Homeless International

BRIDGING THE FINANCE GAP IN HOUSING AND INFRASTRUCTURE

ZIMBABWE: Financing Options for Community-Based Shelter Initiatives

By Ted Baumann

Bay Research and Consultancy Services

1. STUDY CONTEXT

1.1 Background

Finance for non-governmental development initiatives in the South has traditionally come from the Northern donor community. Most such transfers take the form of grants for specific projects over limited periods. Increasingly, however, many Southern NGOs and CBOs have moved beyond one-off projects to longer-term programmatic approaches, which seek to build grassroots capacity for self-directed and self-managed solutions to poverty, particularly urban shelter. Such innovations imply changes in the nature and form of financing. This is particularly true of initiatives involving micro-finance, where medium- to long-term commitment is needed to develop sustainable financial systems.

1.2 Purpose and objectives

The purpose of this study, which is part of a larger project, is to help create a knowledge base to inform the development of institutional mechanisms to increase the effective access of poor people in the South to international money markets, to finance community-led housing and infrastructure development.

The specific objective of this document is to explore several related issues in **Zimbabwe**, where a national movement of the urban poor has begun to address poverty and inadequate shelter through grassroots savings and credit programmes, linked into a national federation. These issues are:

1) To what extent are Zimbabwe's regulatory and financial systems compatible with the systems and practices of federations of the urban poor? Specifically,
    a) Does existing legislation a) provide for the financial and institutional systems employed by such groups, b) not provide for them but not prevent them, or c) prevent them from functioning legally?
    b) What adaptations would be required to harmonise the existing regulatory framework with the systems of urban poor federations? What would be the implications?
2) What is the scope, under current regulatory and financial systems, for an urban poor federation and its NGO partner to access commercial loan finance, particularly on international markets? Specifically,
    a) Do existing legislation and banking and foreign exchange regulations permit such borrowing, and under what conditions?
    b) Would commercial banks be prepared to participate in such schemes, either as facilitators or through loan guarantees?
    c) Given the procedures involved, what implications would offshore borrowing have for the systems and practices of urban poor federations?
    d) How would such borrowing take place, and at what cost in time and management effort?
3) Are current institutional, financial and governance systems for urban infrastructure and shelter development in Zimbabwe compatible with the systems and practices of an urban poor federation? Specifically,
    a) What are the current systems, and how are they changing?
    b) What is the nature and scope of existing infrastructure and development projects linking local authorities with multinational development agencies (e.g. the World Bank)?
    c) How do local authorities finance infrastructure developments? What is the future trend, and what does this imply for the activities of urban poor federations?

1.3 Scope

This particular study focuses on the needs the **Zimbabwean Homeless People's Federation (ZIHOPFE)**, a network of savings and credit collectives of the urban poor in Zimbabwe, which is described below. This focus is motivated by several considerations.

- **Firstly**, the broader project of which this study forms a part is in part motivated by the experience and potential of this organisation and others like it.
- **Secondly**, ZIHOPFE is part of a larger network of organisations in Africa and Asia, which has already made significant progress in attracting alternative sources of finance.
- **Thirdly**, the methods of organisations like ZIHOPFE possibly provide the greatest opportunity for the successful use of commercial finance to support community-led housing and infrastructure development. Their methodology is based on grassroots financial systems that have demonstrated a strong and enduring capacity to leverage and utilise external finance successfully.

1.4 Methodology

The research was conducted by means of interviews, reviews of existing legislation, and other relevant documentation.

2. THE FEDERATION PROCESS

2.1 The Zimbabwe Homeless People's Federation

The Zimbabwe Homeless People's Federation (ZIHOPFE) is based on a belief that the poor are best placed to address their own problems of poverty – they simply lack resources, in the form of affordable land and finance.

Like other urban poor federations in the South, ZIHOPFE emerged from a period of two-way exchange programmes between informal Zimbabwean groups and groups elsewhere. In this case, the groups were South African and Asian urban poor federations, and the exchange programmes included house modelling, community surveys, and enumerations, most notably in Harare's Mbare township and in Chinotimba in Victoria Falls. Major exchange events were held in 1995 and 1999.

ZIHOPFE's support NGO, Dialogue on Shelter for the Homeless in Zimbabwe, was registered as a trust in April 1998. The goal of this tiny NGO (3 permanent staff) was to facilitate the emergence of an autonomous network of savings and credit collectives of the urban poor in Zimbabwe.

The Zimbabwe Homeless People's Federation officially constituted itself into a network of women-based saving and credit collectives in December 1998. Although the Federation's membership is mainly female, men are not excluded. Membership is drawn exclusively, however, from homeless communities: holding camps, backyard-shack dwellers, hostels, street dwellers, and 'squatter' settlements.

ZIHOPFE's estimated current membership is 19 350 households and growing rapidly. The Federation mobilises through Savings Schemes: there are now nearly 153 schemes in 15 urban centres, including Harare, Bulawayo, Mutare, Kariba, Victoria Falls, Chipinge, Masvingo, Karoi, Chinhoyi, Chiredzi, Mupandawana, Chegutu, and Beit Bridge. Collectively, these schemes have saved over Z$3 200 000(US$80 000).

The Federation's main objective is to address the issues of homelessness and poverty amongst its membership through a process self-reliance and determination that is not only people centred, but also people controlled. The Federation is organised around Housing Savings and Loan Schemes, which are groupings of people within communities that come together and undertake daily savings programmes. The savings are banked locally, and are used to provide small loans to members in times of emergencies and for income generation loans at an interest rate of 4% per month.

The alliance of ZIHOPFE and Dialogue on Shelter has achieved much in a short span. Besides Gungano Fund (described below), it has a strong relationship with Ministry of Local Government, Public Construction and National Housing, and two representatives on an advisory committee to the Ministry of Local Government.

2.2 Gungano Fund

One of the most impressive achievements of ZIHOPFE is the Gungano Fund, which has been established for housing loans to Federation members. The goal of Gungano Fund is to develop and provide an alternative housing finance mechanism that works, and is controlled and owned by urban poor people. This fund would not only facilitate house building, but would develop financial management and other organisational skills within the Federation. Most importantly, a successful Gungano Fund would be a pilot housing finance model that could be replicated in future, providing a basis for a partnership with government to facilitate the delivery of land for housing for the urban poor.

To date, Gungano Fund has begun a demonstration project in Beit Bridge, on the border with South Africa. Ten houses have been built at an average size of 25 square metres, for about Z$30 000 each.

This is substantially less than the cost of comparable developer-built houses. Although required repayments are Z$300 per month, most of the members are repaying at a much faster rate in order retire the loans. Further loans are planned in 2000.

The Gungano Fund operates on the following principles:

- The urban poor and specifically the membership of the Zimbabwe Homeless People's Federation are the sole beneficiaries of the Fund.
- Development supported by Gungano Fund is people-centred and people-controlled. To this end the urban poor would be represented as a majority in all decision-making and implementation processes.
- The fund operates on a not-for-profit basis and any surplus revenues that might accrue are used solely for further housing finance.
- Housing are made only to housing saving schemes on a collective basis.
- Each individual member of the Zimbabwe Homeless People's Federation contributes Z$5,00 (US$0,13) a month for the next 5 years. This is the Federation's contribution to the fund's capital base, and is not refundable, nor is it a deposit for loans.

Capitalism: With a current membership 19 000, Gungano Fund is augmented at a rate of Z$95 000 every month -- enough for about three new loans. One of the key reasons for this effort, however, is to harness other financial resources from Government and other parties to augment the capital base of the Gungano Fund. So far Gungano Fund has received a Z$1 375 000 loan from the South African Homeless People's Federation's uTshani Fund; Z$3 600 000 from Misereor, a German Catholic Development Agency, and the equivalent of Z$1 million from Homeless International. The Zimbabwean government has been asked to match this fund by an equal amount Z$7.5 million and bring the fund to Z$15million (US$375 000).

Management: Gungano Fund is officially managed by a Fund Management Committee made up of a representative each from the City federations of the Zimbabwe Homeless People's Federation (10 at present), one from Dialogue On Shelter, one from Shack Dwellers International, and one each from the Government's Ministry of Local Government, Public Construction and National housing. The Federation representation will increase as membership increases so as to ensure that they always have the majority voice in the committee.

The criteria for the selection of the representatives from the Federation is that they should be members of a Savings and Loan Scheme in their own community which in turn should be a member of the Federation.

