply only to the salaried participants. Table 2 presents a cross-sectional view of the opinions expressed by respondents when asked how they

would respond if offered a mortgage loan within the context of the government's current housing projects.

Table 2.--Cross-Sectional View of Respondent Attitudes
Regarding the Long-Term Mortgage Instrument and Construction
Requirements under the Present Housing Program

1. "If offered a mortgage loan, I would never accept it. As a free lance builder, I never know when I'll have the money to pay it back."
 2. "If I were ever offered a loan, it should be interest-free since I am already paying sales tax on building materials."
 3. "Since very few of us have had several years of schooling, I strongly feel that any loan program should be well explained to potential borrowers so we can understand what our future financial obligations will be."
 4. "I prefer the loan to be in the form of materials; cash credit should be paid directly by the municipality to the builder to avoid abuse of funds."
 5. "I would never take out a long-term loan. I prefer a shorter maturity period. A 25-year maturity period is too long and would accrue too much interest payments relative to the principal."
 6. "Instead of a mortgage loan, I would find a home improvement or extension loan more useful, especially since I have plans to extend my lodging unit."
 7. "I would not be able to comply with the government's present requirement of four rooms in 18 months. There is too much housing to be built within such a short period of time. Since I am self-employed, I am never sure how much I will earn in a month."
 8. "I believe that the standowner should be permitted to live on-site during construction to avoid the penalty of paying rent elsewhere. In this way, he could also guard his building materials."
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Summary

This chapter has shown that low-income households living in the St. Mary's Township are able to build and consolidate their houses in the absence of formal finance. The literature review indicated that this phenomenon is not unique to Zimbabwe but is a commonly found in cities of the developing world. Moreover, the case studies have demonstrated that not only are families able to construct in the absence of formal credit, they are also not interested in participating in mortgage finance programs, much less under the conditions regulating the government's current low-income housing projects.

CHAPTER IV
INSTITUTIONAL CONSTRAINTS TO ACCESS TO LAND

Access to land in Zimbabwe is only possible through participation in government-sponsored housing projects. Squatter settlements are regularly demolished, and the only existing low-income settlements are those executed under government sponsorship. By restricting access to land, the government will only make it increasingly difficult for families to achieve homeownership within the context of highly regulated government housing schemes.

Constraints to Land Supply

The constraints to access to land for low-income housing in Zimbabwe are institutional rather than physical in nature. Unlike many other Sub-Saharan African countries, Zimbabwe does not generally suffer from a shortage of land suitable for residential development within existing urban areas. It is estimated that in Harare, the most land-short of the larger urban centers, enough publicly-owned land exists to accommodate over 30,000 additional units, sufficient to satisfy estimated requirements for the next four years. In Bulawayo, the 1981 Master Plan states that available residential land can accommodate an additional 1.2 million people or 200,000 more than the projected population of twenty years hence (World Bank,

1981). Over 11,500 hectares of land are owned by the municipality which could be made available for residential use. The situation is similar in other major urban centers such as Mutare, Masvingo, etc. where sufficient public land is available to accommodate urban growth for at least the next decade. Only in Harare will the availability of land become a constraint in the next few years.

Although, in general, land supply is not a constraint in the foreseeable future, donor agencies (World Bank, 1985:47) have expressed a fear that the profligate use of urban land could lead to shortage in the largest cities in a short time. Their concern pertains particularly to Harare where large reservations for schools, other community facilities and roads would seriously deplete the supply of vacant municipally-land in a little over two years. Thus, they have urged the government to offer a wider range of plot options by trading plot sizes against service standards. This issue is demonstrated by the growing concern expressed by middle-income households over the high development costs of big plots. Echoing this demand for smaller lots, a leading estate agent has suggested that the Harare Municipal Council divide the plots into smaller parcels for those who wish to build their own homes. "At the moment, we have large plots which people cannot afford, like an acre plot in Borrowdale. Who wants all that land for a small house? People need 1000 sq.m.

plots they can manage." ²⁰ In this regard, Zimbabwe is not unique. Newly independent countries typically strive to parallel standards, traditionally reserved for the privileged colonial class, for the bulk of its population, not only in housing but in land and infrastructure as well. This is particularly true when, as in Zimbabwe's case, there is ample supply of land for potential residential development, or when foreign exchange does not pose a major constraint. However, history has shown that the state of post-independence euphoria is quite brief as demographic and urbanization factors catch up with finite resources.

The current land surplus situation in Zimbabwe can be attributed to the rigid land use controls imposed by the colonial government to segregate the black population from the whites. These early segregationist policies resulted in a relatively lower level of urbanization compared with other countries on the basis of per capita Gross National Product (Mutizwa-Mangiza, 1985:7).

²⁰ Due to the shortage of middle-income housing, and the consequent rise in housing prices, developers, real estate agents and families have been looking for more affordable ways of building and financing housing. For instance, a recently launched housing scheme in Harare enables households to construct a house at a cost of about Z\$30,000, just above the minimum cost of putting up a home in the low density suburbs. It does not have built-in cupboards, fireplace, curtain tracks and other finishing which would have otherwise raised the price to Z\$40,000.

The situation of surplus land supply has not, however, been translated into available land since access has been restricted to participation in highly regulated government-sponsored housing projects. This has given rise to an ironical situation wherein a surplus land supply suitable for residential development exists alongside a situation of housing shortfall. The shortage in land available for housing is clearly due to institutional rather than physical constraints.

The study argues the institutional constraint to land is not a conscious decision on the part of the government to exclude the lowest-income groups from obtaining land. On the contrary, as discussed in chapter II, the government views its monopolistic control of land-- the result of a colonial tradition characterized by the government's dominant role as supplier of low-income housing --as an integral component of its socialist strategy to rectify inequalities of the past. The provision of adequate housing is an essential element of Zimbabwe's social development program. The housing "problem", manifested in severe overcrowding, is perceived by the government not only as a shortage in the supply of affordable housing, but more fundamentally, as a manifestation of the inequitable allocation of resources that has historically divided socio-economic and racial groups, and promoted rural-urban dichotomies. In particular, the migrant labor system, which envisaged the black worker as a temporary dweller in urban commercial areas, and the

Land Apportionment Act which severely restricted the areas in which blacks could own property, contributed to the shortage of low-income housing at the time of independence. In this context, the government perceives housing as both a goal of, and vehicle for, development. This is reflected in its Plan which stresses the role of housing as an effective tool for the redistribution of wealth, and for the creation of a more balanced human settlements system. Volume 2 of the Transitional National Development Plan 1982/83-1984/85 (Republic of Zimbabwe, 1982 and 1983) outlines the main components of the new government's housing strategy, stating explicitly its commitment to the delivery of serviced sites, hand in hand with the strict enforcement of housing standards in both urban and rural areas. In this context, control of land is assumed to be a necessary component of the government's housing delivery system. It is never considered as an issue due to its abundant supply unlike finance which, in the government's eyes, is critical in order to make current housing solutions affordable to low-income households.

Nevertheless, an implicit policy of restricted land access can lead to a paradoxical situation whereby a government, in its desire to elevate the living standards of its historically deprived population, effectively hinders the neediest from acquiring land by restricting access to government schemes. Since constraint to land is institutional, i.e. a product of policy, it

implies a need for an institutional and political, rather than financial intervention in the current housing process. Only by eliminating the current constraints to land access can the government truly offer poor families affordable housing solutions. Evidence from other countries have shown that land is an essential resource for the creation of housing. Similarly, it has been affirmed that the issue of land is not a technical, or in the case of Zimbabwe, a physical issue, but rather a political and institutional one. The resolution of the housing shortage lies in finding and putting into action effective arrangements for helping the poor gain access to land (Angel, et.al., 1983; Doebele, 1985). The next section will discuss these institutional barriers to access to land.

Institutional Barriers to Access to Land

Institutional barriers to land access are primarily articulated in two ways. The first and most obvious expression of regulation is the government's strong stance against squatter formation. The government's present policy calls for the removal of squatters and the bulldozing of illegal settlements.²¹ The second barrier to land access comes in the form of programmatic constraints which, by elevating the cost of housing beyond what families are able to afford, effectively excludes them from

²¹ USAID, Zimbabwe: Urban Upgrading and Community Facilities, Project Paper (Unclassified), 1984.

access to land. The impact of standards and other program constraints on poor families are discussed in greater depth in the chapter on standards. For the present, only an abbreviated discussion will be presented here.

The Government of Zimbabwe's present housing policy calls for the removal of squatters and the bulldozing of illegal settlements. So far, the government has been successful in eradicating transient settlements, in part because of the low level of urbanization present at the time of independence. Zimbabwe is in a unique position in that the government does not yet have to deal with an uncontrollable surge of squatter settlements. This is primarily the result of legislation which enabled authorities to control the flood of rural migrants seeking jobs in urban areas. The African (Urban Areas) Accommodation and Registration Act of 1951 required that all residents of African townships and domestic servants resident on employers' premises be registered with township authorities. The Vagrancy Act empowered civil authorities to send back to the tribal area those who cannot prove they are gainfully employed or formally registered urban residents. The Land Tenure Act specified those areas in which persons of each race may reside, and also enabled authorities to sweep aside any embryonic squatter settlements. In this way, the colonial government regulated the flow of male migrants to urban areas by tying residence to the availability of employment.

The government's active campaign against squatter settlements was spearheaded in the post-independence period by the then Minister of Housing Zvogo. Immediately after he took office, Zvogo launched a campaign to eradicate squatter settlements starting with the squatter camp in Mbare Musika in Harare in which squatter were exhorted to return to the rural areas. Although a few went, most considered they had nothing to return to that was economically viable. Some families were accommodated in very over crowded condition in former 'single' men's hostels, while other families were moved further away from the road, out of sight of the main public highway in the area. Another large squatter settlement Chirambuyo in Chitungwiza, housing some 30,000 people, also fell victim to the demolition squad. The self-built houses were razed without any compensation paid to the occupants. The new squatter settlements that sprang from the demolition of Chirambuyo were bulldozed to the ground. Under "Operation Clean-Up" initiated by the Zimbabwe African National Union Central Committee, the police and army arrested squatters throughout the cities in late-night and dawn raids, bulldozing or burning down houses. The government insisted that squatters return to the rural areas through rural-resettlement schemes, including those squatters who were long-term urban dwellers forced to squat due to the lack of affordable housing alternatives. This has left low-income households with little choice but to apply for municipal housing schemes or to rent, at times paying exorbitant rents. Others have attempted to

construct temporary shelters using whatever materials they can collect, such as plastic sheeting, metal sheets, poles and grass. Most squatter settlements have, however, been merely flushed out by the municipal authorities with no alternative arrangements provided for the people. Other households reside with family members through the extended family system which often incorporates groups of houses; some hot-bed by shift of workers while others reside in employer- and domestic-accommodation. There is also a growing number of 'settlement extensions' to farm compounds which vary in size and are kept in check through municipal 'surveillance' (Horrell, 1981).²²

Partly because of the absorptive capacity of the lodger market and the government's anti-squatter policy, the growth of squatter settlements in Zimbabwe has not yet reached alarming proportions found in other East African countries (Hywel, 1981:75). The government's alternative to squatter settlements is an ambitious housing program intended to house all urban households within 15 years and all rural households within 30 years.²³ However, given current standards, government solutions

²² As a result of the Municipality's close watch, there is no security of tenure to speak of, and there appears to be little prospect of such being established in the immediate future.

²³ Donald Manson and Harold Katsura, Meeting the Housing Needs of Zimbabwe: An Assessment of the Alternatives, Urban Institute, prepared for the Office of Housing and Urban Programs, U.S. Agency for International Development, Washington, D.C., February, 1985 (field draft).

are unaffordable to a large segment of the urban poor, and will require enormous subsidies which the government is unable to afford.²⁴

Summary

The issue of land presents the greatest paradox in Zimbabwe's housing policy. While in the colonial regime, the poor were deprived access to urban land through segregationist land policies, under the current regime, the government in its desire to rectify past inequalities, has raised the standards of housing within projects such that the very poor are once again excluded from access to land. This is exacerbated by the government's adverse attitude towards squatters and squatter upgrading (USAID, 1987). If access to land is restricted to projects, low-income households will have little choice but to either rent, and thereby lose their ability to convert surplus labor into increased dwellings, or to participate in the projects at considerably higher costs than they are willing, or are capable of paying.

Improving the supply of land for housing the poor in Zimbabwe will require, among other things, opening up the land market to formal and informal private sectors for housing

²⁴ For a fuller discussion of this issue, refer to the chapter on standards.

development and the adoption of appropriate building standards and infrastructure levels. Similarly, the government could introduce infrastructure standards that lend themselves to gradual improvements over time. Above all, the government needs to change its role from supplier to facilitator of the housing process, increasing access by low-income families to various factors of production of which land has proven to be the most critical.

CHAPTER V

STANDARDS AS A NON-ISSUE IN THE HOUSING PROCESS

This chapter posits that by emphasizing standards and the rate of construction, the government makes it more difficult for families to participate in housing programs. It is argued that the government's focus on standards detracts from the real issue of access to land, and results in a dilemma for households who, because of small loan-to-value mortgages, are unable to pay for the standard dwelling unit even with mortgage finance.

This chapter will identify existing building standards and other housing programmatic constraints in Zimbabwe. Likewise, it will analyze the government's rationale for instituting these program requirements, and the position of building societies vis-a-vis standards and pace of construction. Finally, it will examine the problems which these requirements present to low-income households, arguing that the current level of standards are unaffordable to lower-income households, and thereby, create the artificial need for mortgage finance.

Standards and Other Programmatic Constraints

Shortly after independence, the Government of Zimbabwe formulated building standards and program requirements regulating

the mode and pace of construction. These requirements were introduced in the context of its implicit land allocation policy which restricted land ownership to participation in government-sponsored housing projects.

By definition, only those with incomes at, or below the median are eligible to participate in the government's low-income housing projects. Participants are required to complete four rooms including ablution facilities within eighteen months of stand allocation. The complete 7-room, 70 sq.m. structure has to be erected within five years of stand allocation. They could select among three modes of construction. Under the aided self-help concept, participants may perform all of the construction work themselves or, alternatively, hire out some or all of the work to contractors. Another method available is the hiring of local building brigades.²⁵ Finally, participants could opt to construct their homes using mutual self-help cooperatives through which beneficiaries would assist one another in homebuilding.²⁶

²⁵ In reality this method is seldom used. Brigade labor is estimated to be about 50% more expensive than labor hired directly by a beneficiary, largely because of higher administrative and overhead costs. Source derived from Ministry of Public Construction and National Housing, "Low-Income Shelter Project: Parkridge/Fountainbleu Phase I: Project Delivery Plan". Prepared for submission to the U.S. Agency for International Development, 1984.

²⁶ In practice, a large portion of the construction in urban areas is performed by small contractor/builders. This is consistent with findings in other countries where self-help methods are encouraged (World Bank, 1980). In rural areas, where the experience of the Ministry of Public Construction and National Housing is more limited, there are also indications that

During the construction period, families are not permitted to reside on-site prior to the completion of one rooms and ablution facility.

The amount of money that households spend on housing depends not only on their income, but also on the share of income that they devote to housing expenditures. This share varies across different income groups, ranging from as high as 23.1% for lower income households to 13.1% for the highest income groups. Moreover, lower-income households are willing to allocate even a higher percentage of their income for better housing. Based on these findings²⁷, the government stated that no more than 27.5% of household income should be devoted for housing expenditures.

The government adopted two standards for urban and metropolitan area, and rural areas housing. Appendix D describes the design criteria established by the Ministry of Public Construction and National Housing for both areas. In rural areas, the government views virtually all housing as unacceptable. Even in instances where housing is of high quality

households have hired contractors to build their homes.

²⁷ Marja C. Hoek-Smit, Housing Preferences and Potential Housing Demand of Low-Income Urban Households in Zimbabwe: Vol I: Harare and Vol. II. Kadoma, Marondera and Chinhoyi, prepared for the U.S. Agency for International Development, Washington, D.C. , 1983.

and sound construction, it is considered inadequate if not located in planned rural villages.

Literature Review: A Critique of Housing Standards

The literature on housing standards is vast and disparate. Annez (1981: 49-50) has grouped them into three types. The first is descriptive literature, drawing on the works of Dickens, Hugo and Zola, which chronicles the nature of housing conditions among the very poor. The second school of thought decried these deplorable conditions in such classic works as The Bitter Cry of Outcast London published by Reverend Mearns in 1883 and Engel's The Conditions of the Working Class (1884). Finally, Annez notes a third type of normative literature on housing which was responsible for the first proposals for minimum standards. These later became the foundation for court decisions defining minimum specifications.

It is unfortunate that in recent times, a substantial supply of popular housing solutions are being destroyed in the name of social reform. Turner (1967:167) states that planning and building codes designed to improve and maintain modern housing standards have the opposite effect in many countries. Commenting on standards, he states:

The argument, briefly, is that the principle of "minimum modern standards" is based on three assumptions: that high structural and equipment standards take precedence over high space standards; that households can and should move when their socio-economic status has changed so that they can afford to have a larger (above minimum) standard dwelling; and that the function of the house is, above all, to provide a hygienic and comfortable shelter. While these assumptions are valid in the United States, Europe and the USSR, they do not hold true for such countries as Peru, Turkey, and the Philippines.

He adds the observation that families in developing countries typically prefer to live in large unfinished houses or even large shacks rather than small finished ones. "The typical family, earning an uncertain wage in an unstable economy which provides little or no social security, depends heavily on property for security...for such families, the vast majority in the cities of urbanizing countries, housing is a 'vehicle for social change'."

Even in the United States, the enforcement of standards has led to the eradication of slums and the growing number of homeless people on the streets. Peattie (1987:69) emphasizes the importance given by policymakers to the social presentation of housing. "A 'slum' may be operationally defined as housing which is thought to disgrace society. Part of urban policy is identifying housing which is a social disgrace and getting rid of it." In the course of eradicating 'sub-standard' housing, and the imposition of higher standard, more expensive alternatives,

valuable housing stock is lost, and more people are deprived of shelter, access to employment, source of income and capital investment.

The government's rationale for the current level of housing standards in Zimbabwe is a combination of normative, technical, and institutional motivations. In particular, there is a need to analyze the institutional interests that are mutually served by the maintenance of such standards. These interests are summarily examined below.

The Government's Perspective

Housing is an important element in the government's strategy to rectify past socio-economic inequalities. To this end, the government has insisted on high standards, similar to those reserved for white Rhodesians, to compensate for the deplorable pre-independence low-income accommodations for blacks. Zimbabwe is not unique in this regard.²⁸

The first elements of a housing policy in Zimbabwe were set forth in Volumes 1 and 2 of the Transitional National Development

²⁸ Rodwin and Sanyal (1985) suggest that, for many developing countries, standards are a reflection of inherited colonial standards, while often times serving as an indicator of modernization and economic progress, particularly when the shortage of foreign exchange is not a problem.

Plan 1982/83 - 1984/85 (Republic of Zimbabwe, 1982 and 1983). These early documents established the principles that are reflected in the present housing policies of the Ministry of Public Construction and National Housing. These policies emphasize the need to establish equity between socio-economic groups and geographic regions within the country. This broad principle has been translated into policies which have been implemented in the last three years. No where is this more evident than in the government's approach to housing, and its policy regarding standards.

For the government of Zimbabwe, standards are among the most visible signs of its ability to provide the population with an improved quality of life compared to the pre-independence period. In the case of Zimbabwe, windfall gains from a diversified economy combined with the infusion of international assistance for housing programs²⁹ contributed to the post-independence euphoria behind the launching of the government's ambitious housing program. Ironically, by insisting on programmatic requirements to ensure that the quality of dwelling units approximate what it considers as socially and politically

²⁹ For instance, well over 50% of all government financing in 1986 for housing was derived from external assistance which is a very high proportion when compared with other developing countries. Source derived from Coleman and Lintz, Housing Finance in Zimbabwe, prepared for submission to the Office of Housing and Urban Programs, U.S. Agency for International Development, Washington, D.C., April 1985.

acceptable, the government is making it increasingly difficult for lower-income households to afford the government's housing solutions.

Standards from the Perspective of the Building Societies

In order to protect the interests of their shareholders and depositors, as well as the interest of the home buyers, the building societies lay down a standard minimum building specification. This specification, which normally conforms to the local authority by-laws, is intended to ensure an acceptable level of structured standard and durability. Moreover, the requirement regulating the speed of construction enables building societies to secure the value of their investment within the shortest time possible, thereby reducing the risk associated with lending to low-income households.

To respond to the increasing number of lower-income groups in the local government areas, the societies adapted a new specification, known as Grade B specification, which allows for a lower standard in regard to internal finishes. However, with regards to structural requirements, these specifications differ little from the higher specification.

This lower specification allows a greater number of houses in the local government areas to be considered for a building

society loan. While no monetary value is attached to the minimum B Grade specification, it would be true to say that a house constructed to these minimum standards would cost in the order of Z\$7,000 to Z\$8,000 at 1981 building cost -- well above that affordable to low-income households.³⁰

For a number of reasons building societies are reluctant to accept a lower minimum specification to include more houses in the very low cost range. These are as follows:

(a) The building societies have a responsibility to their shareholders and depositors, and they do not consider that houses constructed to standards lower than their minimum B specification provide adequate security for the funds invested by their shareholders and depositors;

(b) The building societies consider that they have a moral responsibility to house buyers to ensure that the house is structurally of a type which, in their view, will remain habitable for a period well beyond the 25-year repayment period without major maintenance expenditure; and,

(c) The present administrative structure of the building societies is such that they would find it extremely difficult to administer a very large number of small loans. To undertake such

³⁰ Whitsun Foundation, A Credit System for Financing Low-Income Housing in Zimbabwe, (Zimbabwe: Salisbury, 1981).

a tasks would require a greatly increased staff, leading to an increase in administrative cost which, in turn, would lead to an overall increase in the present interest rate structure. In the past, the participation of building societies in the low-income housing market was limited to the provision of block loans to government and municipalities for the development of low-income housing estates.

In this light, the government's enforcement of present building standards could easily be a secondary quid pro quo for the participation of building societies in low-income housing. The government's insistence that the 4-room unit be completed within eighteen months reduces the risk to building societies lending to economically vulnerable clients. Finally, as pointed above, the Grade B specifications do not differ from higher specifications, thus ensuring that the quality of housing built within low-income projects are structurally similar to housing for upper-income households.

The Impact of Standards on Lower Income Households

The Ministry of Public Construction and National Housing has indicated that it would like to provide standard housing to all urban area residents within a period of 15 years and to all rural areas within 30 years (Manson and Katsura, 1985). This ambitious housing program has imposed a tremendous strain on the financial

capability of the government, as well as on lower-income households who are in most need of housing. In an effort to maintain these standards, the government has, in recent times, shifted part of the burden of financing housing to the building societies. In turn, the societies have shared this financial risk with the local authorities through a mortgage guarantee program. As will be shown in subsequent chapters, the reluctance of the local authority to assume this risk has posed a potential impediment for low-income, self-employed applicants from obtaining a guarantee, and therefore, from participating in the projects. Clearly, in the long run, the brunt of the financial risk created by excessive standards is ultimately borne by project participants who are confronted with restricted housing and tenure choices. The next section discusses the impact of building standards and other programmatic constraints on low-income families.

Building Standards

The fundamental issue behind building standards is its affordability to the target population. Are the standards affordable given the participant's ability to pay? Is it realistic to expect low-income families to comply with the required standards without subsidies? Is a policy of full cost recovery of both capital and recurrent expenditures realistic and practical? From a policy perspective, who ultimately pays for

the standards? Can the government afford the political price of unmet housing expectations? How will it compare this price to the public cost of subsidizing its public image as major supplier of quality housing?

In 1985, Manson and Katsura (1985)³¹ studied the housing needs of Zimbabwe to determine, among other things, whether the current level of standards is affordable both from the perspective of population as well as the government.³² The study calculated what percent of the population would require subsidies at the current level of standards, and how large a subsidy will be necessary to maintain a housing program of this scale.

From the perspective of the government, the study indicated that the costs of an ambitious housing program in Zimbabwe are currently not affordable. Providing every family with at least a 4-room core within the next few decades would require massive

³¹ Manson, Donald and Harold Katsura, Meeting the Housing Needs of Zimbabwe: An Assessment of the Alternatives, a report prepared by the Urban Institute for the United States Agency for International Development, Washington, D.C., February, 1985.