The Dialogue on Shelter representative and the Shack Dwellers International representatives are selected on the basis that such organisations have an understanding and willingness to support a people-centred and controlled housing process.

Loan process: Gungano Fund loans are distributed as follows:

- Any saving scheme is eligible to apply for a group loan for an initial maximum of 10 group members.
- Each housing loan is for a maximum of Z$30 000 (US$750).
- Interest is calculated at 1% per month (12% p.a.). As this is below the current inflation rate, the expected Z$95 000/month inflows from the Federation are used to maintain the value of the fund above inflation.
- Loan repayment periods do not exceed 15 years. After repayment of half the loan sum people are eligible for further loans for improvements to their houses.

We will refer to ZIHOPFE and Gungano Fund throughout the document.

3. ZIMBABWE: COUNTRY OVERVIEW

Zimbabwe is at a proverbial crossroads. Economically, socially, and politically, the country has reached a crisis point that will result in either profound change or potentially violent rebellion. Overshadowing all other problems is one of the world's worst HIV/AIDS epidemics, which is destroying the country's productive population and placing enormous burdens on the poor.

This section looks at Zimbabwe's economy and polity in order to provide a background for the more detailed discussions later in the report.

3.1 Nature and implications of the HIV/AIDS epidemic

Zimbabwe has one of the world's worst HIV/AIDS epidemics.[1] This is the country's number one challenge – albeit one which is already out of control. The official rate of HIV infection is 15%, rising to 25% of those aged 15-49. Actual rates are probably higher, particularly in urban high-density areas. Life expectancy has fallen from 60 years in 1990 to 39 years today, and is projected to fall as low as 27 years in the next decade. It is reported that over 1 600 Zimbabweans die daily from the disease; coffin manufacture and burial services are a major informal sector growth industry.

In the face of this epidemic, the public health sector is in a state of near collapse. The health system is under funded by at least 37% relative to its needs. Doctors and nurses embarked on a national wage strike earlier this year. Many local hospitals and clinics have stopped operating altogether. Terminal care is not provided to most AIDS patients, who are simply sent home.

Zimbabwe's economy is likely to deteriorate even further as a result of the HIV/AIDS crisis. Not only are the most productive adults dying, depriving the economy of labour and skills, but also the cost and effort required to care for them drain resources and energy from the communities and households in which they live.

3.2 Political economy

Zimbabwe is in the late stages of the political trajectory upon which it embarked at independence in 1980. In the last 20 years, Zimbabwe has struggled with a particularly violent colonial inheritance as well as a governing party uncommitted to genuine democracy. Zimbabwe is a *de facto* one-party state. President Robert Mugabe has ruled since independence in 1980. His ZANU-PF government has had difficult relations with the international community, and is increasingly seen as an anachronism at the end of the 20th century.

Zimbabwe's future once looked much brighter. During the 1980s, Zimbabwe was one of the more progressive states in Africa, making commendable strides in social welfare and basic needs, particularly health and education. Expenditure on education rose from less than Z$100m in 1979 to over Z$500m in 1985. The number of primary schools increased from 24 021 in 1979 to 3 960 in 1986; enrolment increased from 819 128 to 2 229 396. Expenditure on public health rose from Z$80m to nearly Z$125m in the first three years of independence, with a marked shift to preventive services.[2]

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[1] SADC HD Report, 1998.

[2] *Zimbabwe: The Political Economy of Transition, 1980-1986* Ibbo Mandaze, ed.; reprint, Harare: CODESIRA, 1987, Chs. 11 and 12.

Much of this progress was based on high state expenditure and foreign donor funding, however. This has made the economy Zimbabwe's Achilles' heel: unless growth was sufficient to take over from donor inflows, the social progress would be unsustainable.

Zimbabwe's economy is somewhat of a paradox. Although remarkably diversified as a result of sanctions against Rhodesia, the manufacturing sector was very uncompetitive at independence, and suffered greatly as a result of freer trade. This led to a decline in the proportion of the population in formal sector employment during the 80s and 90s. One-third of the population (mainly urban) are now dependent on income from informal businesses. At the same time, Zimbabwe's foreign currency earnings from its traditional exports, tobacco and minerals, were subject to wide fluctuation, making it difficult for the government to allow manufacturers to import freely the capital and intermediary goods needed to modernise.

Disappointing economic performance has meant that Zimbabwe's social development effort became increasingly unsustainable during the 80s, as tax revenues failed to match growing social commitments. A bloated parastatal sector also consumed scarce fiscal resources. Mismanagement, official corruption, and unresolved social and political contradictions – particularly around land redistribution – also contributed to the country's economic problems.

Zimbabwe is also a victim of the early-90s IMF experiment with 'Structural Adjustment Programmes' (SAPs). Serious currency imbalances forced Zimbabwe to turn to the IMF in 1991 for assistance in meeting its external commitments. IMF assistance was tied to a World Bank-designed structural adjustment programme (1991-1996), which called for a reduced state role, an emphasis on private investment, and improved living standards through growth. When the government reluctantly accepted the SAP, it began to disengage from many social responsibilities, shifting some of them (education, health) to local authorities.

3.3 Poverty

The SAP was a notable failure. Real DGP growth 1991-96 averaged 1,4% p.a. – half the population growth rate (which has since declined as a result of AIDS). *Per capita* private consumption plummeted by 37% during the period, and income inequality increased substantially.[3] The incidence of officially defined poverty increased from 53% to over 75% of the population from 1990 to 1996, with those in extreme poverty (below human subsistence level) increasing from 17% to 37%. Poverty is proportionately worse in rural areas, but urban poverty stands at 40% and is growing quickly. Urban poverty levels have a disproportionate impact, however, since many in rural areas are dependent on cash remittances from city-dwellers. Most Human Development Index (HDI) measures show a dramatic decline during the period. Zimbabwe now ranks 130 out of 174 on the global index. The Social Dimensions Fund (SDF), which was supposed to counter the worst effects of structural adjustment, failed to make an impact.

Two major droughts brought bad luck to the equation, and by the late 90s Zimbabwe was no better off economically, and much worse off socially and politically, than at the beginning of the decade. As a result, many of the achievements in human development in the first 10 years of Zimbabwean independence have been reversed in the second ten – most notably life expectancy, which is declining alarmingly due to the HIV/AIDS epidemic.

Increased poverty was not the only result of the SAP. As in many countries, Zimbabwe's SAP failed to take into account the country's political economy or to anticipate and plan for the increased vulnerability of the poorest. The country's political elite made little effort to sacrifice its own living standards, and the emphasis on privatisation encouraged widespread corruption. Political conflict has

[3] *Zimbabwe HD Report*, 1998, p.31.

increased sharply as the entitlements of the 80s have been reversed and poverty has increased. The ruling ZANU-PF party has become increasingly paranoid and repressive. The recent constitutional reform process has deepened political divisions in Zimbabwe, as ZANU-PF has seemingly forced its version of a new basic law on the Constitutional Commission. Urban protest and riots are now regular occurrences.

3.4 Growing instability

In the 1997-99 period, Zimbabwe has faced an increasingly unstable macroeconomy, poor external trade and financial balances, and rapidly declining living standards. The economy is presently in hyperinflation and another currency crisis is imminent. At the time of writing, the parastatal fuel company NOCZIM has run out of funds to import petrol, its debts estimated at Z$28 billion (US$ 70 000 000).

Without a growing economy, the government has been unable to maintain its expenditure patterns – but has refused to make the necessary changes. Declining tax revenue during the SAP, combined with a bloated and inefficient parastatal sector and uncontrolled state spending, soon led the government into deficit financing, averaging 10% of GDP annually. In the early 1990s this deficit was met partly by offshore borrowing, including the IMF injections. More recently, increased instability and conflict between the government and the international community over land redistribution and Zimbabwe's role in the Congolese war has closed the doors to public offshore borrowing. Zimbabwe's external public debt stands at approximately US$2,5 billion.[4]

This has led the government to borrow massively on the domestic market. Excessive domestic borrowing is really a sophisticated way of printing money, with predictable inflationary results (see below). The knock-on effects of currency devaluation on import costs have contributed to the inflationary spiral. Indeed, the government has struggled to maintain a stable exchange rate, which it has achieved mainly by informal 'agreements' with the commercial banks. The 'real' underlying value of the Dollar, however, is such that pressure for devaluation periodically erupts into massive, uncontrolled depreciations – most notably in November 1997 and March 1999. The currency has depreciated by 60% vs. the US Dollar in 1999 alone.

Another pertinent result of the government's deficit financing has been a severe shortage of money market funds for commercial and residential construction and mortgage lending. The Reserve Bank of Zimbabwe's main interest rate is now over 70%. It is nearly impossible for private and public sector developers to undertake shelter and infrastructure projects under these conditions.

As several interviewees observed, Zimbabwean is essentially in a 'holding pattern'. Government, banks, and aid agencies are putting off any major economic decisions – investments, loans, whatever – until they see whether things improve.

3.5 Inflationary trends

Price inflation in Zimbabwe has been rapid and unstable for most of the 1990s. As Table 1 below shows, CPI increases have averaged nearly 30% a year. Food inflation (with a weight of 29,2 in the CPI) has averaged nearly 35%. Aggregate building materials have increased at a slightly lower rate of 25,4%. Cement, weighted at 19% of the construction index, is the fastest-rising building material, at an average of 29% *per annum* over the period.

Within the period, there has been considerable fluctuation in year-on-year inflation. CPI increases have ranged from under 20% to over 45%. Building materials range from under 9% to over 37%.

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[4] *Business Herald* (Zimbabwe), 20.5.99.

Cement is the least stable of all, with year-on year increases ranging from as low as 10,5% to nearly 57%.

Such price instability makes it especially difficult to forecast the financial aspects of housing and infrastructure development over time, both for government and private agencies. Unpredictable building materials price increases can cause havoc with construction plans, and with cash flow projections for revolving housing loan funds. The repayment capacity of savings and credit collectives is also subject to wide variation as food and general CPI inflation rises and falls.

The present situation is much worse than the numbers below suggest, since the 1999 figures are from March. Since then, Zimbabwe has experienced a bout of hyperinflation – exceeding 72% in November. This has essentially halted all construction activity (except that funded by government, mainly commercial).

Table 1: Zimbabwean inflation, 1990-1999

Item/Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999[5]	Avg.
CPI	100	123.3	175.2	223.6	273.4	335.1	406.9	483.6	636.9	927.4	
y/y change	n/a	23.3%	42.1%	27.6%	22.3%	22.6%	21.4%	18.8%	31.7%	45.6%	28.4%
Food	100.0	122.6	192.7	267.4	336.8	429.3	544.8	640.5	893.2	1394.2	
y/y change	n/a	22.6%	57.2%	38.8%	26.0%	27.5%	26.9%	17.6%	39.5%	56.1%	34.7%
Building Materials	100.0	137.4	188.0	204.2	233.0	279.3	332.3	396.1	542.3	741.1	
y/y change	n/a	37.4%	36.8%	8.6%	14.1%	19.9%	19.0%	19.2%	36.9%	36.7%	25.4%
Cement	100.0	156.6	202.0	239.7	270.7	299.1	362.5	471.9	707.0	952.4	
y/y change	n/a	56.6%	29.0%	18.7%	12.9%	10.5%	21.2%	30.2%	49.8%	34.7%	29.3%

Predicting the future course of Zimbabwean inflation and interest rates is difficult. It will have to be brought under control, but the government will only take the requisite hard medicine after current political processes (a new constitution and elections) have run their course. ZANU-PF is caught between the disaffection caused by declining real incomes and living standards and the temptation to boost short-term public spending in the face of growing political challenges – classically contradictory imperatives. IMF funds would help, but the western powers will insist on small, spaced tranches instead of the big injections the government wants. The current war in the DR Congo is exacerbating matters significantly, both economically and politically.

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[5] March 1999, before the current spate of hyperinflation.

4. LEGAL AND REGULATORY FRAMEWORK FOR NGOS

In order to create a sustainable institutional structure for extending finance to the urban poor, it is important to understand and assess the laws and regulations governing private development organisations. This section of the report examines this framework in Zimbabwe.

4.1 NGO registration and tax status

The **Private Voluntary Associations Act** governs the Zimbabwean NGO community. Ostensibly, this Act is merely intended to ensure that NGOs register with the state, and to enforce basic operating procedures, such as books of account and governance structures. Its true purpose, perhaps, is less charitable: the Act provides for significant state intervention in the NGO sector, essentially at cabinet discretion. For example, the Act empowers the Minister of Public Welfare to dismiss NGO boards, or to dissolve NGOs entirely. The Act has already been used to prevent the operation of organisations perceived to be hostile to the ruling ZANU-PF government, most notably those linked to the labour movement.

The PVO Act does not address the charitable or tax status of NGOs, which are covered by the Tax Code. The Commissioner for Inland Revenue is empowered to grant tax exemption to certain charitable and non-profit development organisations on application. Conditions for such exemptions are contained in regulations issued by the Department of Social Welfare. These regulations are similar to South Africa's, albeit less developed.

Tax exemption for Zimbabwean NGOs involves two separate aspects: income tax and sales tax. For most NGOs, non-profit trusts, and other development organisations, donations, including foreign grants, are exempted from income taxation. Exemption from sales tax, on the other hand, is possible only after successful registration as a PVO, when an application for exemption may be made to the Commissioner for Inland Revenue via the Ministry of Social Welfare.

To register or not?: The existence of the PVO Act does not force NGOs to 'toe the line', since Government's capacity to implement such laws is limited. The general opinion of those consulted (including labour activists whose organisations had been denied registration) is that in respect of both official PVO registration and taxation, the Zimbabwean authorities are not proactive. Most organisations can operate without going through the formal registration process, and can accept donations without seeking official tax exemption. Unless registered, however, they would have to pay sales tax, which affects capital purchases such as vehicles, computers, and the like. Retrospective tax exemption (i.e. income tax exemption on donations received before registration), since the PVO Act considers existing NGOs as having been 'registered' for the purposes of the Act.

Nevertheless, the PVO Act and the tax code could easily be used selectively to harass organisations that attract the ire of the ruling ZANU-PF government, or related interests. This is not far-fetched; as noted above, ZANU-PF is notably sensitive to potential opposition, real or imagined.[6] Such sensitivity is particularly acute where urban social movements are concerned, since the ruling party is weakest in urban areas. Ruling party paranoia has increased notably in the last 18 months, as criticism of ZANU-PF's performance, particularly in economic policy, has increased.

For unregistered NGOs, therefore, the latent threat of ill-intentioned retrospective official attention must be weighed against the potential for up-front refused PVO registration, and/or refusal to grant donations tax exemption.

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[6] The Zimbabwe organisation that facilitated this research was subject to harassment by the 'secret police' at the time of its first major public activities.

4.2 Co-operative societies

Co-operative societies, which share some of functions of NGOs, as well as those of savings and credit collectives, feature prominently in Zimbabwe. Zimbabwe's liberation movement received significant support from countries with a history of social-democratic welfare systems and co-operative movements. Post-independence diplomatic influence led to a law specifically providing for Co-operative Societies. A notable feature of the **Co-operative Societies Act** is a state-mandated National Co-operative Federation, which in practice is an arm of the ruling ZANU-PF party.

Most functioning co-ops are marketing organisations, and are usually rural-based. A few producer co-ops exist, especially in the rural resettlement areas, although these have not been as successful. More recently, housing co-operatives have been established, most notably through the local NGO Housing People of Zimbabwe.

The Co-operative Societies Act specifically allows co-ops to accept savings from their members, and to make loans to them. This is definitely regarded as a subsidiary function in the Act, however, and it does not envisage savings co-operatives as such.

A common opinion amongst those consulted is that savings and credit collectives and urban poor federations should consider registration under the Co-operative Societies Act, since this is a common and easily understood institutional form in Zimbabwe. The problem with this is that the Act is quite detailed in its prescriptions, requiring a level of formal organisation unsuited to an urban poor federation. For example, the Act specifies the form of co-op byelaws and organisational structures in great detail. Such externally imposed rules are a highly complicating factor for informal community groups, and are generally ignored in practice. Where they are implemented, they often create a top-down control and decision-making structure. They also impose a great burden on support NGOs. Efforts to develop appropriate byelaws for housing co-ops involved months of complicated legal work, and resulted in a lengthy document which would certainly not be appropriate for the purposes of an urban poor federation.

4.3 Recognition of universitas

Both South African and Zimbabwean law are based on Roman-Dutch common law. This recognises the legal stature of the 'universitas', or voluntary association. Called 'friendly societies' in Zimbabwe, these can include any informal association of persons working together for mutual aid. The most common forms of universitas are burial societies and 'stokvels'.