³² The methodology that has been applied in this analysis is the "Basic Needs" approach described in Guidelines for the Preparation of a Housing Needs Assessment (USAID, 1984). Using data on the demographic and economic characteristics of the population, along with estimates of the cost of constructing housing units that meet acceptable standards, this methodology estimates the annual production and investment requirements needed to provide adequate housing within a given planning period.

resources that are currently not available to the government. Manson and Katsura (1985) have estimated that between 1985 and 1989, 126,640 housing solutions will be required annually to meet the housing needs of Zimbabwe. Out of the total number of households nationwide requiring a housing solution in 1989, 90,810 households will require subsidies to afford housing at the existing minimum standard. This subsidy requirement can be measured as a share of central government capital spending. Under the current condition, 67.24% of public expenditures, or 9.44% of Gross Domestic Product will have to be allocated for housing investment. Considering the other publicly-funded development programs, such as health and education, this level of subsidy is bound to be unattainable.

In the end, low-income households must bear the burden of excessive standards and housing shortage as they must double up to compete for scarce housing. Continuation of the standard 4-room core unit solution requires the acceptance of the current practice of lodging as fees obtained from tenants are used by the primary occupants to offset the payments they make on the dwelling. The study thus concludes that the affordability of a 4-room core by median-income households is only achievable by increasing occupancy rates through lodging. Moreover, complete cost-recovery is unlikely to be achieved if all households are to be housed in accordance with existing standards. Low-income households will require some assistance, particularly given the

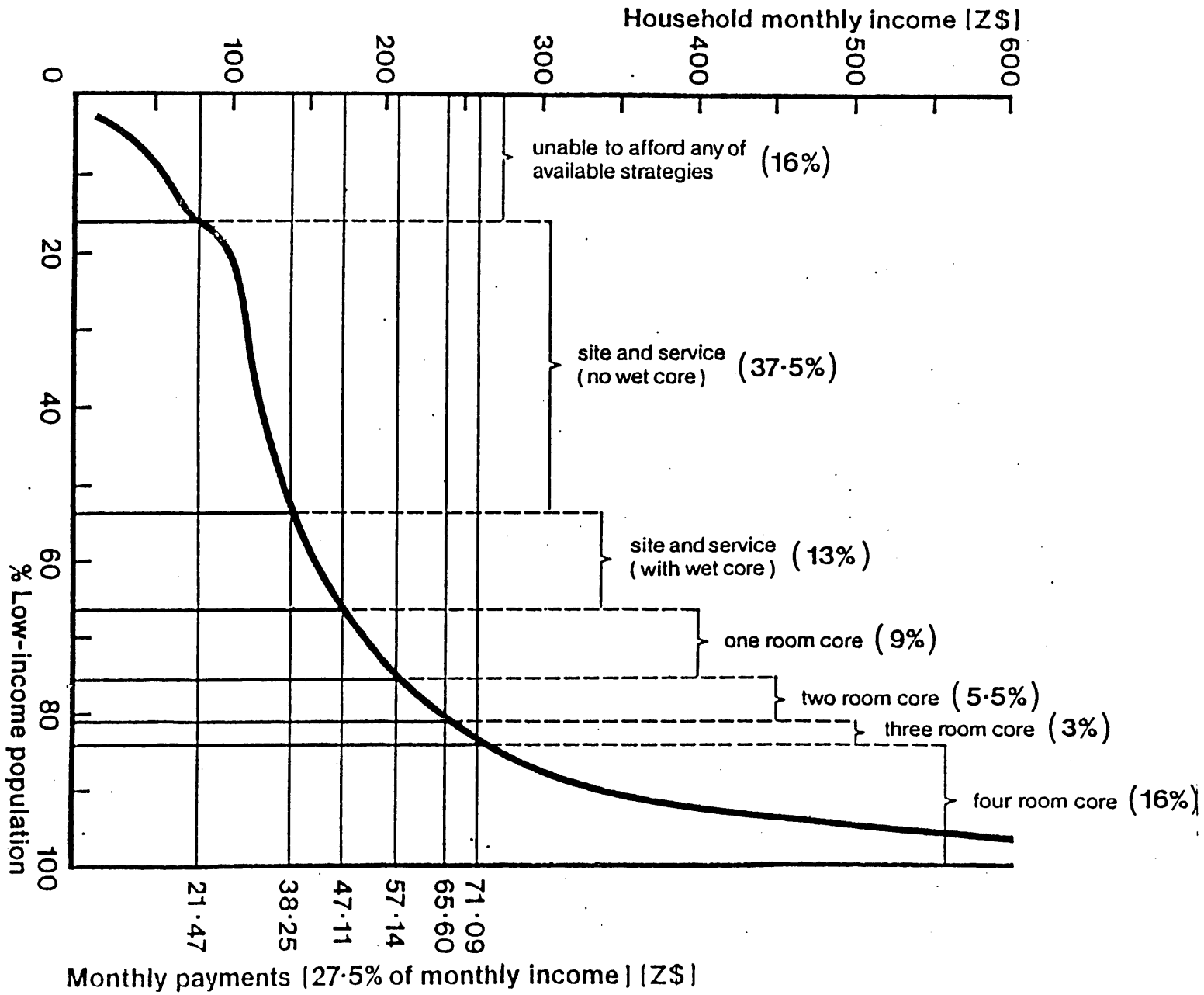
downward trend in real urban household income due to the current pattern of rural-to-urban migration. The enormous investment and subsidy requirements of a program that provides at least a 4-room dwelling for all households suggests that a modest and incremental approach should be taken in regards to housing. This calls for a reduction in housing standards as well as the creation of new jobs and other social investment that would raise general income levels.

To put the issue in the perspective of other housing solutions offered in the past, Mutizwa-Mangiza (1984) related the low-income household distribution to alternative housing options to determine the affordability of a 4-room core to the majority of these households. The affordability curve is presented in Figure 1. Using the government's assumption that families will devote 27.5% of their income to housing, he also calculated the monthly household income necessary to afford recurrent expenses and building loan charges associated with the construction of a 4-room core at Kuwadzana in 1982. Of Harare's low-income households, 16% could not afford any of the available housing options; 37.5% could afford a serviced plot without a wet core; 9% could afford a one-room core; 5.5% a 2-room core; 3% a 3-room core; and 16% a 4-room core.³³ In the specific case of

³³ Moreover, it should be noted that the households constituting the upper end of the income distribution curve shown in Figure 1, although located in the high-density areas, cannot be regarded as low-income. They are among the middle and high-income blacks in Harare who were forced to reside in the

Low-Income Housing Affordability Curve
 (Mutizwa-Mangisa, June 1985)

Figure 1



Kuwadzana, with Z\$175.00 as the cut-off point for participation in 1982, the most that households in this income group could afford without financial assistance is a 1-room core. Moreover, the long-term construction loan is, based on the affordability criteria set by the government, only sufficient to cover a fraction of total construction cost. It would thus appear that the standards embodied in the 4-room core is beyond the financial reach of a vast majority of Harare's low-income population, particularly considering that those households currently on housing waiting lists are also likely to have the lowest incomes within the low-income category. The following interview excerpt demonstrates that, for many poor families, the assumption that only 27.5% of income will be spent for housing is not realistic.

The Seamstress' Story

Mrs. C is a single mother with three children. She was born and raised in the Chivu district of Masvingo. She earns her living as a seamstress although she also sells clothes, through her mother, in her village.

As a seamstress, her income fluctuates with the season. On average, however, she earns Z\$30 to Z\$40 monthly. The sale of clothes brings in an average net income of Z\$100 monthly. She also raises vegetables in her plot for food consumption.

She is not interested in joining a savings

high-density areas or 'African Townships' because of the prevailing tenure system. Many of these blacks did not move into the low-density areas after independence.

group since her precarious financial situation makes regular contributions difficult to meet.

She waited seven years on the municipal list before being allocated her present stand. She cleared the land herself and dug the foundation trenches. It took her two months to complete these tasks. She was able to complete three rooms before her funds from the loan and savings were used up. She is anxious to complete the fourth room for fear of losing her stand, but is unable to financially.

She complained that about 80% of her income from selling clothes is used to pay for plot charges, builder' and materials' credit. Moreover, she owes the Municipality Z\$40 in back payments for sewage services. She complained that the municipality has made it difficult for her to pay her overdue account by refusing incremental payments. However, the irregularity of her income makes it difficult for her to pay her debt in full at once.

Pace of Construction

As with many other developing countries, Zimbabwean policy makers are extremely sensitive to the rate at which progress is made in improving housing circumstances of the urban poor. The government regulates the start up period as well as the length of construction. The Ministry of Public Construction and National Housing requires beneficiaries of aided self-help housing projects to complete a habitable 4-room house (with plumbing) within eighteen months of being allocated a stand. This policy is incorporated into the Agreement of Sale between the municipality and the project beneficiaries. Thus, beneficiaries

make a legal commitment with the government to construct a 4-room unit within the specified period of time regardless of income. The Agreement provides that, at the discretion of the local authority implementing the project, this period can be extended to six additional months, depending on satisfactory progress having been made during the first eighteen months. The same Agreement also require beneficiaries to begin construction within six months of allocation. In order to be granted a loan, beneficiaries are obliged to complete the digging of the foundation trenches for their houses.

Most allottees began construction between one and four months after allocation, and the signing of the loan agreement took place anywhere from two weeks to two months following the trench digging³⁴. Moreover, those who were allocated stands in the early months of the program took longer to begin construction than those who were allocated stands once the program was well underway. The start of the foundation typically began within one

³⁴ Wegge, Jon, "Kuwadzana Construction Progress Report - A Report on Progress by Kuwadzana Allottees Who Have Has Stands for at Least Eighteen Months," a paper prepared for the USAID and the ministry of Public Construction and National Housing to facilitate review of project implementation, (Harare, Zimbabwe: Ministry of Public Construction and National Housing), December 11, 1985. The report looks at the levels of construction reached by the first allottees at Kuwadzana who have owned stands for at least 18 months. Of the 1,040 allottees who purchased stands during from February to April of 1984, 924 (or 89%) are in the process of constructing a house. The remaining 116 have either withdrawn from the project or had their agreements of sale cancelled because of inability or unwillingness to make necessary monthly payments.

month of securing the first loan installment. The evaluation report notes that "it took beneficiaries who were allocated stands between February and May (1983) on average three months to start digging the trenches. It took those allocated stands during June and July about two months to commence this work. Between August and October, beneficiaries took on average one and a half months to start construction. It is likely that the beneficiaries who were allocated stands in the early months were more timid about beginning construction and perhaps less knowledgeable about the process than those who came later and had the benefit of seeing the first group accomplish this task" (Holin 1986: 38).

Borrowers typically waited for three to six months after allocation to request loans. However, if it is assumed that the initial loan is necessary to serve as seed capital to initiate the building process, then one would expect a shorter period between stand allocation and initial loan request, as well as a relatively fast draw down rate. In fact, evidence indicates that there is a three to six months delay in the first allocation request. Data from the case studies indicated that this is due in part to the fact that households usually clear the land and dig the foundations themselves, and then apply for the loan. However, most are only able to do these on their free time. For those formally employed, ground preparation is done on weekend; for those self-employed, even the weekends may be difficult. The

process is especially difficult for women, mostly widows or divorcees, who undertake the labor themselves to reduce costs. Women and children also played an important role in transporting materials from the project depot to their stands using wheelbarrows borrowed from the depot.

In terms of construction time, a survey of 924 allottees in Kuwadzana (Wegge, 1985), undertaken eighteen months after the start of the project, indicated that 31% met construction requirements, 53% completed or nearly completed their 4-room house, and 64% completed or nearly completed the necessary sanitary work (Wegge:1986).³⁵ In terms of "habitability", i.e. the completion of at least one room with plumbing installed or underway, 62% of households had reached this level within 18 months. Of these, 31% were houses of at least four rooms. In other words, only a third of the beneficiaries were able to meet the program requirement of completing four rooms plus plumbing within the prescribed period of time.

³⁵ Breaking down these findings according to stages of construction, it can be seen that 82% had completed 4-room floor slabs; 4.9%, a floor slab for only three rooms; 5%, a floor slab for only two rooms; and 2% slabs for only one room. With regards to the walls, 52% of respondents had completed the walling for four or more rooms; 7% for only three rooms; 22% for only two rooms; and 4.8% for only one room. Finally in terms of roofing, 37% of respondents had completed the roofs for at least four rooms; 8% for only three rooms; 24% for only two rooms; and 7.9% for only one room. With regards to drainage, 56% had completed plumbing; 7.6% were in the process of installing plumbing; and 35% had not started plumbing work.

Allottees who have not been able to comply with the requirement can be broken down into three categories. The first group of eight households did not request or obtain loans. All of them, however, are eligible for a loan large enough to complete their work to at least the minimum habitable level of one room and ablution facilities. None were at arrears at the time of the study, indicating that they were managing financially and could obtain normal loans if they so desired.

The second group, consisting of 92 allottees, have undertaken some construction but have not yet drawn down their entire loans. Despite having incomes and loans slightly above average for the entire group of 924, on average these allottees had experienced and are experiencing considerable difficulty making the payments they have been obligated to make. In many cases, their difficulties with arrears have made it difficult for them to obtain loan installments. By being sent to the Overdue Accounts, nearly half have come to the verge of having their agreements of sale cancelled. Despite not having completed housing to a habitable level, four of the partially completed structures were occupied; two with plumbing but without permanent roofs, and two with permanent roofs but without plumbing.

It is interesting to note that the project implementation team felt that providing additional loans to this set of beneficiaries seems risky and likely to force some of them into

arrears. Instead, they strongly suggest that..."the most feasible way of assisting this group is simply to give them more time to reach a habitable level, and to require that all loan funds they obtain from their present loans be used solely to achieve habitability with one room" (Wegge, 1985).

The third and largest category of beneficiaries consists of 207 allottees who had drawn down all their loan funds without having completed a habitable unit. Although their average income was lower than average for all 924 beneficiaries in the sample, this group made serious efforts to construct houses and make regular payments. They have not reached a habitable level with their houses because they have attempted to build more housing than they need, much less afford.

The imposition of the 4-room within 18 months leads households to over consume housing. This places a tremendous strain on their cash flow, forcing some to rent out one of the four rooms, not so much to earn a profit, as to simply pay back the mortgage loan. This is illustrated in the case below:

The Tailor's Story

K is a tailor with six children. His family resides in the rural area during the tilling season.

He felt compelled to begin construction of four rooms at once to comply with the government requirement. In the absence of such a requirement he would have preferred to

start off with two rooms, and to extend his house gradually as resources became available.

The 4-rooms in 18-months requirement has placed a tremendous pressure on his income. He exhausted his savings, and applied for a municipal loan. He plans to rent out two-thirds of his house to repay his loan, and defer bringing his family to the city on a permanent basis.

He complained that the loan is not large enough to enable someone like him to complete four rooms within the prescribed period. At the same time, he realizes that a larger loan would only burden him with larger installment payments. According to him, the government should be more realistic in terms of how long it requires families to complete the four rooms.

Providing additional loan funds to the above group on the rationale that they have made serious efforts to build but failed for lack of money would not be fair to other beneficiaries who were able to construct smaller but habitable units with the funds available to them. It would thus appear that the best form of assistance that can be extended to these beneficiaries would be to give them more time. It seems very likely that most if not all of them will continue to find private funds and, if they need badly to occupy the house, to use those funds to bring the house to a habitable level.

The period of construction was slightly shorter in the smaller pilot projects in Kwekwe and Gutu. House construction begun in January 1984 in Kwekwe and in March 1984 in Gutu. By

August 1985, 62% of the sampled units in Kwekwe and 44% in Gutu had been completed. In terms of schedule, some 45% of total beneficiaries accepted the 18-month deadline, while 30% to 40% felt twelve months would be adequate to construct the four rooms. Those who preferred a longer time period cited shortage of building materials and adequate funds to hire labor as the most important reasons for slowing down the building process.

What is most interesting about the results of these two studies is the apparent divergence in each group's ability to meet the required deadline. In Kuwadzana, the building period of eighteen months for the completion of four rooms plus ablution was beyond the resources of a significant number of the beneficiaries. This fact is clearly recognized by the Municipality of Harare given survey results indicating that only 31% of the beneficiaries were able to meet the requirements eighteen months after being allocated their stands. Moreover, the municipality believes that the vast majority will certainly complete their houses but simply require more time to do so. "It is clear that the pace of construction is determined by the individuals' ability to mobilize both public and private funds, and cannot be "scheduled" by the authorities" (Harare City Council, 1986:6).

Inter-project differences with regards to construction time preference could be attributed to the slightly higher average income of Kwekwe allottees over Kuwadzana participants as well as to the nature of the projects themselves.³⁶ While both are what

³⁶ Data from M.J. Holin, Evaluation of the Kuwadzana (Parkridge-Fountainbleu) Low-Income Shelter Project, Phase I prepared for submission to the U.S. Agency for International Development, Regional Housing and Urban Development Office, Kenya, October, 1985, and ENDA, Evaluation of the Kwekwe and Gutu Low-Income Housing Projects, (Harare, Zimbabwe: Ministry of Public Construction and National Housing), 1985.

the government calls "aided self-help" schemes, they differ significantly in scale and supervision. When completed Kuwadzana is expected to house some 13,000 families while the Kwekwe and Gutu projects, with a population of some 1,300 families, are more experimental in nature. Thus, as the UNCHS Team claims, they can exercise greater control over problems regarding builders and building materials which have been cited as a major factor, after lack of financing, in slowing down construction.

In a 1985 survey of Kuwadzana participants, residents were questioned whether they would have built their houses any differently if there were no specific time frame for completing the house.³⁷ The responses are summarized in Table 3. They indicate that in the absence of a time constraint, the construction process and consequently, the investment pattern and financing requirements would have been different.

The problem associated with the 18-month requirement is reiterated in the second case study excerpt.

The Grinder's Story

Y was born and raised in Mashonaland East. His parents were subsistence farmers on the communal lands. He migrated to Harare in 1966 to earn dowry money, and in the course of his stay, took on several temporary jobs. After almost fifteen years on the municipal housing list, he was allocated his present 200 sq.m. stand at Kuwadzana.

According to him, the most difficult phase in building is the extension of the core unit after the municipal loan has been exhausted. With his limited income as a grinder and virtually non-existent savings, construction

³⁷ M.J. Holin, 1985.

has been very slow. He strongly feels that the 18-month requirement should be extended and the 4-room standard lowered. According to him, families should only be required to build two rooms at most, and given an

indefinite period of time to extend the house.

Restriction Against Living On-Site Before Completion of Habitable Unit

The timing of the start of construction also differed between those living at Kuwadzana at the time of the survey, and those who were not living on-site. During almost every allocation period, the non-resident group took one or more months longer than the resident group to start construction. Moreover, the delays in trench-digging for the former generally led to further delays in obtaining the loan and starting the construction of the foundation (Holin, 1985).

A simple explanation for the difference in the performance of these two groups may be that by not living on site, a beneficiary is less likely to save funds for house construction. The government prohibits families from living on-site prior to the completion of a one-room and toilet. Of the sample interviewed for the evaluation, 31% were living at Kuwadzana at the time of the survey without having completed the required facilities (Holin, 1985). These individuals have chosen to ignore the requirement to improve their financial condition. Unfortunately, those who have abided by it are more likely to be

Table 3.-- Construction Preference in the Absence of
an 18-Month Deadline

Responses	Cases	Percent
1. Build 1 or 2 rooms first and extend the house later	27	64.2
2. Use building materials of higher quality	7	16.7
3. Build more rooms at once	5	11.9
4. Use own plan and build house more cheaply	2	4.8
5. Delay start of construction in order to save more money	1	2.4
Total number responding that they would build differently	42	100.0

Source: M.J. Holin, Evaluation of the Kuwadzana (Parkridge-Fountainbleu) Low-Income Shelter Project, Phase I, prepared for submission to the Regional Housing Office, U.S. Agency for International Development, Washington, D.C., October, 1985.

in a more difficult situation as the need to pay monthly charges, plus transportation to and from the project, may prohibit them from acquiring additional funds for construction. The study indicated that most of them were devoting a substantial part of their income to these items. This is presented in Table 4.

Table 4.--Percentage of Non-Resident Income Devoted to Housing, June 1985 ³⁸

% of Income	# Non-Residents	% Non-Residents
16-20%	4	3.8
21-25%	2	1.9
26-30%	11	10.4
31-35%	17	16.0
36-40%	23	21.7
41-45%	23	21.7
46-50%	14	13.2
51-55%	6	5.7
56-60%	4	3.8
61-65%	1	.9
66-70%	1	.9
Total	106	100.0

Source: M.J. Holin, Evaluation of the Kuwadzana (Parkridge-Fountainbleu) Low-Income Shelter Project, Phase I, prepared for submission to the Regional Housing Office, U.S. Agency for International Development, Washington, D.C., October, 1985.

Furthermore, Wegge's survey (1986) of Kuwadzana residents indicate that more than 70% of the allottees studied had been in arrears at least once, with the lowest-income groups being the "best payers". The record of arrears has been attributed to the problem of having to pay "double rents" which is aggravated when households, endeavoring to construct four rooms at once, run out of loan funds before completing a habitable unit, much less a 4-room unit. As a result, they end up having to pay for rent elsewhere, in addition to paying for municipal charges and loan

³⁸ Includes mortgage repayments at Kuwadzana, rent currently being paid and mortgage cost of transportation to project site.

repayments. This situation inevitably leads to arrears. This problem is illustrated in the interview excerpt below:

The Postman's Story

L was born and raised in Murewa. His parents were peasant farmers. Desiring a better life for himself, he migrated to Harare in 1974 in search of work. It took him two years to obtain his present position as a postman. During this 2-year period, he periodically returned to the rural area to assist with the tilling of the land.

He registered on the municipal waiting list in 1975 but was not allocated his stand until 1984. Not having enough resources to build the required four rooms, he applied for a municipal loan. To this, he added his personal savings of Z\$500 and Z\$600 from the sale of crops. The latter had originally been set aside for his children's education. He doesn't know when he can start savings again for his children's education with the new cost incurred in the construction of the house.

He complained of having to pay rent for his lodging while the house was being built. He stated that his potential savings from rent could have been used for building the house. Moreover, his presence on-site would have prevented material theft.

The Agency Perspective

The financing problems created by the imposition of high standards are translated into implementation problems for local authorities. Interviews with local officials indicate that, like project participants, it would be more advantageous for both

themselves and the families if program constraints were relaxed. The study takes this position a step further and argues that not only should the government relax its requirements and offer more flexible housing solutions, it should also broaden access to land, and encourage the development of different tenure arrangements that would be more responsive to the changing needs of low-income families at different stages in their life cycle.

For instance, with regards to the enforcement of the 18-month requirement, the Ministry of Public Construction and National Housing authorities states that while it has the discretion to grant a 6-month extension period to those struggling to meet the deadline, giving extensions on a case-by-case basis is a very burdensome administrative task since each case will have to be reviewed at the end of six months. Interviews with the Kuwadzana project team indicates that they would prefer to give a "blanket" extension of time to all but those who have made little or no effort in erecting a structure. Further, they believed that it would be more desirable to cancel the 18-month construction period clause in the agreements of sale, rather than provide six-month extensions which could require further review. "To ensure that development does take place, further agreements should contain a "three months to start" clause, so that non-developers can be "weeded out" fairly quickly (Wegge, 1986)". Moreover, as noted above, the

municipality believe that the vast majority will certainly complete their houses but simply require more time to do so.

These responses from the implementing agencies indicate an awareness of the difficulties encountered by participants in complying with program requirements. However, while recommendations are being made to relax some of these standards, particularly, those regulating the construction period, the shortage of housing is still cast as either a standards, or a financing problem by municipalities who perceive themselves as being an integral player in the government's larger role as supplier of low-income housing.

Summary

This chapter has shown that standards and other project requirements have made it more difficult for poor families to participate in housing programs for the following reasons. First, it has been shown that the standards embodied in the 4-room core are beyond the reach of a vast majority of the low-income population. Second, less than half of project participants were able to meet the program requirement of completing four rooms plus ablution unit within eighteen month. When asked how they would build in the absence of a time constraint, most responded that they would start with a 1- or 2-room core, and extend the house gradually. Third, the prohibition against on-site residence

during the initial period of construction exacerbates the financial problem for poor families who end up paying double rents. Finally, the existence of these standards and project constraints create a painful dilemma for households who, because of small loan-to-value mortgages, are unable to construct a standard dwelling unit even with mortgage financing. The problem is worse for poorer households who, by being restricted to smaller mortgage loans, must raise a larger part of the construction finance on their own due to the rigidity of existing standards.