This is an important concept, for it allows informal organisations such as savings and credit collectives to open bank accounts, purchase property, and incur debts without formal registration as a company, trust, or similar formal structure. As is the practice in South Africa, Zimbabwean savings and credit collectives *should* fall comfortably under this category. It is unclear, however, how far 'upwards' this category can be stretched; it is likely that a federation of such groups would not be regarded as a universitas and would require a more formal existence to conduct business such as banking.

4.4 Regulation of lenders

Zimbabwean law provides for and regulates **commercial banks** as well as **building societies**, with an eponymous Act governing each sector. There is no specific provision for microfinance agencies as such, however, and Reserve Bank of Zimbabwe officials interviewed acknowledged significant 'grey areas' in Zimbabwean financial practice.[7] It seems that most developmental microfinance operations are not regulated, except by the maximum interest rate provisions of the **Moneylenders and Rates of Interest Act**. For our purposes, this means that they do not have to register with the Reserve Bank.

Significantly, the Moneylenders and Rates of Interest Act (§20(7)) provides a specific and complete exemption for 'friendly societies' (universitas), which surely must be read to include burial societies, 'stokvels', and savings and credit collectives. The Act also empowers the Minister of Finance to exempt any persons or classes of activity from the Act. This would appear to create a vehicle for non-traditional lending by NGOs and revolving funds, subject to state approval – either up-front, retrospectively, or tacitly, through non-interference.

4.5 Housing lenders

Unlike South Africa, Zimbabwean *housing* law does not specifically provide for 'non-traditional lenders', i.e. NGO-based micro-lenders, revolving funds, or other forms of non-bank lending for housing, but neither does it specifically forbid them.[8] Some co-operative societies have been established specifically for housing purposes, but no housing revolving funds were identified besides Gungano Fund.

4.6 Other micro-lenders

There are a number of micro-lending operations in Zimbabwe, most associated with either DFID or UNDP's MicroStart programme. These include:

- The Zimbabwe Village Bank
- CARE Rural Microfund Project
- Mcendesi Development Programme
- MicroStart (UNDP)
- Zimbabwe Microfinance Initiative (ZIMFI)
- Partners for Growth (private sector initiative)

These programmes share some common features:

- They are oriented to micro-enterprise lending and do not make housing, subsistence, or emergency loans.
- They are externally designed, i.e. based on a pre-established programme that is offered to individuals or communities for participation.
- They do not prioritise 'social capital' development.
- They tend to reach slightly higher income groups because of their repayment requirements and emphasis on micro-enterprise.
- Where they are based on external funding, this funding is on a programme grant basis and does not have to be repaid.

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[7] For example, a recent unit trust scheme that failed and lost millions of dollars of depositors' money went unpunished because there was no law governing its activities.

[8] In South Africa, by contrast, the National Housing Board created a specific category, as well as registration system, for such operations in order to encourage innovative practices.

4.7 Summary

In short, **the Zimbabwean legal system does not appear to provide specifically for the activities and institutional arrangements common to urban poor federations and their associated revolving funds, but it does not prevent them**. Such activities and arrangements overlap in some ways with recognised institutions — co-ops, building societies — but are sufficiently different in nature and purpose to make compliance with relevant Zimbabwean law impractical. On the other hand, Zimbabwean law does appear to allow for savings and credit collectives, and specifically provides for lending activity outside the ambit of the traditional banks, building societies, and moneylenders. No specific adaptations *appear* to be required for savings and credit collectives to operate legally.

Whether the specific system linking grassroots savings and credit groups to nationally based revolving funds for housing would be 'allowed' in Zimbabwe is open to question. The Gungano Fund *could* be regarded as a 'banking institution', but the fact that it does not solicit deposits from the general public nor make loans to 'non-members' should make it exempt.

As noted above, lack of legal clarity does not necessarily mean safety in the Zimbabwean context. This is a matter requiring further exploration by qualified legal counsel.

5. FOREIGN GRANTS AND LOANS TO NGOS

5.1 Context

As noted above, Zimbabwe is in a severe economic crisis with serious currency instability. One aspect of this crisis is a severe and persistent balance of payments problem. Accordingly, any commitment to future forex remittances from Zimbabwe is subject to detailed (and generally unsympathetic) scrutiny by the RBZ. Permission for such borrowing is almost always restricted to export-oriented productive investments (mines, tobacco production, etc.). Neither private individuals nor domestically oriented firms can borrow offshore under current conditions.

To put it plainly, **there is little or no possibility that private Zimbabwean development organisations will be able to borrow offshore in the foreseeable future**. This situation is not likely to change in isolation from major systemic changes in the economy and society.

Nevertheless, we can review the procedures that would apply should this option become possible in future, and raise some potential alternatives.

5.2 Foreign Currency Accounts (FCAs)

For much of the 1980s, the RBZ maintained a policy of strict central control over all forex inflows to Zimbabwe. Exporting firms were required to convert their offshore earnings into Zimbabwe Dollars and could not hold forex accounts. The RBZ allocated forex to importers (of both final and intermediate goods) administratively, and later, by weekly auction. This system caused serious problems for export-oriented firms, increasing their transaction costs and making even medium-term investment planning difficult.

During negotiations with the IMF over the Structural Adjustment Programme implemented in 1991, this system was a prime target for 'adjustment'. The IMF sought a free forex market, but settled for a less radical shift to Foreign Currency Accounts (FCAs). FCAs are essentially commercial bank accounts denominated in foreign currency. The attraction of these accounts is that a) the forex can be held indefinitely in that form, and b) the funds can be remitted overseas again without restriction as long as they have not yet been converted to Zimbabwean dollars. This makes them particularly attractive to exporters, who can keep export earnings in FCAs and use them for imports of intermediates without RBZ permission. In the present conditions of high inflation and an ever-present threat of currency devaluation, FCAs are particularly important: recipients of forex (grants, loans, or export earnings) are keen to hold such funds in an unconverted state for as long as possible.

FCAs are subject to important restrictions, however:

- Firstly, although there is no restriction on forex inflows to such accounts, once the funds are converted into Zimbabwean dollars, RBZ authority is required to reconvert them to forex. Such authority is rarely given.
- Secondly, the RBZ is empowered to order commercial banks to convert any or all forex held in FCAs into Zimbabwean dollars, without the account holder's knowledge or permission. (On December 2 1999, for example, the RBZ ordered that 50% of the funds in all FCAs be converted to stave off a balance of payments crisis.) This creates an element of uncertainty that wreaks havoc with financial planning.

It is unlikely that the RBZ will relax this system in the near future, whilst the current economic crisis implies that unpredictable forced currency conversions will be more common.

Commercial banks, of course, use essentially the same system to hedge their own forex obligations, by maintaining forex accounts both in Zimbabwe and offshore. Such accounts are not subject to the same forced conversion system as private and commercial accounts, however, assuring banks of some stability.

5.3 Receipt of foreign grants

There is no obstacle whatsoever to receiving charitable foreign grants – indeed, these are valued and encouraged by government. As noted above, many categories of organisation are exempted from donations tax and other taxes, especially if they choose to register as PVOs. These can be kept in FCAs as described above.

Receiving such a grant is a simple process in which an inward transmission of forex is received by a commercial bank, which notifies the recipient. The recipient fills out the appropriate form, describing the purpose of the grant, and this is sent to the Reserve Bank. As in South Africa, this seems to be a routine and uncontroversial matter. The Gungano Fund has already established routine systems for receiving grant income.

Despite this technical simplicity, of course, significant grant income has the potential to attract unfriendly state attention at the political level.

5.4 Offshore borrowing

Offshore borrowing by NGOs is out of the question in Zimbabwe – at least as far as conventional systems are concerned (more on this below). As noted above, as long as Zimbabwe remains in a state of chronic internal and external macroeconomic imbalance, only export-oriented firms are likely to receive permission to borrow offshore.

Nevertheless, the relevant procedure would be as follows:

1. NGO approaches commercial bank with proposal for offshore loan to be channelled through its accounts. The proposal must provide a detailed projection of the repayment arrangements, specifying the economic origin of the repayments (i.e. whether from export revenue or domestic value added). The developmental aspects of the proposal are secondary.
2. Bank studies proposal and prepares covering letter stating its recommendation in respect of the loan.
3. Proposal and bank’s letter is sent to RBZ forex control division by the bank.
4. Proposal is considered by the RBZ’s Foreign Loan Co-ordinating Committee, where it is either approved or rejected.
5. If the loan is approved, the RBZ issues to the bank an Authority to Reconvert, which specifies when and how many Zimbabwean dollars may be converted into forex for repayments.
6. Once approved, repayments may be made normally via the commercial bank.