CHAPTER VI
MORTGAGE FINANCE AS A NON-ISSUE IN
THE HOUSING PROCESS

This chapter argues that the need for mortgage finance is artificially created by the government's strong programmatic emphasis on standards and rate of construction as described in the preceding chapter. The government's misconception that finance, not land, is the critical bottleneck to construction has led to implementation and institutional coordination problems and a general reluctance by households to avail of the mortgage program.

Mortgage Finance Programs: The Reality Behind
Mortgage Finance Programs for
Low Income Families

Interest in mortgage finance programs for low-income housing is based on the assumption that by augmenting effective demand, long-term credit increases the rate of homeownership. Since housing generates a relatively long-lived stream of services, a long-term loan can be issued against the value of the property. This principle enables households to match their housing consumption with their income stream. In his life cycle hypothesis, Modigliani (1963) argues that although an individual's current income will vary during one's lifetime, borrowing against future income through mortgage

financing will enable one to maximize consumption even before current income has reached its peak.

This position draws its merits largely from the experience of the industrialized countries, in particular, the United States where the development of the conventional long-term mortgage instrument increased the rate of homeownership from 49% to 63% of all households between 1930 and 1970 (U.S. Congressional Budget Office, 1983). Prior to the introduction of long-term fixed mortgages, loans were not amortized, with balloon payments made at the end of the term. This schedule of payments, with its limited 5-year maturity and high interest rate, made it extremely difficult for families to fulfill their mortgage obligation. The problem was aggravated by the refusal of mortgage lenders to re-finance the mortgages coming due, thereby leaving the home mortgage industry in a state of virtual collapse.

The success of the American housing finance system in increasing the rate of homeownership has inspired international lending agencies and policymakers to introduce long-term credit in low-income housing projects. Advocates of the program argue that by reducing the average cost of borrowing (through lower interest rates) and average installment payments (through longer amortization periods), mortgage finance will enable a larger number of households to afford a larger debt, and hence a higher quality house (Annez, 1981). An underlying premise of this

assumption is that installment payments would be sufficiently lowered so that they approximately equal what a borrower would normally pay for rent, thus ensuring the affordability of the mortgage instrument (Rodell, 1987).

Another argument for mortgage finance is the belief that, by enabling households to purchase or build a house upfront, mortgage finance enables families to realize the gains from the economic use of space earlier than possible without mortgage finance. In the cities of the developing world, one-tenth to a quarter of dwellings have enterprises on the premises.³⁹ In a survey of over a thousand households and home-based enterprises in Lima, Peru, it was found that income from these enterprises contributed to as much as forty percent of household income.⁴⁰ With regards to rental income, Renaud (1984:19) notes that renters play a crucial role in the progression of housing investment by allowing owner-investors to control a greater amount of the housing equity sooner than would otherwise be possible, until they reach the required level of sustained income. This early realization of income from letting out rooms and home-based enterprises has often been used as an argument in favor of mortgage loans.

³⁹ Paul Strassman, "Types of Neighborhoods and Home-Based Enterprises: Evidence from Lima, Peru," (East Lansing, Michigan: Michigan State University), undated draft.

⁴⁰ Ibid., 32.

The Relevance of the Mortgage Finance Instrument To Low-Income Households

The thesis argues that the critical constraint to housing construction is the lack of access to land and the existence of excessive standards. The argument that long-term credit will make homeownership more affordable to a larger number of families, who would otherwise rent, does not consider that for poor families, (a) investment spending is greater than rent and typical credit payments because of standards and small loan-to-value ratios, (b) the bulk of spending is concentrated within a short period of time because of program requirements, and (c) incomes are erratic. Thus, in spite of the availability of long-term credit, a substantial gap remains between what households are able to pay for housing and the cost of constructing a standard dwelling unit. These points are discussed below.

A central element of the theoretical reasoning behind the argument for mortgage finance is the belief that buying on credit is the only affordable alternative to renting and long-term credit increases the number of families who would rather own than rent. It is assumed that in shifting from renting to homeownership, households allocate what is typically spent for renting towards credit. However, affordable house rents are not likely to coincide with mortgage payments. Rent is the price of using a house for a short period while mortgage payments effectively buys the use for an indefinitely long period of time.

The costs of the house itself is financed by the developer or owner/builder. Families living with relatives, squatting, or renting a room typically live rent-free, or may pay only a fraction of the equivalent mortgage installment within a government-sponsored housing project. Thus, low-income households are unlikely to spend the same amount for rent as they would for mortgage payments, unless a larger part of the cost is subsidized. "They build with very little credit; and the affordable amounts of money they spend do not even superficially resemble a regular affordable monthly rental payment tending toward what may be hypothesized as an underlying affordability coefficient" (Rodell, 1987).

Moreover, relative to the period of time, the bulk of the family's spending is concentrated in a series of short phases, and is more often than not erratic, not only in the sense that month-to-month and year-to-year spending fluctuates compared to regular downpayment and credit installments of mortgage holders, but also in the sense that the length of the spending period itself is not pre-fixed by contractual obligation and probably differs markedly among families at the same income level (Rodell, 1987). In unregulated settlements, these fluctuations are reflected in the incremental nature of housing construction. The problem is exacerbated within a project context where construction is highly regulated in terms of building standards and the speed of construction.

The underlying theory supporting the conventional mortgage instrument is basically static and is best suited to borrowers with stable incomes that are sufficient to buy or build complete housing units (Christian, 1980:25-26). In contrast, poor families typically have an unpredictable cash flow stream, resulting from multiple and variable sources of income. Thus, lending institutions have typically excluded the poor from their mortgage programs. Moreover, income and housing consumption varies at different stages in a family's life. Lee (1987) states that the conventional mortgage instrument, while being the easiest type of loan to administer and understand, is not the most appropriate for low-income households whose incomes and propensity to consume housing are likely to vary over time..."It (income) changes from one year to the next... as children mature, start work and contribute to the household income, and later leave home and stop paying into the family kitty..."⁴¹ While investment decisions vary at different points in a family's life cycle which, in turn, correspond with different motives for owning a house.

A borrower's cash flow stream is the single most important determinant of one's debt-carrying capacity. Because of the erratic nature of income sources, financial institutions are

⁴¹ Taken from a paper entitled "The Affordability Criterion: Inefficient, Inequitable and Immoral?", by Michael Lee, presented at the International Seminar on Income and Housing in Third World Development, 30 November - 4 December, 1987, New Delhi, India.

reluctant to lend to low-income families. Unpredictable incomes combined with volatile interest rates and non-indexed instrument combined makes it financially risky for these institutions to extend long-term loan commitments to low-income families. Thus, housing finance institutions in both industrialized and developing countries have typically catered to the needs of upper-income households.

As a result of lending agency impetus, banks and building societies in developing countries have expanded their clientele to include low-income households. However, as a result of low levels of current discretionary incomes, low-income borrowers typically only qualify for a small loan-to-value ratio. The dilemma for low-income households arises when they are provided only a fraction of construction cost, through the mortgage, and are forced to raise the bulk of the construction finance informally over a relatively short period of time. In contrast, within the spontaneous settlements of the developing world where financing is entirely from savings and informal sources, consolidation can take many years, depending on the availability of resources and the tenure situation. In this sense, low-income families in the project setting are worse off than middle-income households whose housing costs are largely met by the mortgage loan, and informal settlers who, while not having access to formal finance, are able to build in accordance with their ability to pay. While advocates of mortgage finance programs

posit the existence of substantial "hidden" savings that can be mobilized to complement the initial loan, relatively little research has been done to determine the potential of low-income households to accumulate savings. Moreover, it is difficult for families at subsistence or near subsistence level to accumulate savings. Most often, meager savings are wiped out by a single major expenditure on a downpayment or unexpected emergency. Given constrained and unpredictable income sources, it is not uncommon for poor families to interrupt construction in spite having stockpiled on building materials or invested heavily on the construction of a section of the house.

Project participants are also unlike mortgage holders in the conventional sense in that they are neither purchasing a complete dwelling upfront as their counterparts do, nor are their income levels likely to remain constant, much less increase, to enable them to fulfill mortgage requirements with a high degree of predictability. Since affordability considerations limit the size of the mortgage loan to the cost of a 1-room core, households are forced to mobilize a substantive amount of resources on their own to complete the remaining three rooms. In contrast, aside from the requirement of a 10% to 20% downpayment, mortgage loans issued to middle-income households can typically cover as much as 80% of the total purchase price.

To illustrate, the average cost of a typical 4-room core in Kuwadzana is Z\$4,871 (Holin, 1986).⁴² Of this Z\$3,735 is for materials and Z\$911 for the builder. The rest is for the plumber and transport costs. The size of the loans offered to beneficiaries ranged from Z\$294 to Z\$3,320. On average, each must raise Z\$2,262 in addition to the loan to complete the 4-room house. With an income of Z\$150 and a 300 sq.m., an allottee is required to pay Z\$22 per month for stand and user charges. Since Z\$41.25 is the equivalent of 27.5% of Z\$150, he/she could pay Z\$19.25 per month for a building loan. At an annual interest rate of 9.75% over 25 years, the amount of the loan to which this beneficiary would be entitled to is Z\$2,457. As a result, the family must raise Z\$2,387 or roughly half of the estimated cost over an 18-month period to meet program requirements. When Z\$2,387 is divided over eighteen months, it becomes clear that the household must allocate an average of Z\$132 per month from its monthly income. At income of Z\$200, this would consume over 50% of household income. Within this scenario it is understandable why households resort to letting out rooms to defray part of the construction costs. Without a loan, the same household must raise the same amount over eighteen months, or an average of Z\$269 per month. This exceeds the monthly household

⁴² This estimate takes into account the cost of a brigade-built house and synthesizes the 14 house designs available at the project into one prototype design. The cost of materials as provided by the Kuwadzana supply store are also factored into the estimate cost of a structurally complete 4-room house.

income and explains why households, in their fear of losing their plot of land, feel compelled to apply for a mortgage loan.

Given the fact that a dynamic construction sector thrives in the absence of formal credit in the low-income settlements of the developing world, and the questionable relevance of the conventional fixed term mortgage to the situation of poor families, there is a need to re-think the role of mortgage finance vis-avis other programmatic interventions in the housing process. The study will show that in Zimbabwe, the real issue is access to land and the need to provide a variety of affordable housing solutions.

Given an economy where self-building is common, simply designing long-term credit programs and increasing the number of families who theoretically can afford to buy a house has very little social utility as long as every year there are ten or twelve times as many willing buyers as there are houses sold on so-called affordable terms. There is also the need to ask whether informal building is as, or more efficient than building using institutional financing. If so, then perhaps there is less urgency than is still assumed for the housing policy to mobilize families' savings or displace their investments through over consumption by requiring them to build dwelling units on credit. Finally, given the diversified need for housing and the growing evidence debunking the unfavorable characterization of non-formal

finance mechanisms, it would strongly appear that the focus of policy intervention is more appropriately on land development and the means of facilitating access to land rather than finance, particularly when the need for finance is artificially driven by program constraints. Together with increased access to land should be a diversification of housing solutions to respond to the needs of a highly differentiated low-income housing market. For instance, Rodell (1987) notes that the target of most public low-income, self-help projects does not typically include predominantly small families or single-person households, families or individuals who are old and without work, or young and desperately searching for work to earn money. To the extent that such families constitute a large portion of the households at the very bottom of the income distribution, then the housing policy is not responsive to housing needs.

Participant Response to Mortgage Finance

Given the ups and downs of their economic situation, low-income families are generally reluctant to apply for long-term mortgage financing. The study argues that families have applied for loans not so much because it is the "hottest item in town", as much as it is the "only game in town". Access to land is only possible through participation in government-sponsored projects. With a more flexible land supply mechanism, families can better

match their housing needs at different stages of their life cycle with their cash flow stream.

The imposition of standards within the project context has strained the ability of households to finance housing. The difficulties faced by families struggling to make ends meet brings to question the intention of the government in sponsoring low-income housing projects. Finally, the discussion leaves unanswered the obvious question of why, if the conventional fixed-term mortgage is truly meritorious, isn't it being extended to low-income families in the United States?⁴³ This question demonstrates that the issue is not so much the applicability of a "first " world model to a "third" world context,⁴⁴ as it is the relevance of a finance program designed for upper-income groups to low-income households who, in the long run, have to borrow, or better said, enter into a cycle of debt accumulation, in order to obtain long-term credit.

⁴³ It should be pointed out that alongside the development of the conventional long-term mortgage in the United States, the federal government launched a separate of housing assistance program aimed specifically at low-income families. These separate programs were intended to increase the number and types of affordable units through developer incentives, revision of zoning and building codes, rental subsidies, and administrative streamlining of housing programs.

⁴⁴ The similarity in the housing finance market of industrialized and developing countries was pointed out by Langley Keyes in a review of an earlier draft of this study.

Based on the case studies, the response of project participants to mortgage finance will be analyzed under the following themes. First, the thesis will explain why, in spite of excessive standards, do households still participate in government-sponsored housing schemes? Given the constraints imposed by the structure of the mortgage instrument, why do families still apply for a mortgage loan? Second, what problems did families encounter in regards to the loan, and what strategies did they employ to surmount these difficulties? Third, how would families have ideally preferred to construct their homes in the absence of programmatic constraints? Fourth, how did non-borrowers finance the construction of their houses? Were they successful in meeting programmatic requirements?

Theme 1: "The Only Game In Town"

Why, in spite of excessive standards, do households still participate in government-sponsored housing schemes? The answer to the first question was provided by the preceding chapter on institutional constraints to access to land for low-income housing. This chapter explained that while there is currently no physical shortage of land for urban housing, access to land is only possible through participation in a government-sponsored housing project. Spontaneous settlements are regularly razed down or bulldozed to the ground. Those unable to enter a project, due to the large shortfall in the supply of serviced stands, are

currently absorbed into the rental market. By regulating access to land in this manner, the government is, in effect, pushing the neediest members of its population into the rental market, as providers and users of rental housing.

Limited Tenure Choices

The present constraint on tenure choices available to low-income households has its roots in the country's socio-economic past. In particular, the migrant labor system, which envisaged the black worker as a transient dweller in urban commercial and industrial areas, and the Land Apportionment Act which severely restricted the areas in which blacks could own property, accounted for the shortage of low-income housing at the time of independence in 1980.

While the government has since shifted its policy away from constructing rental housing for migrant labor towards more widespread home ownership schemes for a growing class of urban blacks, the economic disruptions of the recent war of independence and competing investment needs are making it increasingly difficult for the government to expand its program in time to meet the growing demand for housing.

Hoek-Smit's survey (1983)⁴⁵ of Harare households indicated that of the tenant, lodger and squatter households in the high-density areas, approximately 50% to 60% prefer to own a house. This shortage of housing opportunities is borne out in the case histories. Former lodgers, squatters, and extended family members stated having been on the municipal housing waiting list for as long as ten years or more before being allocated a stand. The problem of housing is particularly acute for squatters as demonstrated in the following interviews with a former squatter.

The Migrant's Story

T was born and raised in Lilongwe, Malawi. He migrated to Kwekwe 1962 where, after a few odd jobs, he became employed as a storekeeper for Z\$20 per month. During this period he rented a room in the Amaveri suburb of Kwekwe for Z\$3.50 per month. The room was nothing more than metal sheets assembled together into a makeshift room. A few months later, he transferred to another store in the Golden Ridge area within the same city where he worked as a shop assistant for Z\$22 per month. He lived in a pole and dagga hut thatched with grass behind the shop. Since he constructed the house himself, it was essentially rent-free.

From Kwekwe he moved to Mberengwa where he worked in yet another store for Z\$36 per month. His living accommodation consisted of two brick-built rooms under asbestos sheets which was provided rent-free by his employer. After six months he returned to Kwekwe as a driver, bringing his family over from Malawi.

⁴⁵ The objective of this study was to gain insight into the socio-economic structure and housing preferences and potential demand for home ownership of below-median income groups in Harare, Kadoma, Marondera and Chinhoyi.

In 1972 he lost his job, and his family was forced to squat in a makeshift shelter behind the Amaveri main bus terminal for six months. He described the difficulties of squatting, such as the lack of sanitary facilities and the ever present fear of being removed by the government. His family barely subsisted on his meager earnings as a part-time tailor for various shops in the town. He was desperate to find a relatively steady source of employment to enable them to rent a room. After several weeks, he was hired by a tailoring shop. He immediately moved his family to a rented room for which he paid Z\$3.5 per month. In 1975, he registered on the municipal waiting list in 1975 and was allocated a 2-room rental unit in 1976. He remained on the list in the hope of eventually being allocated his own plot of land on which to build his family a home.

The second question raised is why, given constraints imposed by the structure of the mortgage instrument, do families still apply for a mortgage loan? The answer to this question is discussed more fully in the chapter on standards. Suffice to say, households are forced to obtain a mortgage to satisfy program requirements. The pressure to comply with standards is exacerbated by the magnitude of demand for housing as evidenced by the waiting period on the municipal housing list, which is, on average, ten years. Thus, the positive response to the mortgage program should not be misconstrued as an indication of the latter's success, so much as it is a response to the artificial need created by excessive standards and limited access to land.

To illustrate this point, majority of the households in a survey of Phase I of the Kuwadzana project (Holin,1986) stated

that they feared their stands would be confiscated if they did not finish four rooms within eighteen months. The range of responses are listed in Table 5.

In addition, many respondents expressed uncertainty regarding the consequences of non-compliance. The three-year period of project negotiation was clouded with debate on housing policy, and the form it would take in future projects. Thus, many participants experienced uncertainty regarding the government's response to a failure on their part to satisfy the 18-month requirement. Since Kuwadzana and the UNCHS projects were the first major sites-and-service projects to be executed after the introduction of this requirement, their beneficiaries were the most likely to be strongly influenced by this new set of program guidelines.

Theme 2: Problems Associated with the Mortgage Structure and Strategies Used by Families to Surmount Them

As explained above, there are two types of problems encountered by low-income families with regards to the mortgage loan. The first problem relates to the issue of affordability. The assumption that long-term credit makes

Table 5.-- Participant Perception of Consequences Resulting from Failure to Meet 18-Month Requirement

Responses	# Reporting	%
1. Stand would be confiscated	137	62.6
2. The time period will be extended	20	9.1
3. Council will help us/ Council will consider the circumstances	7	3.2
4. Nothing will happen	8	3.7
5. I do not know what will happen	43	19.6
6. Other responses	4	1.8
Total	219	100.0

Source: Holin, M.J., Kuwadzana Evaluation Report, 1986.

homeownership more affordable by enabling households to shift what is typically spent for rent towards credit installments was shown to be irrelevant for families living in rent-free, or overcrowded, cheap and illegal rented accommodations. Moreover, the structure of the mortgage instrument itself imposes a considerable strain on the cash flow situation of low-income families. The second problem is the small loan-to-value ratio which requires families to mobilize most of the needed resources on their own in order to meet standards and other program requirements.

Tangible and Intangible Costs of the Mortgage Loan

The mortgage loan instrument imposes both tangible and intangible costs to low-income borrowers. These costs are high enough to discourage the average borrowers from applying for a mortgage. For instance, finance institutions typically charge mortgage borrowers front-end costs in addition to interest payments. The repayment schedule requires households to pay a fixed or progressive charge every month. The additional cost of front-end charges, and, in particular, the rigidity of the repayment schedule impose a severe strain on the often erratic cash flow stream of low-income households. Moreover, the typical small loan-to-value ratio requires households to mobilize additional resources on their own to satisfy program requirements. As a result, most households enter a cycle of debt accumulation to satisfy both mortgage and program requirements. In the following case study, a household head is forced to apply for a mortgage loan in order to construct a 4-room dwelling unit. He complains about the long repayment period as well as the interest rate.

The Security Guard's Story

The stand owner is a security guard for Tobacco Export Corporation Africa. He currently earns Z\$49 per week as a security guard and Z\$75 per month as rental income from three rooms. He also hawks clothes, earning about Z\$50 monthly, and maintains a 10-acre homestead which is farmed by his wife and children. He registered on the municipal waiting list in 1980 and was allocated his 200 sq.m. stand

on March 1984. He had no choice but to apply for a mortgage loan since he did not have sufficient savings to finance a 7-room unit. He started building a slab for seven rooms, but realized in the course of the construction that his resources were not adequate to complete the unit. He would have preferred to start off with two rooms, and extend it as his finances permitted him. He feels uncomfortable carrying a debt for twenty-five years, and possibly passing on the burden of repayment to his children. In addition, he feels that the interest rate is too high. He estimates that by the time he pays back the loan, the interest payments would easily be twice the size of the principal.

The rigidity of the payment schedule also imposes a severe strain on the cash flow stream of low-income households. This is demonstrated in the following case study excerpt.

The Fence-Maker's Story

X was born in Chiduku with five children. Like many families, he maintains both an urban and rural home. His income comes from several sources. In addition to fence-making, he also rents out three rooms in his house, while his wife hawks clothes during the time that the family spends with him in the city. In spite of these multiple sources of income,

he saves little due to his considerable financial obligations.

In fact, he is very concerned about his family's financial situation. He cites housing construction and education for his children as the most critical elements of his monthly expenditures. To lower costs, his family resides in the rural area where they do subsistence agriculture. This has made it possible for him to rent out two-thirds of his house.

He cited financing as the major constraint to construction since he did not have enough savings to start building. Even with the loan, he did not have enough money to build four rooms, and have to resort to builder's credit.

Due to his irregular income sources, he fears not being able to meet his installment payments on time. He would prefer a more flexible repayment arrangement, or a smaller loan provided the government lowered its standards and allowed him to build his house incrementally.

The problems encountered by participants are in large part due to the current policy's focus on finance which have diverted the government from dealing with the more fundamental problem of access to land. Towards this end, different financial innovations have been introduced. These innovations represent tradeoffs between tangible and intangible costs, without offering low-income families more choices in housing solutions. For instance, private sector (building society) loans are offered at a higher interest rate of 12.5% compared to 9.75% for municipal loans. Moreover, two variations of the mortgage instruments were introduced: the conventional, fixed mortgage and the graduated

payment mortgage. The conventional mortgage, amortized through periodic payments of equal amounts throughout the term of the loan, assumes that the borrower's income will remain unchanged through time. It is best suited to borrowers with stable incomes, and is not generally useful for the needs of low-income families, households with unstable incomes from self-employment, or families whose incomes may presently be low but can be expected to rise in the future. At Kuwadzana, the City of Harare administered the conventional fixed term mortgage at the lower interest rate of 9.75%, while the World Bank projects offered the same mortgage instrument through the building society, at the higher interest rate of 12.5%.

In contrast to the fixed-rate mortgage, the graduated payment mortgage assumes that over time an individual's income will increase, stabilize at mid-life, and ultimately decline with the approach of retirement age (Melton, 1978). The principal advantage of the graduated payment mortgage is to lower initial payment costs to enable a greater number of low-income households to afford formal financing, and for those in this group who may be eligible for conventional financing, to enable them to obtain a larger loan than they would otherwise be able to under the conventional fixed-term mortgage. It establishes a fixed level mortgage payment somewhere near the middle of the loan term when the graduated payment becomes equal to the level of payment required to amortize the loan at a fixed maturity. In Kwekwe,

mortgage payments made in Year 1 are set at 75% of the normal level and increased by 5% per annum thereafter (Technical Support Services, 1986).

A typical progressive annuity formulation is illustrated in Table 6 which shows that the original balance of Z\$2,000 peaking to Z\$2,588 at Year 12. Moreover, throughout the 25-year amortization period municipal charges can also increase as well as interest rates which are dictated by government policy. The combined effect of these increases poses a considerable financial burden to the borrower. The graduated payment mortgage makes the risky assumption that incomes will rise by 5% per annum over 25 years which will enable beneficiaries to meet the increase in loan payments. However, neither historical evidence nor current economic predictions support this assumption (Technical Support Services, 1986:III-5).

Using the example of Z\$2,000 as the principal amount, the relative costs of the mortgage under three different scenarios are summarized in Table 7. This table shows that the graduated payment mortgage has the highest interest rate while the conventional fixed-term mortgage offered in the Kuwadzana project had the lowest. The fact that the size of the interest payments

Table 6

Amortization of a Graduated Payment Mortgage

Constant Annual Progression: Annual Amortization

Annual Interest Rate: 12.5%
 Annual Progression Rate: 5%
 Term of Mortgage (yrs.): 25
 Initial Capital Borrowed: Z\$2,000
 Initial Annual Payment: Z\$182.52
 Initial Monthly Payment: Z \$15.21

Amortization Table

Year	Monthly Payment	Annual Payment	Interest Owed.	Interest Paid	Principal Paid	Balance
1	15.21	182.52	250.00	182.52	-67.48	2,067.48
2	15.97	191.64	258.44	191.64	-66.80	2,134.28
3	16.77	201.24	266.79	201.24	-65.55	2,199.83
4	17.61	211.32	274.98	211.32	-63.66	2,263.49
5	18.49	221.88	282.94	221.88	-61.06	2,324.55
6	19.41	232.92	290.57	232.92	-57.65	2,382.20
7	20.38	244.56	297.78	244.56	-53.22	2,435.42
8	21.40	256.80	304.43	256.80	-47.63	2,483.05
9	22.47	269.64	310.38	269.64	-40.74	2,523.79
10	23.59	283.08	315.47	283.08	-32.39	2,556.18
11	24.77	297.24	319.52	297.24	-22.28	2,578.46
12	26.01	312.12	322.31	312.12	-10.19	2,588.65
13	27.31	327.72	323.58	323.58	4.14	2,584.51
14	28.68	344.16	323.06	323.06	21.10	2,563.41
15	30.11	361.32	320.43	320.43	40.89	2,522.52
16	31.62	379.44	315.32	315.32	64.12	2,458.40
17	33.20	398.40	307.30	307.30	91.10	2,367.30
18	34.86	418.32	295.91	295.91	122.41	2,244.89
19	36.60	439.20	280.61	280.61	158.59	2,086.30
20	38.43	461.16	260.79	260.79	200.37	1,885.93
21	40.35	484.20	235.74	235.74	248.46	1,637.47
22	42.37	508.44	204.68	204.68	303.76	1,333.71
23	44.49	533.88	166.71	166.71	367.17	966.54
24	46.71	560.52	120.82	120.82	439.70	526.84
25	49.05	592.70	65.86	65.86	526.84	0.00

Final Month's Payment
 (month 12 of year 25): \$53.15

Total Payments:	Interest Paid:	Principal Paid:
\$8,714.42	\$6,714.42	\$2,000.00

Table 7. --Comparative Project Costs

Project	Mortgage Structure	Yrs	Int. Rate	Principal Amount	Accrued Interest
UNCHS	GPM ¹	25	12.50%	\$2000	\$6714 ²
USAID	Fixed	25	9.75%	\$2000	\$3346
World Bank	Fixed	25	12.50%	\$2000	\$4542

¹ Graduated Payment Mortgage

² Plus 10% for front-end cost

did not discourage many from applying for the loan indicates that allottees needed the loan to help them meet program requirements. This is illustrated in the following interview excerpt with a security guard from the Kwekwe project:

The lack of finance was the major obstacle I encountered in completing the required 4-room house. I had no choice but to apply for the maximum loan I could qualify for. I even applied for an employer loan. To these I added all my savings of several years. With all my resources, I still did not have enough money to build four rooms.

I know that the loan carries a high interest rate, and that by the time I repay it I would have paid more than double the principal I borrowed, but I simply had no choice. With more people moving into the city, I would never get another chance like this again.

In addition to the tangible costs associated with the project loans, there are other intangible costs to the borrower which vary with the type of mortgage used. Compared to the fixed mortgage, the graduated payment mortgage is more financially complex to explain to low-income, often uneducated borrowers, and

more cumbersome to administer for the municipality or building society. An arrangement whereby mortgage payments are adjusted every year over the 25-year amortization period creates a complex system not easily understood by borrowers. For instance, the evaluation of the Kwekwe/Gutu projects (ENDA, 1985) indicates that 21% of Kwekwe respondents (12% in Gutu) claimed to understand very little or nothing at all of the loan mechanism. Moreover, although 79% of Kwekwe respondents (89% in Gutu) believed they understood clearly or at least partially the graduated payment mortgage, some 92% of these same respondents (36% in Gutu) stated that they did not know whether or not they would be repaying the same amount over the life of the mortgage.

A particularly difficult feature to explain to beneficiaries is the cost of interest. For the first 13 years of the loan, a borrower will only be paying for interest charges without reducing the principal amount. In fact, the balance will increase over the first 13 years during which time the beneficiary's payments will be less than the rate of interest accumulation. Thus, a borrower will find that at Year 13, outstanding payments have increased rather than decreased. In addition, the split administration structure whereby construction loans are paid to the building society and plot charges to the municipality compounds the intangible costs faced by a typical low-income borrower. Figure 2 illustrates the steps that

Figure 2
The Procedures Required to Enable a Low-Income
Plot Holder to Obtain a Mortgage from
a Zimbabwean Building Society

S T E P S	W H O
1. Allottee receives invite for interview	Municipality
2. Allottee attends interview	Allottee
3. Allottee requested to select stand	Municipality
4. Allottee selects stand at project	Allottee
5. Allottee receives provisional allocation	Municipality
6. Apply for a government guarantee	Allottee
7. Select desired house plan	Allottee
8. Authorize employer's reference	Allottee
9. Identify preferred building society	Allottee
10. Accumulate savings for building costs	Allottee
11. Request employer's reference	Allottee
12. Determine method of building	Allottee
13. Obtain local authority house plan	Allottee
14. Ministry assesses guarantee application	Ministry
15. Open savings account	Allottee
16. Employer completes reference	Employer
17. Obtain quota for works	Allottee
18. Building society receives employer reference	B. Society
19. Deposit made for front-end costs	Allottee
20. Government offers guarantee	Ministry
21. Apply to building society for mortgage advance	Allottee
22. Building society assesses mortgage application	B. Society
23. Building society approves mortgage application	B. Society
24. Allottee accepts mortgage offer	Allottee
25. Building society requests preparation of bond by legal department	B. Society
26. Building society requests municipality to transfer plot	B. Society
27. Building society prepares guarantee for signature	B. Society
28. Bond sent to Deed Registry	B. Society
29. Employer signs guarantee	Employer
30. Municipality prepares agreement of sale	Municipality
31. Allottee signs agreement of sale	Allottee
32. Title transferred and sent to Deed Registry	Municipality
33. Deed Registry registers documents	Deed Registry
34. Allottee advised of bond registration	B. Society
35. Allottee applies for first drawdown	Allottee
36. Building society pays municipality for stan	B. Society.

borrowers must typically follow in applying for a loan. The interview excerpt from the case history below typifies some of the likely problems which the application of graduated payment mortgage can lead to.

The Cook's Story

Y and his wife are bitter about the terms of the graduated payment mortgage, and prefer renting to a homeownership scheme bound by the financial constraints imposed by the loan.

Y is a cook and earns between Z\$105 to Z\$150 per month. To augment the family income, his wife sews, hawks clothes, and raising poultry and vegetables. In addition, she is a traditional healer, drawing most of her clientele from the local community. She is a member of a 4-member savings group, using part of her loan to build the house. Each member typically contributes Z\$25 per month.

Y migrated to Kwekwe in 1968, first renting a room in Amaveri and later residing in municipal housing in Old Mbizo I. They registered on the waiting list in 1982 and obtained their 200 sq.m. stand two years later. The husband paid a cash deposit of Z\$50 from his savings and applied for a materials loan of Z\$1600. He has so far completed four rooms.

Both husband and wife cleared the land, dug the foundation and transported the materials to the site themselves. As both of them were also working, these activities took place over a period of two months. They had to buy additional materials, using Z\$350 of their savings with the building society, and Z\$300 from the sale of their old sofa. The wife contributed 65% of her total earnings for construction. They bought the materials using the loan, and hired a builder and plumber. They are bitter about the terms of the graduated payment mortgage, and prefer renting to homeownership under the financial

constraints imposed by the loan. They are suspicious that the materials they received were not equivalent to the loan amount. Moreover, they believe that the Municipality did not properly explain the graduated payment mortgage instrument to them. As a result, they have unwittingly committed themselves to a long-term mortgage which will impoverish them. Had they known the cost of the loan, they would not have participated in the project altogether. They prefer renting to homeownership with option to buy. They claim that such an arrangement would provide them with more flexibility and free them from a life long financial commitment. They are especially distressed by the rigidity of the payment schedule. As a low-income family with numerous extended family obligations, it would be extremely difficult to adhere to such a strict payment schedule. They were particularly surprised to see their monthly payment rise from Z\$15 to Z\$23. Not only was the building society cheating them, so did the Municipality. As they understood it, they were not to pay supplementary charges until after 18 months. However, they were surprised to discover that after two months, they had accumulated arrears of Z\$50 to Z\$90. They disliked the notion of having to pay both the Municipality and the building society.

They have no plans to extend the house in the near future due to the unavailability of funds. They have a very dismal view of the future, anticipating more difficult times and bracing themselves to survive during this period. If the new government is truly committed to alleviating poverty, then it should lower the cost of living, and in particular, eliminate the sales tax on basic commodities.

The case history above indicates that lack of understanding of the mortgage instrument can cause considerable anxiety on the part of the borrower who experiences a loss of control over the forces that shape his/her future. The complexity of bureaucratic

procedures can sufficiently overwhelm the individual to the point when one gives up on the notion of homeownership in favor of renting. There is a need, not only to ensure that the credit instrument is well understood by the borrower, but more importantly, to offer the public more choices not only in credit instruments, but also in housing solutions.

Another intangible cost faced by both borrower and lender is also administrative in nature. Loans are generally given in tranches of Z\$500, with the release of each tranche being dependent on the approval by either the municipality or the building society of the preceding construction phase. In the case of the graduated payment mortgage, each stage must pass inspection not only by the municipality but also the building society. Inconsistency in the decision of each inspector can lead to unnecessary costs to the borrower, as demonstrated in the following interview excerpt.

The Office Messenger's Story

The owner, Mr. M, is a messenger in the government. He has been on the municipal waiting list for ten years before being allocated his 200 sq.m. stand in 1984 at Kuwadzana. He decided to construct four rooms at once to comply with government requirement but encountered two major problems: (a) lack of safe storage of building materials due to prevalent theft, and (b) inconsistency among building inspectors in their evaluation of the wall construction. While it passed municipal inspection, the building society insisted that the walls had to be turned down and rebuilt. This

reconstruction has cost M money he could not afford, and set him back in his construction.

The preceding case illustrates the need to coordinate building society and municipal inspection efforts. It is inconvenient enough for households to pay two separate entities; the situation is exacerbated when costly housing materials are damaged because of uncoordinated, and therefore inconsistent judgement on housing standards by two separate entities.

Insufficient Loan and Excessive Standards

These tangible and intangible costs are compounded by the size of the loan which is inadequate to comply with standards and other programmatic requirements. In a recent survey of Kuwadzana participants, most households indicated a fear of program restrictions, and attempted to construct a 4-room unit at once instead of building one room at a time (Holin, 1986). Approximately 65% of respondents were building all four rooms simultaneously. However, since mortgage finance was not sufficient to finance the cost of a 4-room core, it is not surprising that many had only completed half-built 4-rooms dwellings at the end of eighteen months. The financing problem was exacerbated because households had to pay "double rents" since they were prohibited from living on-site during construction.

Households attempted to build four rooms simultaneously, not only because of the fear of losing their stands, but also because house plans obtained from the Ministry depicted four rooms. Moreover, builders naturally encouraged allottees to build as large a house as possible from the outset of construction. Finally, project officials, especially Building Liaison Officers, who help to "set out" houses, in effect, were both encouraging and looking for construction of 4-room houses. In addition, few beneficiaries, especially the first allottees to enter the project, understood what the costs would be to construct a 4-room house, neither did they aspire to construct a 1-room unit. This situation is illustrated in the following case excerpt.

The Seamstress' Story

The head of the household, a seamstress, resides in a 3-room house which is used partly as a sewing room. The third room is let out to a lodger and his wife. The owner waited seven years on the municipal housing list before being allocated her present 200 sq.m. stand in Kwekwe.

Due to lack of funds, she decided to build one room at a time, using her savings of Z\$600, a building society loan of Z\$1,500 and a builder loan of Z\$60. She negotiated to pay the builder Z\$100 for every room completed, and purchased all the materials from the materials depot using the building society loan.

Due to the shortage of funds, she was only able to complete three rooms before the loan and her own resources were exhausted. She is anxious to complete the fourth room before the 18-month deadline is up for fear of losing her house to the municipality. However, she is unable to raise the necessary resources due to her meager earnings.

Being self-employed, the seamstress had very little choice on the size of the initial unit. It is clear that she perceived the 18-month requirement seriously, and would have complied with the 4-room requirement, if her finances permitted her. Aside from this restriction, there appeared to be no immediate need for her, from an economic and/or social standpoint, to construct 4-rooms initially. Rather it would appear that a minimum 2-room unit would have sufficed until funds became available for expansion.

Occasionally, a household will start off with a slab large enough for the intended four rooms, only to find out later that funds are inadequate to complete the unit. Thus, despite a huge investment and sacrifice on the part of the household, it later discovers that it has not even completed a "habitable" unit because of the lack of a roof. Since the roof is a major expense, the delay can be costly since the household is paying rent elsewhere while struggling to accumulate enough resources to build the roof. This is demonstrated in the following excerpt.

The Steel Factory Worker's Story

The household head is a laborer in the steel factory adjacent to the project site in Mbizo. He also repairs shoes on the side with the assistance of his brother. He runs his business from the veranda of his 3-room house. He would like to expand this shoe repair business outside the project.

The owner waited ten years on the municipal housing list before receiving his 200 sq.m. stand. With the help of his brother he cleared the land and dug the foundation trenches over a period of three weeks. He decided to build four rooms at once to comply with government requirement. Although the initial slab was intended for four rooms, it became obvious to the owner that by the time the sill level had been reached, there would not be enough materials to complete four rooms. He was confronted with the choice of building four rooms to the sill level, or completing three rooms to the roof level. His main constraint was shortage of funds for building materials. He claims that even with the loan, an additional Z\$1,000 would have been needed to complete the house-- an expense which he was unable to meet from his current income sources, especially since his family had come to stay with him from the rural area. He negotiated with the municipality for an additional two months to complete his house. Meanwhile he has been incrementally buying materials from his earnings and those of his wife's. He is even prepared to sell a head of cattle to raise additional funds. When he has accumulated adequate materials, he will hire a builder to complete the last room which he intends to rent out to pay for the mortgage loan.

Given these hardships in raising monies to supplement the mortgage loan, there are those who believe that if the government required project participants to complete four rooms within 18 months, then the size of the loan should have been large enough to enable them to satisfy this requirement. Loan amounts are currently calculated on the basis of income, with the proportion accruing towards housing expenditures equal or less than 27.5% of

the base income.⁴⁶ It has a regressive impact in that the poorer the borrower is, the smaller the loan he or she is eligible for. However, standards are not flexible so as to accommodate the situation of very poor families, and are universally applied throughout the projects, regardless of income differences.

Participant objections to programmatic constraints reflect a conflict between what the government defines as an affordable loan for low-income borrowers, and what it requires in terms of housing standards. The dilemma faced by households is illustrated in the following interview excerpt:

The Mill Grinder's Story

The owner has been a grinder with Zimbabwe Mills for the last seventeen years. He migrated to Harare in 1966 in search of employment to pay for "lobola", a form of bridal dowry. After a few odd jobs, he was hired by the mill as a general laborer and was later trained to become a grinder.

He signed up on the municipal housing list in 1969 and was allocated his stand in 1984. He paid for the Z\$60 deposit from the Z\$100 savings he kept at home, and applied for a municipal loan to construct his house. The loan was, however, only adequate to complete two rooms. Fearing that the government would take away his property, he is anxious to complete the additional two rooms. However,

⁴⁶ For instance, a beneficiary with a monthly income of Z\$150 and a 300 sq.m. stand is required to pay Z\$22 per month for stand and user charges. Since Z\$41.25 is the equivalent of 27.5% of Z\$150, he/she could pay Z\$19.25 per month for a building loan. At an annual interest rate of 9.75% over 25 years, the amount of the loan to which this beneficiary would be entitled to is Z\$2,457.

with his low salary of Z\$190 a month and virtually no savings, construction has been very slow.

He strongly feels that the 18-month requirement should only apply to the first two rooms in order to give allottees an indefinite period of time to extend their houses. According to him, the most difficult phase in building is extending the core unit after the loan is exhausted. Therefore if government will require the poor to complete four rooms within a short period of time, then it should provide them with either more time, or a larger loan.

This view is reinforced by the following excerpt:

The Machinist's Story

K, a tailor by profession, is a machinist with Fashion Enterprises in Harare. He also runs his own tailoring shop from his 4-room house in Kuwadzana. He is married with six children. His family resides in the rural area during the tilling season.

He complained that the loan from the municipality was not large enough to enable someone like him to construct four rooms within an 18-month period. At the same time, he realizes that a much larger loan would further strain his cash flow. Therefore he argues that the government should be more realistic in terms of how long it requires low-income allottees to complete a 4-room core. In fact, he does not even understand how the government decided on four rooms. "Why not three rooms, or even two rooms?"

The above excerpts indicate that households are encountering financial difficulties in meeting the requirement of four rooms within 18 months. Moreover, the most difficult phase in construction is extending the house after the loan has been

exhausted. Not surprisingly, some allottees felt that if government were to insist on its present standards, it should increase the loan amount; otherwise it should accept more realistic building standards vis-a-vis the ability of households to pay for housing.

Theme 3: Preferred Construction Methods & Loan Programs

Having examined the difficulties faced by households in satisfying both mortgage and construction requirements, the thesis examined the case studies to find out how families would have ideally preferred to construct their homes in the absence of programmatic constraints, and the types of loans they felt were more appropriate to meet their needs.

When asked how they would have built in the absence of the 18-month requirement, majority of Holin's respondents stated a preference for incremental building which corresponded with their ability to raise the necessary financing from time to time. Families also expressed their preferences for lending terms. These preferences relate to the length of the payment period, the size of the loan, the amount of interest, the administrative mechanism, and the mortgage structure. For instance, one owner stated that he considered the interest rate of his municipal loan as too high and the repayment period too long. If there were no constraints on construction time, he would prefer to build

according to his own pace, and if he needed to borrow, limit his credit to small amounts so that he can repay it over a relatively short period of time. He also expressed a strong preference for cash versus materials-only loans. The latter, he claims, would give him more freedom in programming his construction.

Another respondent disagreed with the government's policy of using income from formal employment as the sole basis for determining affordability, and in particular, the size of one's plot. He believes that income from informal activities, while at times unpredictable, can contribute significantly to household income. Moreover, rental income should offset the irregularity of income from secondary economic activities. Once his house is completed, he will concentrate his efforts towards paying the loan within the shortest time possible to reduce both the interest payments and the psychological burden associated with the thought of passing the debt on to his children.

In a similar vein, one interviewee observed that the criteria used by the municipality in allocating stands and determining what is an affordable loan discriminates against the poor and the self-employed: the poor because the less income one has, the smaller the size of the loan; and the self-employed because of the reluctance on the part of the local authority to provide guarantees for building society loans-- a requirement for eligibility --to those in the informal sector.

A fourth respondent, experiencing problems in buying the window and roofing to his house, expressed a need for small specialized loans, in addition to the long-term loan, that would enable him to purchase windows and roofing material for his house after his major loan has been used up.

Other respondents preferred a bigger loan sufficient to complete all seven rooms at once. One respondent indicated he would like to rent out at least four rooms to repay mortgage charges. According to him, providing people with small loans leads to smaller houses (less rental space), and a slower pay-back period.

One respondent preferred the employer loan over that of the municipality, and regretted that his employer loan was not large enough to finance the entire seven rooms. He considered the interest rate on the council loans too high compared to his interest-free employer loan. He would like to repay both loans as soon as possible so that his family will not be burdened by them in case he gets ill or dies.

Table 8 presents a summary of the attitudes of, and suggestions offered by project participants on credit programs. It is interesting to compare them with the recommendations made by St. Mary respondents, who while not eligible for such loans,

comprehend the socio-economic constraints faced by their project counterparts, particularly those involved in the informal sector.

Table 8. -- Summary of Borrower Attitudes on Mortgage Finance

1. "The 25-year repayment period is too long and the interest rate is too high...since by the end of the 25th year, I would have paid more than twice the amount of the loan. Moreover, I dislike the idea of passing on the financial burden to my children."
2. "I earn a living by hawking clothes and other merchandise... since the demand for my goods vary from month to month, I am afraid of not being able to meet my monthly payments from time to time... Moreover with the children entering school, I will have to start saving for their education as well."
3. "Building 4-room core within eighteen months imposed a tremendous burden on my family's cash flow, forcing us to rent out some rooms to generate additional income to meet mortgage payments."
4. "I think the municipality should be stricter in their selection of project allottees since middle-income families can afford to build their houses elsewhere."
5. "I think the deposit is too high. I've known of families who were forced to drop out after being allocated a plot because they couldn't raise the deposit for it."
6. "I couldn't understand the conditions of the loan. I sometimes think I am being cheated by the municipality as well as the building society...I wish the government would take more time to explain the loan to us, especially since most of us had had only few years of education."
7. "I prefer material to cash loans. I think the poor are more likely to misuse cash, particularly during enrollment time."
8. "My wife earns more than I do from hawking. I wish the municipality included her earnings in calculating our loan so I could build a larger house faster."
9. "In calculating the loan, the building society should consider the rising cost of building materials. By the time I get my loan, it would be hardly enough to build two rooms."

10. "I am in arrears with my municipal loan. I would like to pay in small increments, whenever I make a small profit from selling vegetables, but the municipality will only accept a full payment. I wish its repayment conditions were more flexible."

11. "My husband and I prefer to start off with a one-room house, rather than having to build a house from the foundation...however, we don't have much choice under the current housing projects of the government."

12. "The municipality/building society should consider that even after we have completed the 4-room core, we are not only repaying the construction loan, but also the builders and suppliers of building materials."

13. "If government requires us to complete a 4-room core within eighteen months, it should either increase the size of the loan (adequate enough to build four rooms), lower its standard, or extend the construction period."

14. "Personally, I prefer a larger loan so I can complete seven rooms at once. I'd like to rent out these rooms and repay my loan at the soonest time possible."

15. "I am hesitant to take out such a large loan. What if I get sick? I prefer smaller loans, say just for the roof or the windows, which I can repay right away."

16. "If government charges interest on building loans, then it should reduce taxes on basic commodities, including building materials."

The statements from the respondents presented in the preceding table echo similar concerns as those expressed by residents of St. Mary's Township. There is the general reluctance in applying for a long-term credit because of the instability of income sources and a preference for smaller, more manageable loans. Similarly, project participants expressed difficulties in complying with standards and pace of construction -- the same

problems which residents of St. Mary's associated with rigid project requirements. Finally, project allottees expressed a preference for a greater variety in housing solutions, and freedom to build incrementally. A concern about the rising cost of tax on primary commodities, including building materials, was also articulated by both sets of respondents.

CHAPTER VII

STRATEGIES EMPLOYED BY FAMILIES TO SURMOUNT THE PROBLEMS ASSOCIATED WITH PROGRAM CONSTRAINTS AND THE MORTGAGE INSTRUMENT

Faced with the financial strain imposed by the structure of the mortgage loan and the costs of meeting programmatic requirements, project participants have sacrificed other household priorities, assumed additional debts, divided the family structure, and taken on second jobs to meet both mortgage and program requirements. The resourcefulness of these families should not be used as a justification for mortgage finance programs, but as an indication of the families' determination to survive in the face of adversity. Programs should be designed to enhance the ability of households to house themselves in accordance with the financial ability and need for housing, and not to coerce them into solutions which the government feels they should have, and should be able to pay for.

This chapter examines the strategies employed by project participants to satisfy mortgage and project requirements. The extent to which households have been able to mobilize the needed resources depended in large part on their particular socio-economic situation at the start of the project. It is interesting to note that only a small minority opted not to apply for mortgage assistance. Where did this group obtain the necessary resources, and under what conditions? This question is addressed

in the first section of this chapter. It will be followed by a discussion on the strategies used by households to reduce construction costs as well as mobilize the resources needed to comply with government requirements.