5.5 Time and cost estimates

Unfortunately it is difficult to say how long such a process might take and what costs might be involved, since it is entirely hypothetical as far as NGOs are concerned. A particular are of concern is the turnaround time at the RBZ. On the face of it, the process *per se* seems fairly simple.

From discussions with RBZ staff, the most difficult aspect of offshore borrowing would probably be the financial and economic projections required to support an application for authority to reconvert to forex for repayment purposes. This would involve fairly sophisticated professional services. Given the RBZ's preoccupation with 'self-financing' loans (those resulting in forex earnings or savings), such projections would most likely require complicated modelling demonstrating 'indirect' forex savings or convincing arguments showing an overwhelming developmental contribution. Unfortunately, interviewees – including those at the RBZ – were united in the opinion that housing is by definition a 'non-productive' activity, which could not possibly gain approval from the RBZ

5.6 Alternative scenarios

These obstacles suggest some possible alternatives:

1. Since FCAs can be used to store forex for indefinite periods (albeit under threat of unexpected forced conversion to dollars), it might be possible to keep offshore loan funds in such accounts specifically for repayment purposes. For example, half the funds of an offshore loan could be converted to Zimbabwean Dollars for use by a domestic revolving fund, with repayments made from the other 50% of unconverted forex left in the FCA. This would require a commitment by the lender to 'revolve' the loan until authority to reconvert the dollar (converted) portion of the loan is gained.
2. A similar procedure could be employed by keeping funds for repayment in an offshore account, which can be held legally by Zimbabweans.
3. Large development institutions such as the World Bank, DFD, USAID, and other northern agencies are not subject to the forced conversion policy, so they may maintain FCA balances indefinitely. It may be possible to work out an arrangement with such an institution in terms of which it accounts are used to facilitate repayments by an NGO revolving fund. This would involve fairly complicated accounting and most likely would be subject to the procedures used by the agency, which are often inappropriate to the approach of urban poor federations.

5.7 Loan guarantees

An alternative to direct borrowing would be loan guarantees. This system involves a commitment by a third party to repay a proportion of a domestic loan in the event of default. Typically this is used by northern development agencies to help NGOs raise funding from commercial banks in their own country. This is not, strictly speaking, a way to tap into international financial markets for development purposes, since guarantees are non-commercial instruments used specifically for development purposes, involve no commercial profit, and do not necessarily imply repayment to the offshore guarantor.

In Zimbabwe's case, moreover, it is doubtful whether it would be sensible for an NGO to borrow on the domestic market, or whether banks would be prepared to lend to them even with offshore guarantees. The money market shortage in Zimbabwe is so severe at the moment (as a result of heavy government borrowing) that banks practically have to ration loan funds. Interest repayments on domestic loans would also be cripplingly high.

6. ZIMBABWEAN HOUSING POLICY

6.1 Housing in Zimbabwe

Zimbabwe's total formal housing stock is 700 000 units for a population of nearly 12 million – 17 persons for each house. The housing shortage is estimated at over a million units, a backlog increasing by 250 000 units annually. Annual production is about 18 000 units.

Economic problems and poverty have combined, as in South Africa, to make conventional housing, and housing finance, unaffordable and/or unavailable to the urban poor. Serviced land in Harare's high-density townships sells for about Z$70 per square metre (US$1,75), making a 200 m^2 plot about Z$14 000 (US$350). Building society loans require a minimum income of Z$2 500 per month (US$ 62,50), but the minimum wage in *formal* sector employment is Z$850 (US$21). The average income of Harare's mainly informally employed residents is less than Z$600 (US$15). Current inflationary conditions and declining real incomes make long-term lending and borrowing nearly impossible even for the middle class. Public housing provision, on the other hand, is nearly non-existent. There are more than 140 000 families on the public 'waiting list' in Harare alone.

So where do people go? As in South Africa, one option is to live in 'outbuildings' (backyard shacks), which house nearly 170 000 families in Harare. A seven square metre shack rents for about Z$180 per month (US$4,50). High-density areas like Harare's Mbare Township are indistinguishable from 'squatter' camps: the sheer number of backyard shacks overwhelms council-built 'formal' structures. Another option is to move into already-overcrowded hostels originally built for migrant workers.

On the other hand, only 2 000 families are technically regarded as 'squatting' in 26 different locations in and around the capital city. The designation of many of these urban informal settlements – 'transit camps' or 'holding camps' – reflects the official view that 'there is no squatting in Zimbabwe'.[9] Informal settlements are officially regarded as 'temporary', despite decades of existence, and receive little or no services.

On the surface, urban Zimbabwe *appears* to have less of a 'squatter problem' than South Africa. Statistically, Zimbabwe is less urbanised than South Africa, but the pace of urbanisation has picked up considerably, and is now nearly 5% p.a. The apparent lack of informal settlements, however, is a result of a deliberate government policy of forced evictions and forced resettlement that would not be politically possible in its southern neighbour. In preparation for the Commonwealth Heads of Government meeting in 1992, the ZANU-PF government brutally evicted tens of thousands of poor Zimbabweans from various informal settlements around Harare in a cynical attempt to hide its failure to meet its people's shelter needs. These people were sent to 'holding camps' out of sight of the assembled dignitaries, or told to 'go home' to the rural areas. To this day, many of the 'holding camps' to which people were moved in 1992 remain undeveloped and unserviced.

In recent years, organisations like the Zimbabwean Homeless People's Federation (ZIHOPFE) have begun to dismantle this illusion by conducting detailed surveys, which show that many people have lived for years in such 'transit' areas.

New housing policy: Recently, Zimbabwe has embarked on a 'consultative' housing policy process similar to that in South Africa during 1991-94. The Draft National Housing Policy, issued earlier this year, is divided into four major sections:

[9] For example, in the Draft National Housing Policy.

1. An **analysis of the current housing context in Zimbabwe**, including both the extent of homelessness and the failure of existing policies to address it successfully. This section of the document is relatively uncontroversial, although the following points can be highlighted:

    1.1. The statistical information on which estimates of the scale of homelessness (in excess of 1m units) are based is suspect. Experience suggests that such government-generated figures are generally underestimates, which is compounded in Zimbabwe's case by the age of the underlying population data (1992).

    1.2. The role and extent of existing informal settlements around Zimbabwe's major cities and towns is ignored. The policy document is at pains to deny the existence of 'squatting', referring instead to overcrowding in 'high-density' areas as the major problem.

    1.3. The document recognises the need to create workable mechanisms for identifying land and making it available for low-income housing development. Similar weight is given to the obstacles posed by unworkable infrastructure and planning systems. The document acknowledges the failure of Zimbabwean government policy at all levels to deal with these issues since independence.

    1.4. The different interests and motivations of the various 'stakeholders' in the policy formulation and implementation process are not recognised. This has been a major failing of the South African housing process since 1994. The South African experience has shown that it is not enough to claim legitimacy and/or consensus based on participatory policy development processes. Real divergent interests amongst the private sector, government departments, communities, households, and municipalities are at the root of many of the problems implementing the resulting policies.

2. **Housing and the Economy**. This (too brief) section of the document is marred by its implicit acceptance of a market-based approach to housing demand and supply. Housing is seen as a commodity in a market, rather than a basic need. Consequently, the major constraints and potential solutions to housing delivery are seen in market (particularly financial) terms, whilst non-market approaches are ignored.

3. The **proposed National Housing Policy framework** argues that every household must have access to permanent residential structures with secure tenure and adequate infrastructure. Government aims to produce one million houses in 10 years (not enough to meet the current backlog, much less any increase). Policies for achieving this are to be based on several strategic pillars:

    3.1. Housing is a social right and government is obliged to act to ensure its progressive realisation.

    3.2. Housing policy should concentrate on 'market normalisation', attracting private investment, and stimulation of small and medium enterprises, employment generation, and skills transfer. This is based on the dominant perception that housing delivery is dependent on economic growth and increased employment. Housing policy is accordingly seen as an element of economic growth and employment strategies, rather than as one to meet a basic need.

    3.3. Housing policy should be flexible and locally based, with particular emphasis on the poor and grassroots development organisations. The potential role of social movements of the poor is explicitly recognised, as is the need to transform or create appropriate institutional support structures to work with them.