Project participants differ from the residents of St. Mary's in several socio-economic aspects. Average incomes at the start of construction are generally higher for project participants who are more likely to be employed by the private sector. The evaluation surveys of the UNCHS project in Kwekwe and the USAID project at Kuwadzana indicated that 68% of participants in the former scheme were salaried employees (ENDA, 1985). In Kuwadzana, Holin (1985) reports that all but three surveyed residents reported that they are presently employed. In contrast, the original residents of St. Mary's were former squatters who were unable to qualify for government-sponsored rental housing in the colonial regime because of lack of formal and secure employment. Currently, majority of the original residents have remained self-employed or have started small commercial (tuckshops) and manufacturing enterprises based on-site, with one or two assistants. Most, however, earn the substantial part of their livelihood from rental income. Similarly, approximately 80% of project participants were former renters, while residents of St. Mary's were former squatters who resided rent-free in their self-constructed dwellings before being relocated to their present site. The housing situation of project participants also differs

from that of St. Mary dwellers who were not restricted by current program requirements on housing standards and construction speed. Project participants are not only required to build a 4-room core within eighteen months, they do not also have the flexibility to live on-site during construction and to build incrementally using available (local and self-made) building materials.

The Non-Borrowers

The fact that only a minority of allottees did not avail of the loan indicates that they are more the exception than the norm. Of those interviewed, only three households from Kuwadzana and four from the World Bank project in Harare ⁴⁸ did not borrow a municipal or building society loan. The situation of the St. Mary dwellers and of project borrowers is more typical, and represents two diverse responses to the shortage of housing opportunities.⁴⁹ In the absence of program requirements, households typically build incrementally, phasing construction activities in tandem with the availability of resources, effectively negating the need for financing. However, within the

⁴⁸ The Harare component of the World Bank project. There were no representative cases from Kwekwe.

⁴⁹ Comparing the quantity of resources at the start of construction is not possible across the projects, including St. Mary's, not only because they started at different points in time, but particularly because in the latter case, dwellers were unable to recall how much savings they had when they started building their houses in the early 1960s.

project context, households are forced to apply for a loan since resources are often inadequate to finance the completion of the 4-room core within the time limit set by the government. Non-borrowing project participants who succeed in completing 4-rooms in eighteen months are atypical in that they have not only accumulated savings to start construction but are able to mobilize additional resources to complete it. Similarly, recipients of employer assistance are able to substitute employer loan for the municipal or building society loan.

Alternative Sources of Financing

How do non-borrowers construct the required 4-room house in the absence of formal finance ? Respondents offered several explanations for refusing the mortgage loan. One stated that he did not think he would be able to pay back the loan. Another indicated that she feared discrimination from the municipality since historically only men, who were legally employed, were permitted to reside in urban areas. A retired allottee anticipated that his loan request would be turned down because he was no longer employed. In general, all indicated that they did not like the repayment plan.

Instead of borrowing from either the municipality or a building society, these beneficiaries had instead tapped other sources of funds, such as savings, sale of assets, employer

loans, intra-family transfers, etc. Some stated that savings substituted for the loan, while another indicated that the employer loan offered more favorable terms than the municipal or building society loan. These views are illustrated in the following case history excerpt.

The Divorcee's Story

The owner was born and raised in Masvingo. She migrated to Harare 1976 where she was married and later divorced. Due to financial difficulties, she had to send her child back to the rural area to be raised by her mother while she looked for a job. She eventually found employment as a domestic helper in the servants' quarters. She recently resigned from her job to devote her full time to knitting and hawking. She buys clothes at wholesale prices and sells them on credit to clients from different farming areas outside Harare. She presently earns more from her own business than she did as a maid.

She registered on the municipal waiting list in 1974 and was allocated her stand ten years later. Eager to rent out some rooms for additional income, she decided to construct five rooms at once (including a room for lodgers), and hired a builder to undertake the construction. It took five months to complete the construction of the house, possibly shorter if she did not have to canvass around for materials. She was unable to assist in the construction because her business required her to travel often. During this time, her former employer allowed her to live rent-free in her old accommodation.

She hired two sets of builders altogether. The first builder was hired on condition that he was to construct five rooms at once and will be paid according to the level of work completed. She advanced him Z\$500 to complete the construction until the sill level, but he ran away before completing the job. She had to hire a second builder to

complete the work to the roof level, and paid him Z\$200 for the work. Rather than buying her materials from the project's store, she decided to canvass around for the cheapest price. She used second hand window and door frames which she obtained at an auction.

To finance the construction, she used all her savings, approximately Z\$4,000 plus an employer loan of Z\$300. The later was quickly repaid within a month. She decided not to apply for the loan because of fear of discrimination due to her divorcee status. It is only recently that single women were given homeownership rights in the country. She was also wary of the loan conditions which she did not fully understand. Finally, given her substantial savings, she encountered no difficulty in completing the house using her own resources. Nevertheless, she prefers a wet core to a serviced site. She believes that this would make it easier for beneficiaries to move to the site immediately and avoid having to pay dual rents.

She plans to extend the house to 7 rooms and to keep two sets of lodgers permanently to pay for the mortgage charges as well as defray the cost of food consumption. However, the initial unit had consumed all her savings, and the extension will depend on the rate with which she is able to accumulate enough savings to commence construction again.

In the above case, the decision not to apply for a loan was dictated by a combination of socio-economic factors. In addition to the small employer loan, the owner had accumulated substantial savings both from her previous employment as a domestic help, and from her secondary sources of income. Another factor which deterred her from applying for a loan was the fear of discrimination given her divorcee status since it was only after

independence that women were permitted to acquire a stand within a municipal project. Finally, she complained that she did not fully comprehend the loan program. Fortunately, she had accumulated substantial savings to enable her to build her house without a municipal loan. Her rate of savings accumulation was assisted in part by rent-free accommodations provided by her employers prior to moving into the site.

The Widow's Story

Mrs. X is a widow whose husband died shortly before they were allocated their stand in Kuwadzana. She did not apply for a municipal loan because her husband's pension combined with their past savings were adequate to construct the minimum required unit.

X and her husband, a policeman, resided rent-free inside a police camp in government housing. She continued living there until she moved her family to the project site. She hired a builder to construct four rooms, but was only able to complete three rooms due to a shortfall in funds. The fourth room is in the process of being completed. The materials were bought in cash.

To finance the construction, she exhausted their savings of Z\$4,000 on the first three rooms. She did not want to apply for a municipal loan, even with the fourth room only half finished, to avoid the burden of monthly payments. Instead, she sets aside half of her pension money for construction. She estimates her expenditures to date as Z\$5,780. When the fourth room is completed, she plans to rent it out to pay for plot charges.

In the preceding case, a pensioner's widow was able to raise enough resources for construction from savings prior to her

husband's death and from his pension. She did not apply for a loan, even with the fourth room half finished, in order to avoid the burden of monthly payments.

Preference for Employer Loan

Of those who received employer loans, 2 received between Z\$3,000 to Z\$3,500; six between Z\$1,000 to Z\$2,999; and one obtained Z\$300. Considering that the average cost of a 4-room house is Z\$2,655 in Kwekwe and Z\$4,844 in Kuwadzana, the size of these loans as a proportion of total housing cost is significant. Realizing the predicament of their employees, some employers have offered interest-free loans to their workers, often repayable through monthly salary deductions. In the interview with the office messenger, the allottee indicated that he decided to build four rooms at once to comply with government requirement. A substantial portion of funds were provided through a Z\$3,000 employer loan as explained in the following excerpt.

Office Messenger's Story

At the start of construction, the owner had savings of Z\$700 with a building society. Part of this money was used as deposit. The rest was used to purchase the first set of materials required for the slab as well as to provide an initial advance to the builder. He did not apply for a municipal loan because of the interest rate. Instead he approached his employer of five years for assistance. The latter approved a Z\$3,000 interest-free loan which he repays through direct salary deductions of Z\$40 from his Z\$200 monthly

salary. He stated that this system of repayment is not only convenient; it also provides him with an added sense of job security since future payments are contingent on his continued employment.

The preceding excerpt illustrates the important role that employers can play in providing housing finance. Employer credit typically offers more favorable terms than project loan in terms of interest rate and repayment schedule. However, the loan is limited to those who are formally employed and whose employers are generous enough to assist.

In the following case history, the owner feared that his request for a loan would be turned down by the municipality. Having lost his job due to an accident that left him partially paralyzed, his prospects for a steady employment have been drastically reduced. He is, thus, very grateful to receive the accident compensation loan of Z\$4,000 which he used in lieu of a municipal loan.

C is partially paralyzed and unemployed. He has no savings and is dependent on rental income of Z\$60 per month from three lodgers in his 4-room house at Kuwadzana. He worked for a construction company for many years before his accident left him partially paralyzed.

He was allocated his 200 sq.m. stand after ten years on the municipal waiting list. Given his semi-paralytic state, the land is very important to him and to his family's future. Being unemployed he was hesitant to apply for a municipal loan. Fortunately he was compensated by the company for his

accident, and this enabled him to invest Z\$4,000 towards the construction of his 4-room house. His relatives lent him an additional Z\$200 and he obtained a material loan from a local supplier for Z\$150. The house was completed to the barest minimum standard.

He feels very bitter about the government's requirement of four rooms within eighteen months. He reasons that without the compensation money, he would not have been able to afford the stand and house. In the absence of such a requirement, he would have preferred to start with two rooms.

C's hesitation to approach the municipality because of his unemployment is similar to the situation of one allottee in the World Bank project who was refused a loan by the building society because he was forcibly retired by his employer for health reasons. He claims that the building society discriminates against the unemployed as well as those in informal employment which account for a substantial portion of low-income households. This poses a problem for implementing agencies who are caught between the need to provide affordable programs to low-income households and the requirements of building societies for financial viability.

For instance, under the conditions of the loan agreement between the Government of Zimbabwe and the World Bank 30% of plots shall be allotted to households with incomes between Z\$201-Z\$400, and 70% to households with incomes less than Z\$200.

Interviews with local project coordinators indicate that in reality, the ratio is closer to 60% for higher-income households and 40% for low-income families. Part of the reason is the preference of building societies for less risky, higher-income borrowers. It would therefore appear that using this financing mechanism on a project intended to benefit very low-income group presents a contradiction that manifest itself in the poor targeting of beneficiaries. In this context, the very poor are twice disadvantaged. Given low income levels, families qualify for smaller loans, and if they happen to be unemployed or self-employed the likelihood of obtaining a building society loan is considerably lessened. Thus, the non-borrowers that "survive" the rigorousness of project and program requirements are likely to have access to more funds than their poorer cousins with very limited alternative financing sources.

Table 9 compares the sources and quantity of resources available to non-borrowing participants in the Kuwadzana and Sunningdale projects. It shows indicates that households in the World Bank project have accumulated more savings than their counterparts in the Kuwadzana project and were also able to raise considerably more funds from the sale of assets and loans from relatives and employers. Those who did refuse the loan generally indicated that not only did they dislike the repayment conditions, in particular the interest rate and long maturity, but they also estimated that their savings were adequate enough

to build the standard core and/or could be supplemented substantially from other financing sources with more favorable lending terms such loans from an employer or a relative.

Moreover, there is a substantial difference in the size of required deposit between the two projects, indicating the upper-income bias of the project design. Compared to a maximum deposit of Z\$60 under the Kuwadzana project, participants of the World Bank project were required to deposit as much as maximum of Z\$1200. Even adjusting for the inflation, this is easily a 200% increase in the required deposit amount. A participant has the option of either paying in cash or charging the deposit against the building society loan. Those interviewed indicated that the former is preferable because one could start developing the stand right away. In the latter case, one needs to wait for the loan to be approved before one could initiate plot development. In addition, the inclusion of the deposit in the loan increases the borrower's total debt burden which could be as high as Z\$120 per month over a 25-year period. The end result is a substantially higher income group who are building higher quality housing within the context of a more expensive project.

Table 9.-- Savings and Other Financing Sourced Employed
by Non-Borrowers in lieu of the Mortgage Loan

Non-Borrowers	Sources of Financing	Z\$
Kuwadzana (1984)		
Case 1:	Savings from income and rent-free housing (employer housing); Employer loan	400 300
Case 2:	Accident Compensation Loans from relatives	4000 200
Case 3:	Savings	4000
World Bank Harare (1987)		
Case 1:	Savings	4600
Case 2:	Husband's savings; Wife's savings	2500 720
Case 3:	Husband's savings; Wife's savings; Sale of two cows; Employer loan	4000 800 450 4000
Case 4:	Husband's savings; Sale of car	9000 1600
Case 5:	Husband's savings; Wife's savings; Employer loan Loan from brother	5000 400 1000 500

Strategies Employed by Project Participants
to Reduce Costs and Mobilize
Resources for Housing

The imposition of project requirements has created a tremendous financial strain on low-income households. This is demonstrated in the following case study excerpt.

The Widow's Story

M is a 45-year old widow who is dependent on her daughter and her limited earnings from crocheting. Her cash-flow stream has always been strained by the financial burden of educating her children and more recently of constructing her house. At the start of the project, she only had enough money to pay for the deposit. Consequently had no other recourse but to apply for the loan although she thought the interest rate was too high. Unfortunately the loan was only enough to buy materials for two rooms.

However, she was intent on completing four rooms of which two were to be rented out for additional income. She renegotiated for a larger loan. Her request was approved through the sympathetic intervention of the project manager.

In addition to the loan, she paid the builder in phases allowing her to spread labor costs and incrementally stockpiled building materials as money became available from her crocheting. These large expenditures have depleted her meager savings, and as a result, she feels economically vulnerable. She considers rental income and her daughter's contributions as already committed funds to meet housing and educational expenses, leaving her with no cushion in the event of an emergency.

In the preceding case history the widow, constrained by her already limited resources, was forced to liquidate her meager savings and to rent out a room in an attempt to meet construction costs. Her situation is not unique. Contrary to the belief held by policymakers and lending agencies, the case studies did not reveal many households with substantial "hidden" savings or rural incomes that could be liquidated for housing construction, and therefore taken out of their "unproductive" use. This section briefly discusses the strategies and informal financing sources used by project participants to meet project requirements.

Savings and Sale of Assets

A number of factors affect the rate at which households are able to accumulate savings for housing such as restrictions against living on-site during construction.⁵⁰ Other factors include the type of jobs held previously and previous forms of accommodation.⁵¹ Savings are considered as ready money or

⁵⁰ The restriction against on-site residence prior to the completion of a 4-room unit slows down a household's ability to accumulate savings since it will have to continue paying rent elsewhere.

⁵¹ Residing in rent-free accommodations, such as employer or kin housing, enables the household to accumulate savings which is then tapped for housing. Similarly former squatters enjoy the benefit of rent-free accommodation. Not surprisingly, savings from rent-free accommodation have been known to substitute for project finance.

cash. The case histories showed that most allottees used all the savings they had on deposit and advance to labor at the initial phase of construction.⁵² In later stages, savings set aside from current income are be used for both labor and materials.

Since savings, which among the case studies varied from Z\$150 to Z\$2,000, are clearly not enough to finance a 4-room core, it is often supplemented from the sale of urban assets (furniture, bicycle, sewing machine, etc.) and/or rural property (land, crops, cattle, poultry). Money raised through this method ranged from Z\$50 to Z\$1,200, and was used for all expenses associated with the housing construction including living expenses during the construction period. The following excerpt shows that the sale of a major asset, in this case a former house, can account for a substantial proportion of housing finance:

The Businesswoman's Story

S is a self-employed business woman who makes her living by buying consumer goods from Botswana which are sold in Kwekwe, a profitable undertaking given strained trade relations between Zimbabwe and South Africa. When she is not travelling, Mrs. S is a [art-time seamstress. She receives customers from her house at Kwekwe.

Unlike most beneficiaries who were lodgers before entering the project, Mrs. S and her husband previously owned a 3-room house in a development adjacent to the project. Their case is however unique and warrants retelling in full.

⁵² The municipal loan could either be cash or material installments equivalent to Z\$500. The building society loan was only provided in the form of materials. Thus it was not uncommon for most households to use the loan entirely on building materials.

Prior to their migration to Kwekwe, the family lived in Bulawayo where the husband worked as a general laborer for a textile company. Unfortunately he was laid off in 1975. Unable to find employment, he decided to move his family to Kwekwe where he had heard of job openings at the steel factory.

With their six children, they rented a room in Mbizo Section 3 and paid a monthly rent of Z\$6. The room was too small to accommodate the entire family, and Mr. S was forced to leave three of the children with a relative until better quarters were found. In 1977, they were able to transfer to a 3-room company house in Mbizo Section 6 where they paid a monthly rent of Z\$25. In 1984 these houses became part of a homeownership scheme, and the family bought the house using their savings of Z\$1,200. Nevertheless, the house remained too small to accommodate a family of eight. Thus when Mrs. S heard of the new UN housing pilot project which presented the option of building to a maximum of seven rooms, she eagerly applied to the project. She registered on the waiting list in 1984, a time when some of the beneficiaries had already started building their houses. She had been on the waiting list for three months before she was notified by the Municipality that she had been allocated a 300 sq.m. stand. This was a stand formerly allocated to another allottee who failed to raise the required Z\$50 deposit.

They decided to start with the construction of seven rooms at once since, based on their rough calculation, they felt they had adequate resources to complete all rooms. According to Mrs. S, the lump sum investment they needed to initiate construction came from the sale of their old house and the building society loan.

While rural land and/or cattle are less likely to be sold to raise money for construction, savings from the sale of agricultural crops have been an important source of financing. In

several case histories, the amount of accumulated savings from the yearly sale of crops has been as high as Z\$1,000 to Z\$2,000 at the start of construction. In one case, the standowner owned five acres of land adjacent to his parents' farm. The latter grows maize on both lands, and sends him the annual profit which last year amounted to Z\$400. More commonly, it is the wife and children who till the land and sell the produce. Profit, net of household expenses and agricultural inputs, is normally saved, and used as part of the initial investment.

However, most project participants are not fortunate enough to own such a large size of rural land. Occasionally, a family is forced to sell an asset, such as a sewing machine or a bicycle, that is critical to its livelihood, in order to raise money for housing construction.

Household resources are rarely supplemented by loans or donations from relatives or friends. Due to the relatively recent phase of urban development and the historical impoverishment of blacks, few of those interviewed indicated having relatives in the urban area, and those with relatives stated the latter as being too constrained by their own economic conditions to be of much help financially. Assistance from relatives is more likely to be provided in the form of labor during construction.

Gardens

Gardens play an important role in the household's overall financing strategy as a source of food during the initial phases of construction when most of household resources is diverted to finance building materials and labor. This is evidence by the presence of vegetable gardens in almost all the stands, with some households selling their surpluses in front of the house. The importance of vegetable gardens increases inversely with the size of the household income as illustrated in the case of a widow who supports herself and her five children by crocheting and raising a vegetable garden. The vegetables are consumed by the family, and the surplus sold to buy milk and bread. Her savings were used up in building the house, and rental income is used primarily to meet plot and mortgage charges. Thus, while her garden may not directly contribute to the financing of the house, it enables her to shift what is typically spent on food to meet expenses associated with house building. To this extent, home gardens are vital to the household economy.

Informal Savings and Credit Groups

Unlike in St. Mary's where savings and credit groups were popular especially among female-headed households, there were very few instances when membership in a savings and credit group was mentioned as a source of housing finance. Five of those

interviewed stated being members of a rotating savings and credit group, making monthly contributions between Z\$25 to Z\$50 per month. Membership was generally limited, ranging from two to ten members, due in part to the fact that the projects are relatively new, and the social bond and trust required for creation of an informal savings groups have not yet been developed. Most are small informal associations which exercised little control over the use of the funds. Only two specifically indicated using the loan for housing construction. Others merely stated that the loan was used to meet general living expenses. In Kuwadzana, an allottee stated membership with a savings group of nine members at his workplace. Each member contributes Z\$30 per month. With a monthly salary of Z\$130, he said it is difficult to make the regular contributions. A housewife contributes Z\$20 monthly to a 3-member savings group while her husband saves with a building society. Another housewife was forced to withdraw from her 9-member group after her husband's pay schedule changed from a weekly to a monthly basis. She said that the change in pay schedule made it difficult for her to meet her contribution on a weekly basis.

In contrast, another respondent has given up entirely on the idea of joining a savings group because "I just have enough to make ends meet", or as another couple in Kwekwe stated with regards to the mortgage loan, "all income is already committed for future expenses". Still another respondent said he has

withdrawn from the group after a member absconded with the group's savings. Perhaps the most interesting response to the question came from a household head who stated that membership in such a group did not pay the equivalent of an interest, and that only the first borrower gets the real value of her money due to the eroding effect of inflation.

In general there are two different attitudes with regards to savings and credit. One perspective views a positive link between savings and credit as the major advantage for membership in this group. The opposite position, illustrated in the last example above, is more concerned about earning interest on her savings rather than access to credit. It would seem helpful from a policy perspective to develop a financing mechanism which would link both savings and credit, while providing interest on savings to attract the relatively bigger savers in the community. Credit could be channeled towards a form of housing finance which members can tap into for short-term home improvement or extension loans. Such an organization would need to be grass-roots based to be accessible to its clientele.

Dual Household Structure

Frequently, families are forced to sacrifice their living space in order to make room for renters to pay for housing, or to divide the family structure to allow more room for letting out as

well as to reduce expenditures during the construction period. In the latter case, the immediate family resides in the rural area with the household head remaining in the city. In the field survey, families with a dual household structure owned between 1 to 10 acres of land, and 2 to 15 heads of cattle.

The existence of the dual household structure is an outgrowth of the colonial past where only the male members of the households were permitted to work and reside in urban areas. Wives and children typically resided in the Tribal Trust Land where they tilled the soil for subsistence. Having achieved independence only in 1981, much of the country's Black population are still making the transition from a rural to an urban life. Seasonal and circular migration are a common phenomena. The wife and children typically live with the husband after the harvest season, and return to the rural homestead during the tilling period. Income from the sale of crops is typically used for the maintenance of the family and to purchase inputs for the planting season. These earnings may be supplemented by a small maintenance allowance from the husband.

It is only in recent years that urban life has become possible as a permanent way of life for blacks, rather than merely as a privilege contingent on one's employment. Since the projects are relatively recent, interviews with participants do not shed any conclusive insight on the relationship between

homeownership in the urban area and preference for rural life. However, the case histories do reveal that a some savings from rural investment is being used to finance the construction of the urban house. It is not clear whether this is indicative of a trend, or merely a "one shot" financing with subsequent profits from agriculture being re-invested in the rural areas.

The Driver's Story

B, a driver for a local bakery, migrated to Harare with his parents when he was 14. His parents were domestic helpers who resided on their employer's compound. Five years later, his parents returned to their rural homeland to cultivate his uncle's 6-acre land. Although B remained in the city, he maintains very strong ties with his village where he owns 5-acres of land that is currently being cultivated by his parents and kin. Profit from the sale of maize is saved. Last year, this amounted to Z\$400.

At the start of construction, he had Z\$2,000 in personal savings from the sale of maize. He also obtained a municipal loan of Z\$1,500 and an employer loan of Z\$600. Without his initial savings, he doubts that with a monthly income of Z\$196 he could have financed the construction of his 4-room house. He is currently renting out one room to pay for monthly mortgage charges.

Due to the rapid urbanization trend predicted by international agencies for Zimbabwe, the government is pursuing an aggressive rural resettlement program as a way of stimulating the agricultural sector and regulating urban growth. It is therefore not clear either whether the dual household structure is a transitory or a permanent phenomenon. The answer to this

question will obviously have serious bearing on whether the rural component of the household will continue to function as a source of housing investment. The case histories by themselves cannot provide definite conclusions but they do suggest that at least during the initial phases of construction, maintaining a dual household structure reduces cost construction, and may even augment total housing investment.

The following excerpts are derived from two cases with one family expressing a desire to maintain the dual household structure even after the completion of the house, and the other stating a strong preference for urban life.

The Postman's Story

The owner, a postman, resides in his 4-room house in Kuwadzana with his eldest son and one lodger. His wife and five children typically live in the rural area during the planting season to assist his parents who are peasant farmers. He built the house in Kuwadzana specifically to enable his sons establish a foothold in urban society. He wanted them to have a house as they start looking for jobs in Harare. Nevertheless, he regrets having to burden them with the remaining mortgage payments after he retires. He prefers to keep his wife and daughters in his 2-room rural homestead to cultivate his 5-acre land even after the house at Kuwadzana has been extended to seven rooms. It is in this way that he has chosen to reconcile the urban and rural aspects of his life.