4. **Substantive interventions** to implement the proposed policy. The essential elements include institutional reform, subsidy assistance, savings mobilisation, land release and tenure reform, and credit 'normalisation' (which means creating conditions in which private lenders can expect repayment). The most important proposals mooted in the document are:

4.1. **Credit mobilisation** through market normalisation (retail level), and establishment of a National Housing Finance Bank (wholesale level), along with non-market interventions designed to increase private sector lending to low-income households. Although the role of non-traditional lenders (such as the Gungano Fund) is recognised, the document is clear that government's focus will be on the private commercial financial sector. Ominously, the NHFB is envisaged as a self-sustaining (i.e. non-subsidised) body, which will mainly focus on the private banks, with a 'developmental' arm aimed at non-traditional lenders.

4.2. **Savings-linked finance packages** designed to tap into individual and collective savings capacities.

4.3. A **subsidy programme** which replaces indirect subsidies (such as interest rate subsidies) with capital and rental subsidies. This is intended as a site-and-service subsidy, not as a housing subsidy as such. This programme will be linked to quantitative savings criteria.

4.4. **Streamlined mechanisms for land release**, governed by legislated **norms and standards** (plot size, zoning, etc.), as well as reform of **tenure systems**.

4.5. **Sale of public land to private developers** for development projects.

4.6. An education strategy aimed at encouraging a **culture of repayment**, linked to an evaluation system that will 'certify' previously redlined areas for subsidies and credit.

4.7. **Decentralisation** of most implementation, regulatory and planning mechanisms to rural and urban councils, whilst national government focuses on legislation, resource mobilisation, and oversight.

4.8. A **National Housing Trust** to advise national government on policy formulation, implementation, and allocation of subsidies. This body is to be made up of representatives of consumer, producers/financiers, and government interests on a 1/3 basis.

4.9. Establishment of a **Housing Support** system to assist the People's Housing Process.

Assessment: The most striking impression of this document is its near-total mimicry of the South African policy process and proposals. In nearly every important respect the Zimbabwean National Housing Policy is a direct clone of the South African policy.[10] In a sense, this is fortunate, since it provides an accessible case study to which we can refer in considering the policy's potential.

There is no logical reason why Zimbabwe should not follow South Africa's path – *if* one accepts the premises of the South African policy and regards its outcomes as desirable. From the perspective informing both countries' housing policies, Zimbabwe and South Africa do not differ sufficiently to warrant fundamentally different policies.

One might note, however, that the Zimbabwe government's capacity to implement a South African-style policy, both administratively and financially, is deeply suspect. South Africa has experienced major problems in this regard, in a much more favourable context.

A more important line of criticism relates to the appropriateness and feasibility of the policy as a means to achieve its stated objectives of ensuring "every household … access to permanent residential structures with secure tenure" and adequate infrastructure. In this respect we can look to the South African policy as a guide to the likely outcome in Zimbabwe. (Please refer to South African paper.)

[10] The National Task Force on Housing, a body that includes both government and private sector representatives, prepared the NHP. In this respect – as in its proposals – the Zimbabwean policy document has much in common with the South African housing policy experience, where the National Housing Forum dominated the process until 1994.

Implications of current economic conditions for the proposed housing policy: The current economic situation in Zimbabwe makes the proposed national housing policy a non-starter. Besides the fact that the government has no funds to implement it, any policy based on savings and loans is unworkable in conditions of hyperinflation and impending currency collapse.

What about the underlying conditions? If the government is able to reduce its deficit, rein in inflation, and stabilise the currency, will the policy succeed? The fundamental problem is not really economic: it is political. A capital subsidy-based policy has its own economic implications – most notably the need to find funds to pay for it – but the real difficulty is that much if not most of the resources allocated to it do not end up paying for housing.

7. INFRASTRUCTURE AND HOUSING DEVELOPMENT BY LOCAL AUTHORITIES

7.1 Relations between levels of government in Zimbabwe

Zimbabwe's local authorities are in the invidious position of having many responsibilities thrust upon them by central government without guaranteed funding or sufficient authority to raise finances through taxation. Health services in particular have become a major drain on local authority budgets, which have impacted seriously on their ability to undertake residential development. Such transfers of responsibility from central to local government are driven both by the IMF's insistence on a closer relationship between expenditure and outcome and by a political desire to deflect attention from central government's failure to halt the decline in social welfare services.

Despite their many responsibilities, Zimbabwe's local authorities are strictly controlled by central government. The **Urban Councils Act**, for example, is very detailed in its prescriptions regarding the structure and operation of local authorities, and a wide variety of council responsibilities require Ministerial approval. In 1997, control was tightened with the imposition of Executive Mayors appointed by central government.

Zimbabwe's 23 urban councils authorities vary widely in size, economic base, and administrative capacity. Size is no indicator of capacity – the recent collapse of Harare's council is a case in point. Some of the best-run areas are smaller towns.

7.2 Public housing and infrastructure finance systems

Hypothetically, resources for local authority development efforts in Zimbabwe can come from several sources:

- Revenues from rates, and water and other utility charges.
- Grants from the Ministry of Local Government, Rural, and Urban Development (MLGRUD).
- Loans from MLGRUD at long-term concessionary rates for development projects, as specified in the **Housing and Building Act**.
- Commercial borrowing (overdrafts and loans).
- Public bond issues.
- Donor funds.
- Revenues from sales of public land.

It must be noted at the outset that a) not all of these options are fully functional, b) under current economic circumstances most local authorities are struggling to meet current expenditure (salaries and other fixed commitments), much less undertake developmental investment, and c) none of these options reach the very poor.

Zimbabwe's local authorities are empowered to undertake housing development under §205 of the Urban Councils Act, including the disposal of land. They may also expropriate land for development purposes under certain conditions. All such developments are subject to approval by MLGRUD, however, and the Minister is empowered by §206 to override council and/or undertake developments proactively.

The most significant aspect of the Urban Councils Act for our purposes is §205(5)(iii). This empowers the Minister to permit local authorities to

- Sell developed stands to residents on mortgage, provided it is the purchaser's first mortgage, that the interest rate charged is no more than 1% higher than any loan made by MLGRUD in respect of the development in question, and that the council retains title until the loan is repaid;

- Make loans to developers for the purposes of housing and infrastructure development;
- Issue guarantees up 90% of the value of loans given by building societies for purchase of residential stands, for not more than 30 years.

Most urban residential development in Zimbabwe is undertaken under this authority. Traditionally, building societies have worked closely with commercial banks and local authorities to develop residential areas:

- Local authorities either initiate development plans or receive and approve plans from private developers.
- Commercial banks or MLGRUD provide loan finance for bulk services and/or land acquisition.
- Building societies provide mortgage finance to homebuyers, usually with the council's guarantee.
- Developments are managed and implemented jointly by the local authority, developer, and representative of the banks and building societies.

It must be stressed that local authorities' capacity to administer and manage such developments varies widely. Under current economic circumstances, banks and building societies regard cash-strapped councils and residents alike as poor candidates for loans for development purposes.

7.3 National funds for housing

The Housing and Building Act created a National Housing Fund and a Housing Guarantee Fund, which can be used for township development and loan guarantees for individual or group mortgages, respectively. These funds were used actively during 1992-94, but have since been downplayed as the government has withdrawn from its social commitments. The Housing Guarantee Fund was also marked by chronic no-payment by the state, which led lenders to ignore it.

In the mid-90s, the government introduced the 'Pay For Your Home' scheme. This was essentially a savings programme in which prospective homeowners made payments upfront to local authorities, which would build houses using a mixture of these savings and building society loans. Apart from notable successes, this scheme degenerated into scandal as funds collected from the poor were used for VIP housing ins many areas. The scheme also failed to reach the very poor.

More recently, the National Housing Fund has been used as the vehicle for the USAID-sponsored Private Sector Housing Programme and the World Bank-sponsored Urban Infrastructure Project (see below).

7.4 Public land allocation procedures for urban housing development

Zimbabwean political discourse is dominated by the 'land question', but this refers mainly to rural land. ZANU-PF's power base is solidly in the countryside, and the possibility of land redistribution and resettlement on white-owned commercial farms has been an important political card for the last 20 years.

Urban land is another story. Rhodesia's settlers granted themselves lavish cities and towns with wide boulevards, massive plots (Harare's minimum plot size in low-density areas was once one acre), and spacious parks and golf courses. These wide-open spaces remain largely untouched 20 years after independence. Indeed, Zimbabwe's urban areas (23 urban councils, of which 11 are self-governing municipalities[11]) continue to be an odd juxtaposition of colonial city planning and Asian-style overcrowding. Zimbabwean law still recognises the colonial 'two cities' system, under which 'low-density' (ex-white, now middle-class) areas are governed differently to 'low-density' (mainly black) slums. One of the most significant issues to be addressed in the Zimbabwean context is therefore how to expand the land area available for high-density housing development.