In the preceding excerpt, the postman has bifurcated his household structure with the female members residing in the rural homestead, and the males in the city where they are expected to support the family through paid employment. In this family structure, it is likely that the sons and their families will become permanent city residents, with the father eventually returning to the rural area. This illustrates that for some families, entry into the project and consequent access to urban land provide a medium for the next generation's entry to urban society. In contrast, the second household, severing rural ties, has vowed to become a true urbanite.

The Steel Factory Worker's Story

N is a steel factory worker and a part-time cobbler. He is 39 years old and has worked in the factory over the last six years. He hopes to be promoted to assistant foreman very soon. To supplement his income he repairs shoes and slippers in his spare time. His wife is sews and hawks clothes within the project site. N migrated to Kwekwe from Gutu in 1975 in search of work. He first earned a living by repairing shoes until he was hired by the steel factory on a salary basis.

He considers himself a townsperson and has since brought his family to live permanently with him in Kwekwe. Although he possesses five heads of cattle and is eligible to own land in his tribal home, he has no interest in working the land. His chief aim in life is to expand his business and to improve the standard of living of his family. He sees no future in living in the rural area. Instead he has asked his brother to assist him in expanding the shoe repair business and has even approached the municipality about the possibility of opening a stand in the proposed shopping area within the project.

In the third example, the household head plans to return to his village after receiving his education in the city. He plans to rent his house in the city in the future, and to live permanently in his village.

The Fence-Maker's Story

M is 32 years old, married with three children. He maintains strong rural ties since his family resides there during the planting season. He owns a 3-room house in Kwekwe and 10 acres of land in Gokwe with two heads of cattle.

M is currently studying for his 'O' levels through evening classes. During the day, he works as a fence-maker. He first came to Kwekwe in 1980 to further his studies. He would like to qualify for admission to the Teacher's Training College and train to teach at the local primary school in Gokwe. He pointed out that he prefers the rural environment to urban life because the cost of living is lower in the former. Meanwhile he is busy completing his house which he considers to be a good investment. He plans to rent it out when he returns to Gokwe. He intends to continue the fence-making business through his brother who plans to reside in Kwekwe permanently.

The interviewee preferred the rural life because the cost of living was cheaper than in the city. However, he was also cognizant of the increasing value of urban property, he plans to rent out the house and to continue the thriving fence-making business he started by having his brother, a dedicated urbanite, supervise his two assistants in his absence.

Builder's Credit

With the exception of one self-built house, and two brigade-built houses, all those interviewed hired informal builders whom they paid in phases. Payment in stages is critical to maintain a positive cash flow during the building process. Normally, the initial bulk of funds is utilized for down payment and for the purchase of building materials. In fact, majority of the loans were set aside specifically for the latter purpose. Coupled with the cost of maintaining a room or a house elsewhere during construction, a household's cash flow at this stage is spread out very thinly. Thus, it is not infrequent for families to defer payment for labor until enough resources have been accumulated from current income sources to pay for labor. Staged financing is therefore a common strategy used by families to spread out the cost of a house. This is illustrated in the following story of a household who availed of builder's credit:

To finance the construction of his house, Mr. M drew from different sources of funds phased over an 18-month period. The first major expense was the Z\$50 deposit which was paid from his savings. The second major expense was labor. Fortunately the builder he hired was desperate for work and agreed to extend him credit. Under this agreement, the owner advanced the builder Z\$100 from his savings to construct a 4-room core. It was understood that the remaining Z\$300 would be paid in installments of Z\$50 every month after construction. They did not sign any contract since the builder lived on the project site himself.

Informal builders provide both building and material credit. They invariably supply their own initial capital. With the exception of two beneficiaries, all paid the builders after the completion of a every stage-- usually from floor to sill level --at an average installment of Z\$300 for every stage. When households are unable to pay on time, builders often agree to defer payments without charging interest. They also provide some small short-term material credit to keep the construction going.

Realizing that without a regular supply of building materials, their work and source of income would be disrupted, builders often accept partial or deferred payment terms, and are forced to finance part of their own labor cost. Although builders could, at their own choice, halt if they went unpaid, they are often willing to accept these payment terms provided they had enough to live on and to pay their workers. In Kuwadzana, living expenses for builders are relatively low since many live on the project site with their families residing in the rural areas. Nevertheless, in the early stages of the project, many builders complained that owners who had agreed to provide them with food were not doing so regularly. This indicates the limited resources which builders have themselves.

Average labor costs for a 4-room house is Z\$900 in Kuwadzana and Z\$413 in Kwekwe, but there are considerable variations from case to case, depending on how many sets of builders are actually

hired by the owner. In the case studies, builders' charges vary from Z\$650 to about Z\$1,200 in Kuwadzana and between Z\$300 to Z\$950 in Kwekwe. This could be, as stated by Holine (1986), the result of a fairly high turnover of builders. Since few of the owners have resources to complete four rooms at one time, one builder leaves the job when materials run out and, when work begins again, a different builder is hired.

Interestingly, the survey on informal builders in Kuwadzana indicated that builders perceived their job as constructing a 4-room core, and set their charges accordingly (USAID, 1986). When asked to break down the charges on a room-to-room basis, they were unable to do so. It is also very likely that considerable negotiation takes place between the owners and builders about the amount to be paid as construction proceeds. Builders are typically paid by stages of construction reached, and require payments which are higher, relative to material costs, for the initial stages than later stages of construction in order to recover the cost of performing non-labor tasks necessary to get the construction going.

While the availability of building credit helped beneficiaries alleviate their cash flow problems during the initial phase of construction, it presented a cash flow problem for builders. Since builders have to pay their laborers upon the completion of each stage regardless of whether they themselves

have been paid or not, builders are often forced to take several "contracts" at a time, juggling the work in accordance with the likelihood of being paid a given amount at a given time. Clearly, the limited abilities of the owner to obtain materials and make regular payments to builders contributed substantially to the phenomenon where many houses were built in "fits and starts".

Rental Income

Another important source of financing is the rental of rooms. Letting out rooms is a common strategy practiced by households to stabilize their typically irregular cash flow stream in order to meet regular monthly mortgage charges. There is a particularly lucrative market for room rental because of the shortage of housing options in Zimbabwe as evidenced by the length of the housing waiting list in each municipality. Although the government restricts rents to a maximum of Z\$8 per room in high density areas, this legislation is not currently enforced. The average rent charged by those interviewed varied from Z\$20 to Z\$25 per month and is based on the number of rooms and not on the size of the lodger family residing in the room. Rental income is used to pay mortgage charges and plot charges as well as to extend the house and meet other living expenses.

Holin's survey (1986) provides some figures on the extent of renting in Kuwadzana. At the time of her survey, 14 of the 129 resident families (11.7%) were renting rooms to one or more lodgers. Some 14 beneficiaries reported renting rooms to two families; the remaining stated having only one set of lodgers each. In all 18 lodger families consisting of 44 persons were living with the beneficiaries in the sample. The average size of these families is 2.4 persons and the rent charged varied from Z\$10 to Z\$25 per room (Holin, 1986).

While only 11.7% of these households living on-site reported renting to lodgers, about 80% of the sample resident households reported that they have rented or will rent rooms. Of those who have not yet moved to the project site, 76.5% indicate they will rent rooms. In all, an overwhelming 78% (181 of the 235 sample size) indicate a willingness to rent rooms.⁵³

Thus room rental will clearly provide an important income to beneficiaries in the Kuwadzana project in spite of the fact that, unlike St. Mary dwellers who can build separate rental units on the same stand, project participants are able to expand their

⁵³ In the smaller pilot project at Kwekwe, a UN survey indicated that only 35 (14%) reported having lodgers, with the majority (84%) having only one lodger family. The lodgers are paying between Z\$15 and Z\$30 a month for rent. Only 6% pay more than Z\$30 as monthly rent.

house only to a maximum of seven rooms. For those paying a monthly charge of Z\$45, the cost of payment could be reduced on a monthly basis by almost one-half. In addition, the level of rental activity that can be anticipated will significantly increase the size of this project by looking at the number of lodger families that the beneficiaries have indicated a willingness to house. Majority of beneficiaries (35%) stated plans to rent rooms to two lodger families. Some 25% will house one set of lodger, while 13% intend to rent rooms to three families (Holin, 1986). A few even indicated plans to rent rooms to four or five families. Moreover, it is not the smallest families that are more likely to rent rooms to three or more lodger families. The average family size of those interested in renting three or more rooms is five which is about the average family size for all beneficiaries in the survey. These trends are reflected in the case histories as the following interview excerpt indicates:

The Tailor's Story

The household head is a tailor who runs his shop out of his 4-room house in Kuwadzana. His income varies with the season. He claims that the volume of business is bigger in the winter while summer brings in a predictable lag. To stabilize his cash flow, he maintains two sets of lodger whose payment is used to meet plot charges. When his 4-room house is fully extended to seven rooms, he intends to rent out an additional two more rooms to repay the mortgage and reduce food expenditures. On average he earns Z\$210 per month from tailoring, and Z\$50 from his lodgers.

It is evident from the preceding excerpt that rental income reduces the proportion of household income normally devoted to housing expenditure. Rent is often used to pay mortgage and/or municipal charges, allowing the household to devote their resources to the extension of the house as well as to meet family emergencies.

Renting of rooms a way of satisfying the rigid requirements of the amortization schedule questions a project's implicit objectives. A housing needs assessment study done by the Urban Institute (1982) concluded that the national goal of providing all households with the current standard 4-room core will be impossible without higher occupancy levels and the present practice of lodging. This implies that, by raising the cost of homeownership through its housing standards, government will effectively make it necessary for the very low-income households families to rent out rooms in order to afford the standard 4-room house. This trend is clearly reflected in the design of the second (and proposed) USAID project which includes anticipated rental income in its affordability calculation. Table 10 presents an affordability analysis developed for a 2-room core (300 sq.m. stand) under a contractor-built and self-help built

option.⁵⁴ It shows that two- and three-room cores are more affordable than 1-room cores because of the potential for rental income.

Informal Sector Activities: Secondary Sources of Finance

Almost all of the households interviewed had one or more members active in informal activities, with income from the latter often exceeding that earned from formal employment. Nonetheless, households are reluctant to give up paid employment because of the stability and security it offers, a consideration that is important when faced with a long-term debt. The following case history excerpts illustrate that secondary income constitutes a significant portion of total household income. However, current government policy does not typically include secondary income in the affordability analysis.⁵⁵

The Tailor's Story

The owner, a full-time security guard, repairs and hawks ready-made clothes to the adjacent farm areas on credit. He earns Z\$196 from his first job and as much as Z\$300 from his secondary occupation. Although he earns more from the latter, he is reluctant to

⁵⁴ It illustrates the minimum household income levels required to afford a loan for one-, two-, three- and four-room cores with and without one lodger. It is assumed that a lodger would increase a household's income by Z\$25 per month.

⁵⁵ However, when households are required to meet a set standard of construction regardless of their ability or inability to raise the lump sum investment necessary at the initial stage of construction, the use of a rigid and static affordability formula is equally irrelevant.

Table 10
Affordability of Self-Help Core House
(USAID, 1986)

Interest rate: 12.5%		Repayment period (years): 25			
Item	1 Rm	2 Rm	3 Rm	4 Rm	
A. Plot & loan charges					
1. Sale price of plot	1200	1200	1200	1200	
2. Sale price of house	3172	4100	5200	6240	
3. Deposit	437	530	640	744	
4. Loan balance	3935	4770	5760	6696	
Monthly payment	42.90	52.01	62.80	73.01	
B. Monthly service charges					
1. Sewerage	3.53	3.53	3.53	3.53	
2. Refuse collection	1.05	1.05	1.05	1.05	
3. Minimum water	2.25	2.25	2.25	2.25	
4. Supplementary	5.65	5.65	5.65	5.65	
C. Total monthly charges	55.39	64.49	75.28	85.49	
D. Minimum required income assuming 27.5% to housing	201	235	274	311	
E. Front-end cash required incl Z\$350 for closing	767	880	990	1094	
F. Minimum rental income required to maintain affordability at various income levels					
Income level (Z\$per month)					
100	28	37	48	58	
110	25	34	45	55	
120	22	31	42	52	
130	20	29	40	50	
140	17	26	37	47	
150	14	23	34	44	
160	11	20	31	41	
170	9	18	29	39	
180	6	15	26	36	
190	3	12	23	33	
200	0	9	20	30	
210	- 2	7	18	28	
218	- 5	5	15	26	
220	- 5	4	15	25	
230	- 8	1	12	22	
240	-11	- 2	9	19	

resign from his first job because "it provides me with a sense of security."

The Municipality did not include his secondary income in calculating the size of his loan. Had he qualified for a bigger loan, he would have been able to complete his 7-room house faster, and been able to rent out at least three rooms earlier to repay the loan.

The Story of the Photographer

The household resides in his 7-room house with his family, his mother and two brothers. He derives economic security from his job with an air freight company but earns much more from his part-time work as a photographer. He earns a regular salary of Z\$350 per month while his income from photography fluctuates from month to month. However, at best he earns as much as Z\$600 per month especially when he is hired to cover special occasions such as weddings. From his gross earnings, he subtracts around Z\$30 for transportation and film. He typically charges Z\$3 per photo and makes a minimum profit of Z\$157 on each assignment. He feels no economic need to rent out a room in his house. He believes that he has a bright future in photography and encourages his relatives to explore opportunities in the informal sector for which there is no tax. He has set up a photo shop in his house and draws his clients from within and outside the project site by word-of-mouth as well as from references made by his former employer, an established photographer who has since retired.

He wished that the Municipality had considered his income from photography in determining the size of his loan. This would have enabled him to complete his 7-room house faster.

Photography and tailoring are only of the few home-based economic activities that thrive within the project site. A

variety of other economic activities exist, including tailoring and sewing, crocheting, fence- and brick-making, selling vegetables, traditional healing, furniture-making, carpentry, shoe repair, and hawking. Income is rarely taxed and operators neither pay for rent for the workspace, nor for a trade license.

A housing project also typically attracts builders, vendors, material suppliers, and other small entrepreneurs from the outside. Some of them eventually reside on-site as renters, generating additional income for residents of the project. In either case, income from the economic activity is fed back into the project, in effect, creating a micro-economic system consisting of interrelated informal economic activities with informal traders and artisans forming their own savings and credit group as a way of financing the expansion of their enterprise.

The Story of the First Tuckshop Owner

B is a tuckshop owner in Kuwadzana. With his wife and three children, he rents a room for Z\$25 in a 5-room house within the project site.

He migrated to Harare in 1973 and worked as a waiter at a local sports club which provided him rent-free accommodation. In 1978 he resigned and returned to his rural home in Buhera. He returned to Harare in 1978 and resided with his brother rent-free. He earned his living by practicing traditional medicine. In 1984 he was employed by a government ministry as a concrete grinder.

He held this job until 1985 when his brother, the bar manager for the sports club, lent him Z\$2,000 to open a tuckshop at Kuwadzana.

To this loan, he added his savings of Z\$450 as initial capital. He spent Z\$400 on construction materials and Z\$200 on labor. He buys all his goods from wholesalers in town and uses his brother's car for transportation. The car is lent to him for free, but he pays for petrol and maintenance.

During good times, he earns between Z\$150-500 in profit. He claims that business is generally good because he runs one of the largest and well stocked tuckshop on the site. He doesn't fear his competitors, arguing that as long as one has the essential commodities in stock, like bread, milk and mealie meal, one could always expect to make some profit.

At present, he is not paying rent for the premises, neither are his earnings taxed by the government. He and the other twelve tuckshop owners plan to form a cooperative society to which they will each contribute Z\$25 monthly. This money will be deposited into a joint account with a building society. Once they have accumulated adequate funds, they would like to build a supermarket and operate it on a cooperative basis in Kuwadzana. They have set a meeting date to finalize the organization of their society.

His goal in life is to expand his business and to obtain a stand in Kuwadzana. He has already registered on the municipal waiting list and anticipates being allocated a stand in subsequent phases of the project. He has no intention of moving his business out of Kuwadzana since he foresees a bright future for himself as long as the government does not tax his earnings.

The Story of the Second Tuck Shop Owner

M is a tuckshop owner in Kuwadzana. He migrated to Harare in 1980 and worked as a till operator in a cafe. During this time, he rented a room in Highfield. In 1985, he

moved to Kuwadzana where he is renting a room for Z\$25 per month in a 4-room house with another lodger. He has registered his name on the municipal waiting list.

M. jointly operates a tuck shop with a friend. They started the business in 1986 on premises rented at Z\$15 monthly. They initially contributed Z\$75 each towards the capital. After a month in operation, they borrowed Z\$200 from his partner's uncle to purchase more stocks for the shop. They have already repaid this debt in full.

In their original agreement, they agreed to set their salaries once they have determined the range of their monthly income. However, they have not been able to do so to the present time since all earnings are ploughed back into the business. They would like to stock their shop with all the essential commodities to keep up with the demand. At the moment they only draw allowances of Z\$40-60 per month to live on. They have a provision that a partner can increase his equity in the business and the profits will be allocated in accordance with the amount of capital invested.

All the goods are bought from wholesalers and transported on-site by buses. They earn between Z\$200 to Z\$300 monthly. M pointed out that in the tuck shop business, monthly earnings are heavily dependent on the quantity of goods stocked in one's shop. As a result, they are presently not saving any of their earnings. They plan to hire a helper once net profits have stabilized at Z\$105. He stated that "a child has to sleep in the tuck shop every day to guard against thieves". He and his partner are part of the effort to form a cooperative of tuckshop owners on-site.

His long-term ambition is to own a house in Kuwadzana since he is optimistic about the future of his business. He wishes that the municipality provided housing and business loans that catered to the self-employed which would enable them to expand their business. He argues that renting reduces one's profit while creating a feeling of insecurity.

The stories of the two tuckshop operators demonstrate the process by which a small business is started using financing from either a relative and/or a friend. Due to the expanding market within the project, the business thrives to the point where individual tuckshop owners decide to form a cooperative, pooling their resources together through an informal savings group mechanism in order to build a large supermarket that would enable them to reduce their individual overhead costs. Currently, tuckshops exist in the form of several makeshift sheds located in a row at strategic locations within the project. As such, owners feel the need to "hire a child to sleep inside the tuckshop everyday to guard against thieves". Obviously one of the rationale behind the plans to build a supermarket would be to reduce this risk as well as to obtain a larger variety of goods in bulk at wholesale prices.

The second example is particularly interesting because it illustrates the process behind informal business partnerships. Constrained by the lack of capital, two friends pool their resources together and decide to open a tuckshop. Although their starting capital is smaller than the first tuckshop, it is striking that they do not fear competition because of the high demand for basic commodities generated by an expanding market, a market that will continue to grow as the project enters into its

later phases. They agree in concept to set aside part of the profit as "salary" for themselves, but have not yet been able to generate enough profits to cover investment. However, part of their operating costs is a fixed "living allowance" that is separate from the salary. A sophisticated feature of the partnership is the provision that enables each to increase one's equity, with the profits being allocated in proportion to one's investment in the business. Not surprisingly, both partners express a desire for the government to offer a small business loan to enable them to expand their business, a suggestion that has been echoed by dwellers in St. Mary's who are themselves active in the informal sector.

Encouraged by their thriving business, these tuckshop operators, currently lodgers in Kuwadzana, are eager to become permanent residents. As the project expands and attracts more diverse economic activities, it is likely that the lodger population of the project will likewise expand, serving as a pool of future homeowners who are, in turn, both producers and consumers of informal services and goods.

The Cobbler's Story

In 1978 Y started coming to Kuwadzana to repair shoes while residing with his brother in Highfield. Prior to the project, business was very slow, generating income of only Z\$40 monthly. With the start of the project, however, demand picked up, and he moved on-site as a lodger in 1985. He rented a room in a 3-room house at Z\$25 per month. His

family resides in the rural area where his wife is active in subsistence agriculture.

He is a member of an informal savings group composed of ten members involved in similar informal activities. The member who draws the lot gets Z\$40 for that particular month, and is able to use the money as he pleases.

He is very optimistic about the future of his business as the project continues to grow, and plans to hire two assistants in the future. He would like larger premises for his business. He does not perceive any threat from his four other competitors as the market is large enough. His immediate goal is to obtain the birth certificates of his children so that he can register as a lodger and be on the municipal waiting list. He would very much want to own his own house and feels exploited as a renter. He is very bitter about the criteria used by the municipality for allocating houses and loans which, he claims, have no provision catering to the needs of those in the informal sector.

The above stories indicate that the growth of Kuwadzana has attracted economic activities, lodgers, and prospective home owners. Given the magnitude of demand, neither the cobbler nor the tuckshop owners perceive any threat from their competitors, and both plan to expand their businesses in the immediate future. Simultaneously, they would like to change their tenure status from renters to homeowners, provided they can overcome the income barriers to homeownership. They also expressed a demand for a small business loan to enable small entrepreneurs like themselves to expand and improve their activities. This suggestion echoes the recommendation made by the St. Mary respondents who, like the above, typically work within the informal sector.

Employer Loans

Employer loans serve as an important source of supplementary housing finance for those formally employed.⁵⁶ In the case histories, the loan size varied from as much as Z\$1,000 to as small as Z\$200. Typically the loans offer a lower interest rate or no interest at all. Payments are made through monthly salary deductions. Although their assistance is limited to those employed, employers ease the financial burden for families during the initial phases of land acquisition and construction. In the following case study, the respondent, an employee of the University of Zimbabwe, augmented his municipal loan with a loan from the University. The latter is a sizeable amount with interest rates lower than that offered by the municipal loan.

The Janitor's Story

Mr. M. is a janitor at the university. He is married and lives in his 3-room house at Kuwadzana with his wife and three children.

M. migrated to Harare in 1970 from the Honde Valley in Manicaland. He first worked as a servant in Avondale where he occupied a 2-room unit rent free. Two years later, he was hired as a caretaker for a block of flats. he was paid a higher salary and provided rent-free accommodation. In 1975 he got married and was hired eventually by the university as a general worker at a higher salary. During this period, he and his wife rented a room in an 11-room house with seven other lodgers.

⁵⁶There are cases where employer loans have substituted for municipal loans.

As his family grew, they experienced a need for a larger living space. He registered on the municipal waiting list in 1975, but was not allocated his 260 sq.m. stand until 1984. Although he would have preferred to hire a building brigade to build his house, he did not have adequate funds on hand to buy all the materials at once to enable the brigade to complete four rooms. He hired a private builder instead who charged him Z\$1,050 for four rooms, ablution unit and plastering. He paid the builder in stages, according to the various levels of construction completed which met the approval of the council inspector.

He qualified for a municipal loan of Z\$2,1060 based on his Z\$200 monthly salary. He also applied for a university loan of Z\$1,000. It only took one month for the latter to be approved. The university loan carried an interest rate of 9% and was paid from Z\$25 monthly deductions from his salary. To this he added Z\$250 from his savings with the building society. He purchased all his materials on a cash basis. Once the four rooms are complete, he intends to rent out three rooms, charging Z\$25 for each. He will request permission from the Municipality to build up to nine rooms, and plans to use the rental income generated from the three rooms to pay for the construction of the remaining rooms.

He would like to see project loans increased to as much as Z\$10,000 with greater flexibility in repayment terms. In particular, he prefers a shorter period in order to lessen his interest payments. He argues that a large loan will enable one to complete the house, and take in lodgers sooner. In this way, repayment for the larger loan will not be a problem since these will be met from the lodgers' fees.

The respondent has a very clear objective in maximizing his loans. He would like to build his house at the shortest time

possible in order to generate rental income. Like rent levels, the cost of construction are well known in the area enabling households to make a simple estimate of perceived costs and benefits on which to base the decision to borrow and build. As illustrated above, the janitor had a general idea of the cost to build four rooms, and clearly realized that the municipal loan would not be adequate to meet this objective. Fortunately, he was able to avail of a substantial employer loan at more favorable financing terms which enabled him to build most of the housing unit. Since his objective is to convert most of his house into rental accommodation, securing this secondary loan to accelerate construction was critical particularly given his limited savings and salary, as well as the limited size of the municipal loan.