Constitutionally, Zimbabwe's available urban land for low-income housing development is owned by the central government.[12] According to the Urban Councils Act, Zimbabwe's twelve urban councils may allocate public land for housing development only with the permission of Ministry of Local Government, Rural, and Urban Development (MLGRUD). In cases where such land is sold, the full purchase price is remitted to the central government, which is supposed to return 75% of the proceeds to the relevant urban council. According the Association of Urban Councils, however, this requirement is not being met by the state, which now keeps all of the proceeds. This constitutes a serious disincentive for local authorities to make land available, since they receive no income but are subsequently liable to service and maintain the resulting residential area.

The other eleven municipalities are empowered by the Urban Councils Act to allocate and sell public land, with Ministerial permission, and to retain the proceeds. This is the situation in all of Zimbabwe's major cities. In such cases land allocation depends on the priorities and practices of the relevant council. Some prioritise market-related value recovery for public land, whilst others prioritise developmental aspects.

Whatever the theoretical systems in place, the reality is that current systems for development planning in general and land assembly in specific are complex, unwieldy, and un-coordinated between levels of government and different departments. As a result, government at all levels "seems unwilling or unable to release suitable land for low-income housing."[13] The World Bank Urban Infrastructure Project has targeted this aspect of the shelter problem specifically.

7.5 Bond issues and credit rating of local authorities

Zimbabwe's urban local authorities may borrow from the private sector for a variety of purposes and in several ways:

- Overdrafts are permitted, the amount limited by the previous year's rates income.
- Loans may be raised from commercial banks, also within limits set by the Urban Councils Act (§290).
- Public bonds may be issued for capital investment such as housing and infrastructure.

In practice during the 1990s, overdrafts and bank loans have come to play much the same role as domestic borrowing by the central government: to make up the shortfall between current revenue and current expenses, i.e. deficit financing. As more and more service mandates have been shifted to local authorities without corresponding funding – with health the major burden – local authorities have come to rely on borrowing even to pay salaries.

Under such circumstances, bond issues for long-term capital investments are not as common as in South Africa. Bonds are mainly issued by the eleven municipalities, and form part of the 'prescribed

[11] Except the capital Harare, which is under direct state rule after a period of rampant corruption in the city council led to a ratepayer revolt.

[12] We have not specifically considered privately owned land here.

[13] *Draft National Housing Policy*, p. 10.

assets' portfolio of commercial banks, which are consequently the main market for such paper. Offshore bond issues are subject to the same constraints as other 'non-productive' investments, as discussed above, and are consequently non-existent. Many of Zimbabwe's municipalities have a rather dire financial record, and the returns required to attract investors in such bonds are considerable, even with the prescribed assets system. This creates a disincentive to borrow for low-income housing, which generates little revenue under current economic conditions.

Because most municipal bonds are purchased to satisfy the prescribed assets requirements of the Banking Act, there has been little incentive to set up credit rating procedures for the various councils. Recently, under the World Bank's Urban Two programme, a South African firm, Duff and Phelps, has conducted a survey of municipal finances preliminary to a formal credit rating system. This survey was conducted according to conventional accounting and risk management procedures. According to the firm's report[14]:

- Unfunded mandates from central government seriously prejudice Zimbabwe's urban councils. Over the last few years, local authorities have assumed responsibility for health services, education, and most welfare services without corresponding increases in their allocations from central government. This has impacted greatly on the average proportion of staff costs in local authority budgets, which is nearly 50% (albeit skewed by Harare's appalling performance in this regard).
- Accounting procedures, especially credit control, are generally inadequate. Consequently, it is difficult for prospective investors to gain a clear picture. Budgeting practice is also weak in many cases, and is not firmly enough rooted in long-term planning and development objectives. Annual reports and audits are commonly up to six months late. There is presently no co-ordinated system of budgeting, accounting, and reporting for Zimbabwe's local authorities, although the World Bank programme is facilitating one.
- There is a widespread and seemingly intractable tendency for elected councillors to interfere in the administration of local authorities' financial systems for political reasons. For example, communities often ignore legislated rates and tariff increases on the advice of their councillors. Councillors are known to protect defaulting ratepayers from collection efforts. Such practices are especially common before elections.

The report made available to the author delicately avoided the issues of credit rating entirely, recommending instead that appropriate corrective steps be taken first. Their main recommendations were:

- That service mandates thrust upon local authorities must be matched by corresponding central government grants in practice as well as theory. This is especially important in respect of staff costs – health care and education staff costs have had a serious impact on local authorities' budgets.
- That loans promised by the central government for infrastructure and housing development be paid promptly. Many cases of unpaid loans were noted, which seriously impacted on local authorities' ability to meet other commitments.
- Information, budgeting, accounting, and debtor control systems must be improved and standardised.
- Internal controls, particularly in respect of political interference, must be improved and implemented.
- The revenue and expenditure structure of local authorities must be improved to allow for longer-term development planning and infrastructure investment.

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[14] Kindly made available by USAID.

One exception to the generally poor picture of local authorities is Bulawayo, Zimbabwe's second city. Bulawayo was recently successfully credit-rated, receiving the highest rating in Zimbabwe – BB. This gives them the power to borrow both locally and internationally. As noted above, however, in terms of the Urban Council Act, the Municipal Council requires authority from the Ministries of Finance and Local Government to borrow, whether locally or internationally. On the strength of its performance, the Bulawayo council has received authority to borrow for the next three years. Because of the current forex situation, however, they have not yet borrowed on the international market, and will probably not do so until the situation stabilises.

7.6 Aid programmes for urban development

There are two major long-term urban development projects in Zimbabwe involving foreign donors, both of which are due to end in 2000.

7.6.1 USAID Private Sector Housing Programmes

This programme is set to end in September 2000. Under this programme, up to 25 000 75% mortgage loans and subsidised rates are made available to first-time homebuyers via the Ministry of Finance. The scheme is administered by local authorities and building societies, which tender for the funds on the basis of completive proposals.

Of the total purchase price of a serviced stand and (possibly) a starter structure, the buyer must make an upfront deposit of 25%. The 75% mortgage is made up of USAID, central government, and building society funds in equal proportions. The USAID and government funds – which together make up 50% of the purchase price – are revolved back into the National Housing Fund, administered by the Ministry of Housing. From there they are supposed to be used to make further loans for more serviced stands.

By USAID's own admission, the scheme does not reach Zimbabwe's poorest since the 'products' on offer are too large and expensive, and repayments are too high. Beneficiaries are selected from existing local authority waiting lists, but can include co-ops or other group schemes. Selection of beneficiaries is entirely up to local authorities, but must be approved by the Ministry of Housing.

Although USAID and the building societies interviewed expressed satisfaction with the programme, local government representatives alluded to widespread corruption and misallocation of loans. They also felt that the Ministry of Housing was unlikely to revolve mortgage repayments back into further housing, since central government more typically kept any funds generated at local government level.

7.6.2. World Bank Urban Infrastructure Project

Like the USAID scheme, the World Bank Urban Infrastructure Project seeks to address urban development needs by providing a financial kick-start to housing and infrastructure projects. The World Bank scheme also seeks to build the building societies' capacity to administer large loan schemes. Under the scheme, the World Bank makes loans to the Ministry of Housing, which in turn makes loans to local authorities, who are supposed to use the funds for development projects reaching approximately 45 000 serviced stands.

The Bank representative interviewed felt that the Scheme had not reached the poorest Zimbabweans for similar reasons to the USAID project. Specified service levels at local authority level are too high and unaffordable, as are construction standards. Land delivery is too slow to make an impact – it takes an average of 4 ½ years to release land for development.

Starting in 2000, the Bank intends to implement a Capital Development Project, which seeks to help local authorities achieve credit-worthiness in order to raise funds for infrastructure development on the private market.

8. SUMMARY AND CONCLUSIONS

8.1 Summary

1) To what extent are Zimbabwe's regulatory and financial systems compatible with the systems and practices of federations of the urban poor? Specifically,

   a) Does existing legislation a) provide for the financial and institutional systems employed by such groups, b) not provide for them but not prevent them, or c) prevent them from functioning legally?