Employer-assisted housing is likely to acquire a bigger role in public housing schemes in the future. For instance, the second phase of the Kuwadzana project is witnessing an increase in employer-funded houses. Under this arrangement, companies purchase serviced sites from the Municipality on condition that beneficiaries meet the latter's income criteria. The companies frequently hire a contractor to construct the basic core which is sold to the employee through a loan agreement. Under this agreement, the latter repays the company through regular pay deductions. The company holds title to the property until the full payment is made. As of 1986, 7 companies had purchased 197 stands for their employees. More recently, the government has launched a pilot project based on employer-assisted housing. An employer or consortium of employers can service and develop the stand, or jointly apply for a scheme under a building society.

Summary

This chapter has demonstrated that while project participants are economically better off than their counterparts in St. Mary's Township, and therefore more likely to be able to comply with project requirements, only a small minority of families were able to construct their homes without a mortgage finance. This indicates that the costs associated with existing standards are generally unaffordable to project participants, thereby creating the artificial need for finance. To supplement the mortgage loans, borrowers employ cost-reducing strategies and tap informal financing sources similar to those used by the residents of St. Mary's. It is conceivable that in the absence of project restrictions, these families would have been able to build and consolidate their homes, using the same informal mechanisms, without the need for long-term credit.

CHAPTER VIII
INSTITUTIONAL RESPONSE TO IMPLEMENTATION
PROBLEMS

In addition to the argument that the need for mortgage finance is artificially created by the government's strong programmatic emphasis on standards and rate of construction. The thesis argues that the government's misconception that finance, not land, is the critical bottleneck to construction has led to institutional and coordination problems which exacerbate the difficulties faced by project participants.

Drawing heavily upon interviews with officials of lending and implementing agencies, this chapter will demonstrate that local authorities and building societies are equally reluctant to participate in long-term credit programs for low-income households. However, they have little choice because, like project participants, the framework of housing policy established by the government, requires them to "play by the rules". To avoid the financial risk associated with the application of mortgage programs to poor families, implementing and lending institutions have adopted a series of design and management innovations characterized by (a) a subtle but definite shift in the target group from lower-income, high risk borrowers towards middle-income, lower risk project participants, and (b) an increasing formalization of the lending as well as the building process.

This study argues that the increasing sophistication of institutional arrangements will not eliminate project implementation problems. These are rooted in the mismatch between the financial services that institutions can provide on the one hand, and the equity base and borrowing capacity of low-income households.⁵⁵ The need for finance is brought about by the present level of standards and other programmatic constraints. The need for finance can only be reduced by increasing the choices in tenure and housing solutions. The fact that the same implementation problems have repeatedly emerged in spite of such arrangements indicate that the government's focus on financial programs only exacerbate the problems that have arisen from the enforcement of excessive standards. Focusing on finance, and institutional solutions to the problems associated with implementing a mortgage finance program for low-income housing detracts from the real issue of access to land. Indeed, the belief held by the government that by increasing access to

⁵⁵ This conflict between what households are able to afford and what financial institution require to remain financially viable relates to the constraints associated with income qualifications required from potential borrowers. such as an adequate level of income, regular stable employment, a verifiable income and satisfactory collateral, i.e. collateral in the form of conventional marketable assets. There are also restrictions on loan terms which make access to financing difficult such as: minimum sizes of loans that are too large, high downpayments in absolute terms and small loan-to-house value ratios, very long maturities while low-income households operate short-time horizons, requirements for fixed and regular amortization payments, inconvenient office locations, high housing finance cost burdens, complex loan terms and conditions which are difficult to adhere to and understand (United Nations, 1978).

finance, it could bring housing standards within the reach of low-income households has proven costly not only for project participants, but for lending and implementing institutions as well.

Mortgage Finance - The Only Game In Town: The Other Players

Building Societies

Building societies are reluctant to offer long-term credit to low-income households, but have little choice given the decline in their traditional upper-income market and deposit base. Private sector financing for this primary market has been relatively stagnant in the past six years. Lack of new housing construction for middle- and upper-income families has confined the societies to financing purchases of homes from the existing housing stock. This is primarily due to the emigration of middle- and upper-income groups since independence, which has increased the supply of this category of existing housing stock. Moreover, unattractive deposit rates vis-a-vis those offered by the government-sponsored Post Office Savings Bank have prevented the building societies from capturing additional domestic savings which would permit them to increase the flow of private capital. Besides unattractive deposit rates, other factors, primarily regulatory in nature, have adversely impacted upon the building

societies in recent years, draining their resources and increasing their operating costs.

On the whole, the societies have been able to cope and they have continued to operate in the black. However, without significant changes in the regulatory and control areas, the building societies faces a progressive decline in their resources. Towards this end, they have indicated a willingness to serve lower-income families as a quid pro quo for a more favorable interest rate structure that would allow them to compete with other financial institutions and to earn a fair return on their investments. Low-income housing projects have provided the building societies with the opportunity to offer direct loans to low-income families for housing construction as a means of obtaining the needed concessions from the government. However, with no prior experience in low-income mortgage financing, building societies do not have the administrative capacity to process a multitude of small loans. One regional officer of a building society complained that..."It's been quite a nightmare. Imagine this man trying to fill in a basic application form. He doesn't even know even how old he is or his last name..."

In the past, building societies provided block loans for housing to the government. In recent projects where they have had to work side-by-side with the local authorities, they have

encountered conflicts in such areas as eligibility and coordination. To illustrate, in the UNCHS-sponsored projects, participants paid the local authority for the user/plot fees, and the building society for the mortgage charges. This implied that the allottee had to undergo two separate application process, and project eligibility for the project did not automatically qualify one for a building society loan. The problem in defining a mutually acceptable eligibility criteria is demonstrated in the following interview excerpt:

The Municipal Official's Story

This whole eligibility requirement is proving to be a headache. It's not a clear cut issue that could be settled by looking at income alone. For instance, do you disqualify a man from a 30-year mortgage loan because he is too old...We had two cases, a sixty year old woman whose seven sons built her a 7-room house, and another seventy year old man who is unable to complete his house without a loan...do you make an exception in his case...?"

Clearly, local authorities and building societies differ in their motives for participating in a low-income housing project. The latter is primarily concerned with ensuring a positive return on its investment, whereas the municipalities are more sensitive to the socio-economic constraints faced by low-income residents.

To reduce the risk associated with the low-income mortgage loans, the building societies have required a guarantee program from the government. In turn, the local government has been reluctant to provide such guarantees to very low-income or self-employed applicants due to its own fiscal vulnerability.

The reluctance of the building societies to provide long-term mortgage financing directly to low-income households, in spite of government guarantees, is indicated by the fact that only one out of three societies participated in the UNCHS and World Bank housing schemes. In spite of different institutional arrangements introduced to streamline loan and project administration, the building society in the UNCHS projects encountered similar problems in the World Bank schemes.

Despite these difficulties, building societies have little choice in the matter, as illustrated in the following case study.

The Building Society Official's Story

"...The project has been a traumatic experience for us as well. Imagine yourself as a loan manager, used to lending out to higher and middle-income groups, suddenly faced with 20,000 households with incomes of less than Z\$1,200 a year...and you have to invest your dollars on them...but in spite of this, we would like the project to succeed. It's literally a question of survival with the government controlling interest rates on our deposits...If we had a choice, we'd much rather lend to the middle-income group and employers...we're not set up institutionally to handle the flood of low-income applicants. It's been too much, too soon..."

Local Authorities

For their part, local authorities have been reluctant to guarantee mortgages because the size of their financial risk increases with the length of the repayment period. While a housing guarantee program already exists, it has traditionally catered to middle-income civil servants. The extension of this program to low-income households, particularly the self-employed, poses a problem for local authorities given their own weak financial position. In effect, the guarantee mechanism shifts the financial risk away from building societies to local governments. Given the reluctance of municipalities to accept such risk, the neediest members of society are further excluded from the housing process.

The Ministry Official's Story

The guarantee requirement for building society mortgages is an administrative nightmare for the housing ministry as well as for municipalities. Personally, I think it's only a magic piece of paper but it helps building society believe that they will not entirely lose their investment. Self-employed and unemployed allottees have to apply to the local authority for this magic paper... With their falling revenues, do you think the authorities will be happy to give out those guarantees...? The local authorities would prefer to sell serviced stands to employers or building societies wholesale rather than guarantee individual mortgage loans..."

Given these conditions, it is therefore not surprising that some local officials prefer the Glenview Model where the government offered families short-term, renewable loans. Such loans would limit the financial exposure of local authorities as well as low-income borrowers.

In addition, building societies have been unable to process loan applications at the same rate with which the municipality has been servicing the plots -- a problem that was evident in the World Bank scheme in Harare. In theory, the project provides that no more than one fourth of the total stand in the project will be offered by any of the participating municipality in any one month to ensure controlled building situation over the 4-year period of the scheme.⁵⁶ The reality is quite different. Delays in mortgage approval have resulted in a loss of revenue for municipalities who are unable to recover their plot development costs. This has slowed down their ability to service new stands.

The Project Administrator's Story

"...The Bulawayo project started in 1985 and has to be completed within four years. With a target of 4,500 stands, the council needs to develop an average of 1,200 plots a year. This means that at least 100 houses must be built per month to meet this target. So far (a year later), only 52 houses have been constructed...

⁵⁶ Theoretically, this rate of allocation can be adjusted to take account of the participation of other building societies aside from the Beverley Building Society.

...Our Municipality has spent Z\$3 to Z\$4 million in servicing and developing the stands. Theoretically, this cost is to be repaid through two types of charges: supplementary charges and repayment of capital costs. However, these charges are paid only after the house has been occupied. Since only 52 houses have been built and occupied, we are being repaid only for these 52 houses...

...It is unfortunate that the Bank does not allow us to sell any of the serviced stands to private companies or developers. The use of these tied funds is very difficult. It does not only have to be repaid in US\$ at 15% interest, international lenders also tell us how the monies are to be allocated within the projects. With all these delays, the loan would have been decapitalized by the time we have to repay it..."

In spite of their reluctance, local authorities have no choice but to participate in the government's housing program due to their shortage of independent funding sources. To meet the increasing shortfall in housing supply, the government has made a new source of housing finance available to local authorities, albeit indirectly, through direct building society loans to project participants. In general, the government, through the National Housing Fund, provides local authorities with funds to finance and develop stands. The authorities are reimbursed for the cost of developing the stands by the building societies from long-term mortgage loans made to individual allottees-- enabling the local authorities to roll over the funds to develop more stands. The success of this arrangements is predicated on the building societies' having sufficient funds and the capacity to

administer the multitude of small loans. Recent experience has shown neither of the two to be true.

Not only did the building society stagger under the administrative burden of processing a multitude of loans, it also fell short of resources to back up the mortgages it had approved, inhibiting plot development on the part of local authorities, and house construction on the part of the borrower. As a municipal official from the City of Harare stated, "The building society entered into an Agreement with the World Bank in principle without having worked out the mechanisms by which loans would be made available to project beneficiaries." In the World Bank project in Nketa, Bulawayo, project records indicated that of the 1,083 stands allocated in August 1986, 792 applications have been referred to the building society. Of these applications, 154 bonds have been registered. Interestingly, 164 families have started construction on the site. This implies that 10 households had commenced construction without waiting for their bonds to be registered. Of the applications referred to the building society, 25% came from the middle-income bracket with families earning between Z\$351-Z\$400 per month.

Strategies to Avoid Financial Risks

Towards a Higher-Income Clientele

Given the mismatch between the financial services that institutions can provide on the one hand, and the equity base and borrowing capacity of low-income households, it is not surprising the agencies have gradually shifted their clientele towards those with higher incomes. This is true for both local authorities as well as building societies. For instance in the World Bank project, the most problematic feature of the project design for local authorities was the requirement that 70% of the plots be allocated to households with incomes less than Z\$200, and 30% to those with incomes between Z\$201-400. So while the donor agency insisted on the 70/30 split, the municipality shifted the quota to 50/50 in favor of higher income households. They claim not to have done so would have resulted in an irreparable financial disaster.

The Local Project Administrator's Story

"The project is a financial disaster because building society loans at a 12.5% annual interest are being offered to low-income households who can typically only afford to be renters.. In Bulawayo, we have a fifty-fifty split...our approach to the income quota is quite flexible. We allocate stands to those with income as high as Z\$450 because we do not believe in penalizing an individual for being promoted at a higher salary just before being awarded the stand...The World

Bank is strict about adhering to the income quotas because of the Bank's policy...It's been a very touchy point with us...However, the Municipal Council believes that the Bank will have no choice but to adjust its quota requirements in the last phase ⁵⁷..."

The Project Coordinator in Bulawayo further complained that the delay in bond registration has resulted to the decapitalization of funds. The Harare component was encountering similar problems at the time of the interview as the rate of bond registration fell short of the pace with which the sites were being serviced. Finally in Mutare and Masvingo, the projects were having difficulty attracting applicants, in spite of the housing shortage because of the large downpayment and construction costs.

Municipalities are more inclined to collaborate with building societies in mortgage programs for middle-income households. The local authority often acts the role of a developer and/or contractor. While this is a role better performed by the private sector, the willingness of local authorities to undertake this role can be understood given their obligation to maintain a fixed number of building brigade laborers regardless of fluctuating demand for brigade-built housing. The concept of a building brigade was born from the government's vision of itself as being a major supplier of

⁵⁷ The World Bank project in Bulawayo has four stages. The first stage consists of 1,089 stands, the second with 1,500 stands, the third with 2,000 stands, and the fourth with 3,000 to 5,000 plots.

housing rather than as a facilitator of individual building initiatives, despite its rhetoric in favor of "aided self-help". This is unrealistic given the mix of construction method of which the brigade system has proven to be the most expensive. The local authority's developed/contractor role is best illustrated in the Commonwealth Development Corporation's housing project.

To avoid the problems experienced in the preceding projects, the Commonwealth Development Corporation with the Central African Building Society initiated a housing finance program that catered primarily to middle-income households without totally excluding low-income households.⁵⁸ As a developer/contractor, the municipality services the stands and/or builds houses in response to building society contracts. In this way, municipalities are assured of a ready market, enabling them to fully utilize their existing brigade. It must be noted that brigade members are regular municipal employees who are paid a regular salary whether there is a demand for their labor or not.

It has been argued by the designers of this project that this institutional arrangement avoids the "timing" problems encountered in the World Bank projects where the speed of lot development by the municipality out paced the rate of bond registration by the building society. In the case of Kwekwe,

⁵⁸ Under the scheme, low-income households can apply for serviced stands.

where municipal-funded construction loans preceded mortgage loan application which led participants to delay their mortgage applications. In reality, it is not the institutional mechanism that reduces the "timing" problem as much as it is the shift from a more to a less risky clientele. In the case of the Commonwealth Development Corporation project, by catering to a predominantly middle-income clientele, the building society was able to provide the municipality a ready and secure market for serviced stands or brigade-built dwelling units.

This trend has been carried over to the second phase of the Kuwadzana housing scheme where an agglomeration of serviced stands are being sold to employers for company housing provided their employees satisfy municipal eligibility requirements. In this way, the municipality is assured of recovering its capital investment upfront.

The Project Administrator's Story

"...So far, four companies have signed an agreement with the municipality to buy plots provided that their employees meet our income requirement. We service the stands which are then sold to the companies. The employee holds the title to the land and repays the employer, often through direct salary deductions. We have no qualms with this method of allocation. Since we are reimbursed upfront by employers for the serviced stands, we are able to recycle the monies faster to service other stands. Moreover, some employers even go as far as constructing the houses for their employees. They have hired a private contractor who builds several houses at once at a lesser

cost to the employee. We like to see this fast pace of construction. Politically, it shows that the project is advancing well...

...In fact, employers perform much the same role as the building societies in the newer projects...except that in the former, the mechanism for administering and collecting the loan is already set up...As long as the companies understand the objectives and requirements of the project, I see no problem in selling serviced stands to them...

Formalization of the Lending & Building Process

The series of projects launched after independence under the auspices of international assistance agencies can be characterized by the increasing formalization of the mortgage lending and building processes. This trend results in large part from the requirements of the building societies which are, in turn, tied to the nature of the mortgage finance instrument and the societies' need to secure their investments. To illustrate, in the World Bank and USAID projects, a participant employing the self-help approach will have to complete a priced material schedule; if an informal builder is used, a form of contract must be drawn up. If a building brigade or formal contractor is selected, the allottee has to obtain a written quotation for the complete job which will include a priced materials schedule. For the low-income household, the formality required to undertake an otherwise highly informal process is staggering. For instance, the mortgage application requires a salary reference, and a

materials and labor schedule, in spite of the widespread practice of hiring informal builders and purchasing a mix of second-hand and new materials. It must be remembered that predicting future cash flow expenditure allocation, as required in the material and labor schedule, is difficult for the self-employed and the very poor who, as demonstrated in the case histories from St. Mary's, build incrementally using a wide mix of recycled, new and old materials as well as a combination of labor inputs depending on the phase of construction. Moreover, informal builders as general labor contractors (i.e. with one or two 'daga' boys) operate, by definition, rather informally and binding them to a labor schedule may not be realistic given the structure of the informal building market.

For the beneficiaries the result of these trends can only be detrimental. As the lines form outside city hall, a municipal official bemoans, "Many of them have already told their landlords that they were leaving, and have consequently been threatened with eviction...this delay will jeopardize their housing situation..." The effects of this delay on participants are both tangible and intangible. For instance, there is the real cost created by increasing costs of building materials. In addition, beneficiaries suffer from anxiety and insecurity about their future as illustrated in the narrative below:

The Beneficiary's Story

"...When we informed our landlord that we have been allocated a stand at the project, he got jealous and threatened to evict us. It was therefore imperative for us to start building as soon as possible but the loan

held us up. I applied for the building society loan six months ago, and I have been told that it has not yet been approved. This leaves me with little choice but to start building without building society approval...

...I have been informed by the municipality that another building society has joined the project because Beverley did not have enough funds to back up our loans. But in the last public meeting with the municipality, we were told that we had to re-apply for a new loan all over again from CABS⁵⁹, even if we had already sent in our papers to Beverley...If CABS will have to re-evaluate our loans, it will take another six months before we can start building...many of us who have told our landlords we were leaving do not have this time..."

The Local Project Coordinator's Story

"...The problem is how to sustain the enthusiasm of the beneficiaries throughout the process. It's a downright obstacle course for them...the procedure for acquiring a stand is too tedious, involving ten separate actors, representing ten different points where a bottleneck is likely to occur. The application must go through the building society solicitors, the council solicitors, the office of the town clerk to authorize the sale of the stand, the general surveyor's office in Harare, the registrar of deeds, the Ministry of Housing or the local municipality for the guarantee, etc, etc...Moreover, applications from the four major project sites must go through four common agencies: the building society solicitors, the surveyor general, the registrar and the Ministry of Housing. These four offices must be geared to handle this volume of application, including those from other on-going projects...Is it worth it? How long will it take to streamline the process?...Consider until two years ago, we were short of surveyors in the country...our engineers,

⁵⁹ Central African Building Society

surveyors and architects are still in the university undergoing training..."

Summary

This chapter demonstrated that, like project allottees, building societies as well as local implementing agencies are equally hesitant to participate in the housing delivery process currently in place in Zimbabwe. The implementation and institutional coordination problems have resulted from the project orientation of the government, particularly its strong emphasis on standards and finance. These problem, in turn, render it more difficult for low-income families to participate in projects because of costly and unnecessary delays, risk-reducing guarantee requirements, and increasing formalization of the construction and financing process.

CHAPTER VIX

CONCLUSION AND POLICY IMPLICATIONS

The study of mortgage finance programs in Zimbabwe has shown that the government's strong programmatic emphasis on the importance of mortgage finance is artificially created by the enforcement of building standards and the pace of construction. This focus on mortgage finance raises the costs of project participation for borrowers, and creates secondary problems in implementation and institutional coordination. Most importantly, it shifts the focus of housing policy design away from the real issue of facilitating access to land, and the need for a variety of affordable housing solutions for low-income families.

The thesis concluded that it is unlikely that the Government of Zimbabwe can maintain its present system of housing delivery given its economic and fiscal constraints. The Ministry of Public Construction and National Housing has indicated that it would like to provide standard housing to all its urban residents within a period of 15 years and to all its rural population within 30 years (Manson and Katsura, 1985). As the program is currently planned, for the next fifteen years, more than 9% of the gross domestic product would have to be directed towards housing investment. In the subsequent five years, when the program for the metropolitan and other urban areas is planned to have reached completion, investments as a share of gross domestic

product will decline by just two-thirds of one percent. This level of investment exceeds by two to three times the share of the share of gross domestic product that economies in developing countries are generally able to direct to housing. To go beyond that level requires foregoing other consumption and investment needed to sustain economic growth.

Thus, providing every family with mortgage financing in the construction of a 4-room core dwelling within the next few decades would require massive resources which are not available. As the population grows over time, larger investments will be needed. Moreover, continued migration is likely to decrease average urban household incomes and increase the need for urban housing. Falling incomes will create a situation of deteriorating affordability and a requirement for greater subsidies.

The problem lies in the fact that the cost of a 4-room core units exceeds that which is affordable by a majority of Zimbabwe's family households. Insistence by lender agencies on full cost recovery exacerbates the problem for low-income families. At least half of the households in urban areas and virtually all of the rural area households cannot afford dwellings of this type without varying levels of subsidy. Given expected levels of future income-- even assuming that households devote an unrealistic 27.5% of their earnings to housing expense

--Z\$200 million would be required in 1989 (Manson and Katsura, 1985). Given this context, it is unlikely that the government can maintain its present system of housing delivery.

The situation of Zimbabwe in this regard is not unique. It is not rare for newly independent countries, responding to post-independence expectations, to set high standards in housing and to institute a housing delivery system where government plays a dominant role as supplier of housing. However, it is equally common for countries to fall short of these goals, particularly in the light of competing development objectives. The thesis argued that in the case of Zimbabwe, the current magnitude of investment need for housing could be dramatically reduced if the government shifted the focus of its policy from financing and standards to facilitating access to land for low-income housing. Zimbabwe is unique in that the supply of land does not yet pose a constraint to housing expansion. The fact that this surplus situation could exist side by side with a shortage in housing solutions suggests the need for an institutional, rather than a financial, intervention in the housing market. As post-independence expectations for better living standards accelerate, the demand for housing opportunities is likely to become transformed into political agitation which may force the government to eventually confront the fundamental issue of land allocation for low-income housing.

For the reasons mentioned above, it has been argued that the Zimbabwean government's dominant control of land access for low-income housing may be a short-lived solution to its housing need. In this regard, the study provides a cursory review of the types of interventions that the government can undertake with regards to the allocation of land for low-income housing. One distinct form of intervention is a socialistic approach to landownership whereby land is owned and controlled by the public sector. This implies a continuation of the status quo, which as pointed out, would be financially and politically costly for both the population and the government. In contrast, under a capitalist system, landownership is entirely private with land being allocated through market forces. Under this scenario, the Government of Zimbabwe could conceivably turn its ownership and control of land over to private market forces, as well as relax its standards and other housing programmatic constraints. Its task would be to ensure that the increase in land values will not force out low-income families from having access to strategically located plots since the market will tend to allocate land to the highest bidder.

As a result of this concern, the government may decide on a range of intermediate interventions with varying degrees of public and private control of land ownership. The fundamental principle underlying these interventions should be to enable households to select the land tenure arrangement and housing

solution most appropriate to their circumstances. For instance, it is not uncommon to find households who own the dwelling unit but rent the land, or who own both the structure and land but sublet part of the structure, or who neither own the land nor structure but merely rent out a room, or who own and occupy the structure and land, etc. The possibilities of housing and land tenure arrangements are as broad as the housing needs are of families at different phases of their life cycle and their varying economic circumstances.

In addition to the variety of tenure arrangements, the government could offer technical and financial support to low-income families. It could provide a public or private construction loans program to assist families in their home improvement efforts through the appropriate legislative environment that would encourage financial institutions to provide this range of financial services. The government could, as it does now, maintain a division within the Ministry of Public Housing and National Construction in charge of ensuring that building materials are available to low-income households at bulk prices. Currently the focus of government research is on cheaper building technologies. While noteworthy, this approach continues to treat housing as a technical problem, rather than an institutional issue. In addition to its current research, the government could explore feasible forms of public-private land

arrangements with the end in view of increasing access to land while reducing the cost of housing.

Within this framework, the fundamental role of government is that of facilitator, in support of private initiative in the building process, rather than supplier of housing. This implies the need for the government to change its housing goals, and to view housing as a process, rather than a product, in which access to land is an integral component. In its role as facilitator, the government shifts most of the responsibility of supplying housing into the hands of the private sector, and in particular, individual families. Evidence from St. Mary's and other informal settlements in the developing world have shown that low-income families are able to consolidate their homes in the absence of formal housing finance programs. By facilitating access to land, the government will enable families to build, extend, and improve their homes as, and when they choose -- when it is needed and when it can be afforded.

This approach is supported by (Turner 1967) who argues that the appropriate focus of public policy should be in providing low-income families with access to the various resources they need in creating housing, such as land, materials and labor. In Zimbabwe the most important resource in the housing process is land. Although the government has so far been able to control squatter proliferation, its housing situation is not different

from that of other developing countries confronted with a burgeoning housing need. In the last two decades, the predominant vehicle for government intervention in the housing process has been through projects, with an emphasis on expanding the volume of housing finance for low-income households. However, the limited success of this approach in alleviating the housing shortfall in developing countries to date would suggest that perhaps it makes more sense to shift the focus away from the project context to the broader question of land management and allocation. The importance of land to the housing process is emphasized in such works by Doebele (1987), Angel (1983), and Dunkerley (1983), to mention just a few. This approach focuses on the institutional and political arrangements necessary to give the poor access to affordable housing through the provision of access to urban residential land. In the case of Zimbabwe, unless the government re-examines its current land policy, historical forces may give the government little choice in terms of its role in the housing delivery process. What started off as its palliative to satisfy post-independence expectations could ultimately contribute to its downfall.

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APPENDIX A

Informal Financial Sources

This appendix provides a brief literature review of some of the recent studies on informal housing finance in developing countries. It is by no means exhaustive since the bulk of information gathered on the subject are often best found in unpublished field studies.

Savings

Because of low incomes, savings are often not adequate to finance the entire construction. Thus, most households use more than one method to finance their housing investment. Income from different economic activities provide a source of savings over a period of time. In Naksook's study (1987) study of relocation sites in Bangkok, respondents reported keeping savings at home or in financial institutions. In many cases the amount kept in saving at home was as much as that saved with the bank. The research indicated that most dwellers used all the savings as ready cash for the payment of deposit on land and for the installation of utilities-- items which needed to be paid for before the house was built, including construction materials. Gold items were also often purchased and kept as a form of saving and insurance against emergencies. About one out of every six respondents in the study used this method as a means to finance housing or to live on during construction.

Money-lenders

A last recourse for loans for the lowest-income groups in developing countries has been money-lenders who are known to charge a high interest rate. In the Philippines, usurers in urban market places are known to command interest rates of several hundred percent per month on their loans. Usurious conditions have persisted in other market places such a Bombay where women hawkers are known to pay a daily interest of 10% on small loans of around fifty rupees are repaid by the same evening.

Naksook (1987) notes that money-lenders in Bangkok, living within the relocation sites, are a convenient source of credit because they are able to approve the loans within a short period of time. Lenders are well known in the community, especially among former borrowers. An interest rate between 2% to 20% is charged on a monthly basis. One money-lender cited the high risk involved in unsecured loans as the reason for charging high interest rates. At higher interest rates, the amount of the loan is lower. Thus

while the dweller is able to pay the interest monthly, he/she is unable to reduce the actual capital borrowed. For the new borrower, an informal lender requires a "go between" or a middle man to provide a form of guarantee. The latter matches lenders with borrowers within the community, and benefits from a lower interest rate when he/she needs a loan.

Daily Repayment Loan

A popular kind of informal loan found in most project sites and needed by many dwellers to meet emergencies is a type which requires repayment daily. In Thailand, loans in this category had a maturity of 24 to 30 days with a 20% interest. A dweller can obtain another loan when the previous loan has been repaid. When the borrower is unable to repay it, the money lender often reschedules the loan for another 24 days in the form of a new loan at a smaller sum with a 20% interest rate, thereby demonstrating the flexibility of some money-lenders.

Loans from money-lenders was used mainly for construction materials and labor. Loans at higher interest are often used to meet urgent needs or as a access to formal loans from cooperatives. Dwellers in the Bangkok study were generally anxious to repay the loans especially those with higher interest rates and those from lenders who lived on-site.

Pawning

Pawning is another important source of finance. Of the 163 dwellers in the Bangkok study, 20% used pawning as a means of accumulating money for housing. The items pawned are most often gold jewelry and television sets, but also include refrigerators, radio sets, sewing machines, carpentry equipment and guitars. In the case of gold, the money obtained is almost equal to the value of the items. But for other items, the money is less than the purchase price. Money from pawning was used for buying urgently needed construction materials and labor. Although interest rates on the unpaid portion may be quite high, such credit arrangements help low-income groups obtain items without having to pay their sale price in one lump sum.

Share Games

An interesting source of financing encountered in the Bangkok study are share games through which one obtained money equal to an amount which could be saved on a regular basis over a period of

time. In order to get the sum sooner for some urgent reason, a person has to compete for the interest rate in the game with other players. In a share game, a person requiring a large sum of money invites a group of friends or trusted persons to play. Each player agrees to pay an equal sum of money to the "pot". This capital is paid regularly, e.g. weekly for ten weeks. Each time the player who offers the highest interest at a particular time receives the total amount of the pot. He or she then pays capital plus interest for all subsequent rounds. The game ends when each player receives the sum of money, i.e. the capital plus interest. The player who gets the final amount will therefore receive capital plus each member's interest. The second to the last receives capital plus interest of all members minus one, and so on.

The initiator of the game has the right to take the sum of money when the central pool is called in the first round. He/she does not need to offer or to pay interest in the remaining rounds. However, he/she is responsible for ensuring that all players in the game contribute regularly to the pot. There are many variations to the game from a daily to a monthly basis. The size of the capital and the number of players could also vary.

About one-fifth of respondents used the share game method either exclusively or in combination with other financing methods. The game is played in the project site as well as at work. Additionally, there are persons who establish share games on a regular basis as a form of earning. Many dwellers played more than one game at a time, or took more than one share in a particular game in order to get more money to meet their needs. Money from these games was used for land deposit, building materials and labor. Occasionally, it was used to repay other loans. Repaying the pot is difficult when interest rates are set high.

Assistance from Relatives and Friends

A 1978 U.N. survey of "non-conventional" or informal financing mechanisms in developing countries highlighted the importance of the extended family not only as a source of labor but also of funds to supplement the meager savings of owner/builders. Of the fifty low-income residents interviewed in Manila, most respondents said that a relative had loaned or even given money to buy materials for a particularly expensive and critical component of the dwelling, such as the roof or the cement for weather-proofing the walls.

In some countries such as Somalia, remittances from relatives working in the Middle East serve as a significant source of housing finance. Money is used for all housing purposes as well as to meet living expenses during construction when income is used to finance construction costs. This is the only method of financing that is without interest and overhead costs.

Interest-free loans from friends is also common. As with other types of finance, the money is used as deposit on land and installation of utilities and for housing materials. Usually, the schedule for repayment is mentioned but no conditions are set. However, when borrowed money is required by the lender, every effort is made to repay all or part of the loan. For instance, a housewife in the Bangkok study who borrowed from her sister to pay for land deposit and utility installation repaid her sister (who required the money to build her own house) from a combination of sources including participation in share games, loan at 5% monthly interest, and sale of a gold necklace. In Nairobi, a dweller was lent money by friends for the extension of the house on condition that rent from one of the rooms would go towards payment of the loan.

Small shopkeepers, workmates and teachers or missionaries may also serve as sources of small, short-term loans or as holders of accrued income. The sari-saris of the Philippines-- small-scale stores that sell food and household items in very small amounts -- reportedly may extend or turn down requests for credit. While not necessarily providing direct loans for housing, they permit the borrower to pay cash for small quantities of building materials by extending credit for other necessities. Teachers and missionaries in poor communities are also often entrusted with savings and are even asked for loans. In the case of the Sabarmati River slums of Ahmedabad in India, of the 22% of the surveyed households who were in debt, 39% were in debt to a relative, 12% to a neighbor, 9% to a personal friend, and 7% to an employer. Less than 2% of those interviewed had even applied to a bank for a loan (UN, 1978).

Low-income households usually seek personal loans in times of personal crisis such as illness, or when a large amount of money is needed for a major, non-recurring event such as a marriage. Loans are less frequently sought for the purpose of improving one's housing which is seen as a postponable event and therefore difficult to justify as easily to relatives and friends in terms of obtaining an urgent personal loan. For instance, in Kampong Maxwell, a squatter settlement of Kuala Lumpur, 71% of all dwelling purchases, construction and improvements have been financed through the savings accumulated by the occupants. Of the remaining 29% of financing for housing, 4.8% were loans from friends/relatives, 14.3% from government loans, 2.4% from cooperative financing and 7.1% from employer loans.

From the perspective of the borrowers, there are disadvantages as well as advantages to relying upon these sources of financing. In the case of the extended family, funds for building materials are often accompanied by voluntary labor contributions. However, the disadvantages may be considerable too. Inevitably, a loan from a family member entails an obligation of some sort for the borrower

even when the loan has been paid off. This is captured in the Filipino word "utang na loob" which is essentially a debt that can never be repaid materially. For instance, one problem from relying upon personal contacts is that the common practice of having to share one's dwelling with extended family members may be reinforced when they have had a share in the building process.

Rotating Savings and Credit Associations

Christian (1972) observed the universal existence of informal savings and credit groups in the developing world. These groups are known under a variety of names: tontine in West Africa, esusu in Nigeria, harambee or obilima in Kenya, ekub in Ethiopia, sanduk in the Sudan, gamiya in Egypt, char in Thailand, kye in Korea, ooi in Hongkong and sociedad mutuales in Latin America. These are informal and voluntary associations where members contribute a predetermined amount of money to a pool of funds on a weekly or monthly basis. Each member has a right to use the funds under some established procedure. Rotation among members is often established by drawing lots. These societies are based on mutual trust among members who belong to the same social group or a community where they are well known. Some societies, such as the tontines of Cameroon, emerged from the traditional practice of pooling labor to work on each other's farm. With the coming of the money economy, the system assumed a financial nature, and has become so specialized that it directly competes with the banking system.

Rental Income

A 1986 USAID study of informal housing finance in two low-income areas in Kenya, Githurai in Nairobi and Kisauni in Mombasa, revealed that one reason for the very large and expanding informal housing sector - in spite of the shortage of formal credit - is the economic viability of investing in rental housing. The letting of rooms plays a decisive role in generating income which, in turn, increases the household's access to finance. At some point, a household is able to generate enough rental income to meet expenses associated with the construction of the rental unit. The speed with which this break-even point is reached is affected by the rate of rent increases as well as the costs associated with financing the construction of the rental unit.

Cash flow problems in the early years of the investment prevent an even faster rate of investment. In the face of the early years' shortfall, owners turn primarily to friends and relatives for small, short-term and often, interest-free loans. Since friends and relatives themselves have limited resources, owners often borrow loans from other sources. Jorgenson's study (1976) of housing finance in Kenya showed that among residents of

a squatter settlement (Mathare Valley), a sites-and-service scheme (Kariobangi), and a public terraced housing scheme, rental income accounted for as high as 100% of regular income. However, the ability of low-income households to re-invest rental income in further development are limited by the availability of land and financing.

Trade Credit

Another common form of financing in some parts of the Third World is the extension of credit by small contractors and suppliers of building materials. Christian (1984:72) states that, "In many cases, this kind of credit is not considered a loan, since the equivalent of an interest is incorporated into a tiered pricing system. In short, the longer the client wishes to take to pay for the work or for the materials, the higher is the price. Rough calculations of the implicit interest embodied in these arrangements is almost invariably higher than rates prevailing in the formal sector". He also observed that small contractors and building material suppliers are usually financed by formal sector financial institutions.

Quasi-Formal Sources of Finance

A study of the informal financial system in Kenya (USAID, 1986) indicated that credit unions play a very active role in lending to the informal sector. They provide short-term loans, two to four times the savings balance. Loans often carry a 12% annual interest rate over a 3-year period. As a rule, loan repayment does not exceed two-thirds of a member's take home pay.

According to the officers interviewed, housing is rarely stated as a reason for the loan. It is more common to see "building materials", "land", "deposit", or "to pay fundis" as the reason on the application. Thus, it is difficult to establish exactly how much is lent for housing. In Dandora, however, credit unions provided 6% of total resources that went to housing, and this estimate may be comparable to the situation in Githurai and Kisauni.

A monthly interest rate of five percent is paid on savings, and share certificates are credited with a bonus once a year of six to ten percent. The maximum 3-year repayment period is strictly adhered to, except in cases of extreme hardship on the part of the borrower. Because of the close bond among members, the loan committee has a good knowledge of the credit-worthiness of the applicant. Normally, they require guarantees from three

other members, and in employment-based unions, a close link is established with the employer to ensure repayment of the loan.

The union may exercise control to ensure that the loan is used for the stated purpose, but rarely is this prerogative actually exercised. It is not often that the union verifies how the money was used or whether the investment was viable or not.

One finance company provided medium-term loans to low-income groups in Mathare, Dandora, Kariobangi, Dagoretti and Githurai. These loans had an interest rate of 19% a year, and a maximum maturity of 7 years. In its 2-year operation in Githurai, the company provided sixty to eighty, with no defaulters. Deposits with the company yielded a maximum of 16% annual interest. Its excellent cost recovery record demonstrates the potential of using flexible and innovative methods of lending to the informal sector. For instance, with regard to security, the plot owner's certificate in Githurai was used as a security and a notice sent to the land-owning company to this effect. In Dandora, the company offered to redeem the borrower's outstanding balance with the Nairobi City Council in return for having the leasehold title for use as security. In cases where there are no such documents available, the company draws up an agreement of sale of the property with the borrower with the clear provision that the sale, equal to the loan amount, will be effective only in the event of a default.

Loans are not used exclusively for housing but include all types of small investments such as tractors, matatus (small buses), small businesses and land. The company was essentially a grassroots organization, making it very accessible to the borrowers. The loans application period was short compared to other institutions, i.e. one week for a housing loan. But the single most important difference it had from other finance agencies was its stress on the viability of the investment as the criteria for eligibility, rather than current income. To ensure a commitment on the part of the borrower, he/she was required to put up one-third of the resources him/herself. The study makes the case that if owners can be offered a loan repayment schedule that fits their income profile over time, they can easily prove to be credit worthy clients. Thus viewed, financing is not an interest rate problem but one of cash flow.

Unfortunately after two years of operation, the company was forced to close down alongside other government-controlled finance companies which had to call in their deposits abruptly following a government decree. This requirement over committed funds, forcing these affected companies into a liquidity crisis. However, officials from this company believe that had they been given a few more year to call in the loans, without issuing new ones, their agency would have survived.

Secondary Financing Mechanisms

In addition to the above primary sources of financing, households also tap several supplementary sources of financing: sale of assets such as rural land and cattle; gambling and lottery.

APPENDIX B

Project Description

To obtain the case histories, families were interviewed from three site-and-service projects in Zimbabwe: the Kuwadzana site-and-service schemes in Harare sponsored by the United States Agency for International Development (USAID), Nketa low-income pilot project in Kwekwe sponsored by USAID and the United Nations Centre for Human Settlements, and Sunningdale housing scheme in Harare, one of four projects financed by the World Bank. The basis for the selection of these projects as well as the methodology for the case study approach are described in Appendix C.

Kuwadzana Sites-and-Service Scheme

Jointly sponsored by the Government of Zimbabwe and USAID, the Kuwadzana housing project in Harare was designed to supply housing to over 7,000 families in two phases. Phase 1, approximately 3,700 serviced stands ranging in size from 200 square meters to 400 square meters will be allocated to low-income families. Standowners are expected to begin building within six months of allocation and to complete a 4-room core within 18 months.

In order to assist project participants in housing construction, the government has offered loans of up to Z\$3,230 paid in installments of Z\$500. Repayments are made under current interest rates of 9.75% over a 25-year maturity period. Loans are available in the form of building materials from the municipal store at the project site, or at the option of the borrower, in the form of cash. In the latter event, the participants may use the loan to pay for labor or materials. The City of Harare's Department of Community Services is responsible for implementing the project, with the Ministry of Public Construction and National Housing assuming overall project oversight responsibility.

Kwekwe Site-and-Service Scheme

Soon after independence in 1980, the Government of Zimbabwe through the then Ministry of Local Government and Housing requested the United Nations Development Program for technical assistance from the United Nations Centre for Human Settlements to undertake a comprehensive study of housing policy options to guide the development of a national housing policy. The request resulted in a project which produced a number of technical papers and recommendations. As a follow up, the technical assistance team prepared a report, "A Proposal for Two Experimental Low-Income Housing Projects and Community Development Program". This

report culminated with the Kwekwe and Gutu project. Funding for the capital costs of the projects was provided by USAID through a joint multilateral technical cooperation agreement with UNCHS and the Government of Zimbabwe. A unique feature of the project is the introduction of the graduated payment mortgage with funds channeled through a building society at an interest rate of 12.5% over a 25-year maturity period. Kwekwe, the site for the urban component of the demonstration project, is a typical example of an intermediate urban center with several mining-related industries. Most of the low-income families are employed by major industries or provide support services. The site layout consists of 1,045 serviced plots of 300 square meters (12m x 25m). The land is under the Kwekwe Municipal Council which is the local authority responsible for the project.

Sunningdale Site-and Service Scheme

The government is currently in the early stages of implementing a large scale World Bank-financed program designed to involve the private sector in the financing of low-income shelter. Under this program, the World Bank loans \$43 million to the Government of Zimbabwe which will on-lend the bulk of the funds to four local authorities (Harare, Bulawayo, Masvingo and Mutare) for site development and costs associated with the preparation of over 11,000 plots and related basic community facilities. Once the plot is fully serviced, a mortgage on the property will be issued by the building society which will then repay the local authority for the purchase of the serviced plot. Financing for the construction of a basic minimal standard house is also provided by the building societies. To date, two building societies have decided to participate in the project. Some 70% of the plots are allocated to low-income families with incomes less than Z\$200, and 30% to those with incomes between Z\$201-400.

APPENDIX C

Research Design

The research design consisted of three parts: (a) selection of survey areas, (b) evaluation of baseline data, and (c) administration of comprehensive, in-depth interviews.

Selection of the Survey Areas

The areas for study were selected to obtain a representative view of the different approaches to housing construction and finance in Zimbabwe. The USAID and UNCHS projects, as well as the World Bank scheme, represented different financial models, while the St. Mary's Township illustrated the construction process in the absence of formal finance and program requirements.

Baseline Data

The baseline data used in the selection of the case studies were obtained from the evaluation surveys of the USAID project at Kuwadzana and the UNCHS project at Kwekwe. The former consisted of four parts: (a) an analysis of data on allottees obtained from the project records, (b) a survey of project participants to identify their attitude towards the program as well as their ability to meet program requirements, (c) a survey of informal builders, and (d) interview with project administrators.

Data on 376 randomly selected allottees from Phase I, representing 10% of total Phase I residents, were extracted from project files between mid-February and mid-March of 1985. Of these, 300 were selected for the evaluation survey. The selection used a stratified random sampling technique based on household income. Of the 300 selected to be interviewed, there were 235 completed interviews.

The evaluation of the UNCHS projects at Kwekwe and Gutu consisted of a random sample of 300 allottees, 250 in Kwekwe and 50 in Gutu. This represented 25% of the total population of both projects. Beneficiaries who had not started laying down the foundation of their houses at the time of the interview were excluded from the sample.

Case Study Method

Using the information obtained from the baseline studies, a collection of case histories were compiled for each survey site. These are in-depth, comprehensive studies of the history, economic background and housing situation of individual households. These case studies were intended to

provide deeper insights into the housing process, considering in full detail the socio-economic background of selected households, and to provide information which is difficult to obtain by other means, in particular, information regarding informal financing.

The principal criterion for selecting the households was not proportional distribution but rather the inclusion of all of the main variables identified in the thesis proposal. Using information from the baseline studies, 'overview' tables were set up representing various categories of households identified in the following criteria for selection: (a) History of accommodation (squatter, renter, owner, others); (b) Mode of construction (self-help, informal builder, brigade, cooperative); (c) Source of financing (borrower and non-borrower); (d) Pace of construction; (e) Construction process (number of rooms started, quality of construction); and (f) Presence of renters, vegetable gardens, and/or home-based economic enterprise.

An interview guide was prepared as a basis for the case studies. The studies consisted of three parts. The first part is a summary of the basic personal information, present housing and a brief family history; the second part describes the history of accommodation of each household; finally, the last section is subdivided to investigate (a) socio-economic conditions of the family, (b) the construction process, (c) housing finance, (d) preferences regarding housing solutions and credit terms, and (e) household priorities and expectations.

In all 10 households were interviewed at St. Mary's Township, 25 at Kuwadzana, and 14 in Kwekwe. These were later supplemented by five case studies from the World Bank project at Sunningdale which was, at the time of the original survey, only in the early stage of stand allocation. In St. Mary's Township, the selection process was less precise because of the lack of an organized and updated baseline data. Selection, therefore, had to be based on observable factors within the area, such as building type and quality, size of rental unit, and presence of home-based enterprises. Since the settlement was started before independence, mode of construction is predominantly self-help, and source of financing, informal.

The interviews were undertaken by a team consisting of two trained third year sociology students recommended by the Department of Sociology at the University of Zimbabwe, and five staff members of the Research Unit of the Housing Department of the City of Harare. The latter group is highly trained in the household interviews. They carry out monitoring studies of all low-income housing schemes in the city.

A meeting was conducted prior to the field interviews to orient the interviewers with the objectives of the study and to solicit their comments on the interview guide. The interview

guide was tested in a pilot survey carried out in Kuwadzana and St. Mary's Township. It was revised based on the results of these surveys as well as comments from the Research Unit, professors at the University of Zimbabwe, and officials of donor agencies. The survey period for Kuwadzana was five days, and St. Mary's, three days each, using six interviewers. The interview period for the Kwekwe project was four days, using three interviewers. Lodgers and owners of informal enterprises located on the project sites were also interviewed.

In addition, interviews were also held with USAID, World Bank and UNCHS officials in Washington, D.C., Naairobi, Harare and Bulawayo, as well as representatives from the Ministry of Public Construction and National Housing, the cities of Harare and Bulawayo, and a building society.

APPENDIX D

Standards: Urban & Rural Housing

Metropolitan and Other Urban Areas

Standard Core House

Cost (1984): Z\$5,348
Stand size : 300 square meters
House area : 49.7 square meters

Construction characteristics: According to Housing Ministry policy, houses in urban areas must be single-storey detached units constructed of burnt brick, stabilized soil/cement block or concrete block masonry. Floors are concrete. Roofing materials may include metal, tile, or cement asbestos. Each house must have at least a kitchen, bathroom, and three other rooms (e.g., a living/dining room and two bedrooms). The bathroom must have a flush toilet and shower with separate drains. The toilet and shower can occupy the same space, but there must be room for a future bathtub. In addition, the unit must be expandable to seven rooms, and be designed so as to permit phased construction that minimizes the destruction of finished work.

Infrastructure: Units feature individual water and sewer connections; electrical connections are optional. Tower security lighting is provided along with paved roads and stormwater drainage.

Rural Areas

Standard Core House + Kitchen + Toilet and Washing Area

Cost (1984): Z\$2,966
Stand Size : 0.25 hectares
Core House area: 31.5 square meters
Kitchen area: 5.75 square meters
Toilet and washing area: 5 square meters
Total unit area: 42.25 square meters

Construction Characteristics: Housing units in rural areas are made up of three separate structures: a core house, a kitchen and a toilet/washing facility. These structures are arranged so as to form a right angle with the core house situated at the vertex. The house is at least five meters away from the kitchen and ten meters from the washing area. Walls are constructed of burnt brick, and are coated with cement. Floors are made of cement with a smooth finish. Roofs usually consist of corrugated asbestos

sheets; thatch roofing is allowed in some instances. Kitchens may be traditionally-styled (i.e. they may have circular walls), but must be constructed of permanent materials. Toilet must utilize a Blair ventilated pit latrine.

Infrastructure: Stands in the rural areas are not serviced under Ministry policy. The latter anticipates the installation of individual water and electrical connections in the future once the rural infrastructure is more developed

Source: D. Manson and H. Katsura, "Meeting the Housing Needs of Zimbabwe: An Assessment of the Alternatives," prepared for the U.S. Agency for International Development, Office of Housing and Urban Programs, 1985. Draft copy.