   Zimbabwe legislation and regulation does not appear to provide specifically for the institutional arrangements employed by ZIHOPFE, but does not prevent them. The basic savings and credit collective model is covered under common law, whilst Gungano Fund should be able to operate as a members-only lender without difficulty. There is scope for government interference, however, should ZIHOPFE attract negative attention.

   b) What adaptations would be required to harmonise the existing regulatory framework with the systems of urban poor federations? What would be the implications?

   A case could be made for creating a specific legal provision for Gungano Fund-type lenders, but at this stage in the policy development process such a step would probably be premature and potentially counterproductive. Nevertheless, ZIHOPFE could usefully seek to influence the housing policy process at this formative stage.

2) What is the scope, under current regulatory and financial systems, for an urban poor federation and its NGO partner to access commercial loan finance, particularly on international markets? Specifically,

   a) Do existing legislation and banking and foreign exchange regulations permit such borrowing, and under what conditions?

   Such borrowing is not permitted at this stage.

   b) Would commercial banks be prepared to participate in such schemes, either as facilitators or through loan guarantees?

   Zimbabwe commercial banks already play an important role in the offshore borrowing system. Loan guarantees for Zimbabwe NGOs are unlikely under current conditions.

   c) Given the procedures involved, what implications would offshore borrowing have for the systems and practices of urban poor federations?

   Not applicable.

   d) How would such borrowing take place, and at what cost in time and management effort?

   Not applicable.

3) Are current institutional, financial and governance systems for urban infrastructure and shelter development in Zimbabwe compatible with the systems and practices of an urban poor federation? Specifically,

   a) What are the current systems, and how are they changing?

   Zimbabwean systems for shelter and infrastructure development are currently disorganised, under-funded, and prone to corruption and mismanagement. Although outside agencies are attempting to assist, it will take time for the system to be rationalised. Much will depend on the new housing policy, and on Zimbabwe's overall financial situation.

b) What is the nature and scope of existing infrastructure and development projects linking local authorities with multinational development agencies (e.g. the World Bank)?

Such programmes are fairly limited and are drawing to a close. The indication is that the USAID programme may provide some scope for ZIHOPFE participation, but allegations of wholesale corruption in the allocation process may make this difficult.

c) How do local authorities finance infrastructure developments? What is the future trend, and what does this imply for the activities of urban poor federations?

Financing comes almost entirely from transfers from central government, which are irregular and unpredictable. For the foreseeable future ZIHOPFE may be said to be essentially 'on its own', although specific local-level partnerships may be formed.

8.2 Conclusions

The ultimate point of this exercise is to assess the potential for new and innovative financing mechanisms for Gungano Fund and ZIHOPFE, as well as the potential for partnership with Zimbabwe's local authorities.

8.2.1 Implications of the HIV/AIDS epidemic

The first and most important issue – the one overshadowing all others – is Zimbabwe's HIV/AIDS epidemic. Development efforts involving housing finance must take into account the fact that a large proportion of participants will not live long enough to repay 'normal' loans because of HIV/AIDS. This calls for specific adaptations in financial systems, both at community level and at the level of national revolving funds.

In Zimbabwe and ZIHOPFE's case, this can be looked at in two ways:

- A 'conservative' approach would argue that loans should be reduced and repayment periods shortened to accommodate reduced life expectancy. This would imply an incremental building approach. One problem with this is that the houses affordable to ZIHOPFE members today are already 'incremental': there is limited scope to reduce construction sizes, and therefore loan terms, any further. Such an approach also takes an overly 'individualised' approach to the problem, ignoring the communitarian aspect of ZIHOPFE's work.
- A more 'progressive' approach would recognise that families and communities are bearing the burden of terminal care by default, since the state is unable to do so. This should be factored into all development planning as a contribution in kind from communities and households. One way to do this would be to create a situation in which members of their group assume responsibility for terminal care for Federation members. What would this achieve?
    - Firstly, group-based terminal care relieves the state and donor agencies of the burden of doing so – a contribution that can be quantified and offset against loan payments that are 'lost' due to earlier death. If Federation groups agree to provide such care, they can be given credit against their group loans for this essential social and ethical contribution.
    - Secondly, given the uncertainty AIDS imposes on families, a Federation commitment to group terminal care would enable households to invest in shelter safe in the knowledge that they will not be left to care for dying family members alone, and that they will not lose their homes. This will increase the propensity for such households to invest in houses.

- Thirdly, the Federation process is not simply or even mainly about finances. It also creates a strong sense of horizontal responsibility and accountability within a community. One aspect of this is a deeper effort to assist each household in the community to understand and deal with the causes of the HIV/AIDS epidemic. Individual freedom – one of the hallmarks of European thought that arrived with colonialism – undermines this sense of group accountability and has contributed directly to the epidemic in Southern Africa.

8.2.2 Economic conditions

Zimbabwe has as much in common with Asia as with South Africa, especially with regard to everyday economic life. This has implications for the way urban poor federations operate. The comparative weakness of the Zimbabwean formal retail sector creates space for more trading activity than South Africa. This in turn means that money circulates more rapidly in informal settlements. This creates ideal opportunities for daily saving (as in India) as well as a strong demand for small, rapidly repayable loans for income generation. Along with the inflation problem, it implies both opportunities and constraints that are different to those in South Africa.

The inflation situation in Zimbabwe is severe and worsening, and has similarly significant implications:

1. As we have seen, external wholesale finance is not on the cards at present.
2. Long-term saving of any kind is pointless in a situation of hyperinflation, but short-term, high turnover credit from group savings could work well. The Zimbabwean Federation has focused on savings as a route to housing, and this can create a disincentive to use the money for loans.
3. It will be very difficult to get a revolving housing fund going in this context. Funders will eventually balk at the erosion of the Fund's real loan capital implicit in the negative interest rate. There will also be harsh 'inter-generational' equity problems. Second- and third-cycle borrowers will need more money to build and a revolving fund will have less to lend to them. This could undermine solidarity of urban poor groups. In an inflationary situation like Zimbabwe's, it will basically put donors in the position of giving grant funding for housing construction, which will require constant topping-up.
4. Nevertheless, the demonstration effect of Gungano Fund loans is an important contribution, which is necessary to lay the groundwork for a long-term sustainable fund. This must be weighed against the possible costs to ZIHOPFE of making only a very few demonstration loans with the money they have. Gungano may be forced to be very modest and regionally selective because of capital erosion. This *may* cause problems between regions in ZIHOPFE.
5. One way to address this problem in the short-term would be to focus on small, short-term loans, like those associated with income-generation. Interest rates can be higher without penalising borrowers, and the impact of real capital erosion will be stretched out over a longer period. This is in fact what ZIHOPFE savings and credit collectives are doing at local level.
6. Focusing on income-generation loans is also a) an appropriate response to the high demand for such credit within the Zimbabwe Federation, b) more likely to assist in building good savings and credit practices and savings scheme level, and c) a way to begin to build regional structures which can help to decentralise federations and boost grassroots participation.
7. One possibility is to make US dollar-indexed loans, as has been done in Latin American countries with hyperinflationary conditions. The problem with this is that informal sector incomes are not as closely linked to inflation as in the formal sector.

The most pressing problem, then is that a) Gungano Fund will be increasingly difficult to operate sustainably, and b) ZIHOPFE will be reliant on donor injections to maintain its lending activities under the situation changes.

8.2.3 Political conditions

It is difficult to predict Zimbabwe's political future. Nevertheless, it can be safely said that things will get worse before they get better. This will have impacts at the national, and more importantly, the local level.

At the national level, ZIHOPFE may be subject to the kind of harassment that has characterised government relations with other independent civil society initiatives. So far this has not been a major problem for the Federation (although some problems have been encountered already). As the Federation grows in stature and accomplishment, however – and as more and more urban poor join it – inevitably it will attract unfavourable attention from the government, which grows more paranoid and xenophobic by the week. This must be borne in mind by the alliance in protecting its investment in Gungano Fund.

At the local level, on the other hand, ZIHOPFE may be able to develop the kind of positive alliances and partnerships that have characterised both the South African and Indian Federations. Such alliances are based on pilot schemes, and are usually constructed around individuals or groups in local government who are interested in the process, or who seek to broaden their support base. If managed thoughtfully, such partnerships can be good for the Federation, even in a context of national turmoil. Such local alliances will be particularly important if Gungano Fund wishes to engage local authorities through any of the existing programmes, such as the USAID Private Sector Housing Programme and the World Bank Urban Infrastructure Programme, as well as others in the future.