Building societies' role in Zimbabwe

Today's building society industry in Zimbabwe arose out of casual discussions between several eminent legal practitioners in Harare—then Salisbury—in 1948. Following these discussions, a steering committee was set up to investigate the possibility of establishing building societies in the country. These discussions eventually resulted in the formation of a building society and the promulgation of the Building Societies Act of 1951 (SR).

Since the inception of the 1951 Act, the industry has weathered good times and bad. In the early 1960s, following the Congo crisis and with the break-up of the Federation of Rhodesia and Nyasaland imminent, the volume of investments from the public decreased to such an extent that Government insisted that mergers of societies take place to add strength to the industry, and to cut down on competition. These mergers reduced the number of societies to three, all of which continue to operate in Zimbabwe, with Central Africa Building Society (CABS) being the largest, followed by Beverley Building Society and then Founders Building Society.

As at 30 June, 1987, the total assets of the three societies were $834.3 million, divided as follows:
- Beverley $204.1 million (24.5%)
- CABS $479.4 million (57.5%)
- Founders $150.8 million (18.0%)

The societies have developed a network of branches throughout the country and established agencies which offer a limited service to investors and borrowers in areas where a fully staffed branch is not justifiable.

Legislation

Building societies in Zimbabwe operate within the constraints of the Building Societies Act. The 1965 Act and subsequent Regulations provide for the establishment, registration, management and control of building societies. The law is such as to ensure that societies are run on prudent, conservative lines so that there is minimal risk to investors. In respect of the latter, building societies are required to hold relatively high reserve and liquidity ratios.

The Act specifies the manner in which societies may raise funds. This objective is achieved by issuing shares to members and accepting deposits from members and others. However, limits are imposed on the amounts a society may accept from an individual or body corporate in respect of deposits and certain classes of shares. Dividends and interest rates on these investments are prescribed by the monetary authorities. Advances made by societies must be reducible or of fixed term and are limited in amount to 75% of the value of the property, other than where collateral security acceptable to the Minister is produced. Mortgage advances on non-residential property may not exceed 20% of the sum total of all mortgage advances. Societies may lend money only on the security of mortgages or hypothecations of urban immovable property. Money may be lent to local authorities or other approved bodies, with the approval of the Minister, provided that these advances are only for the construction, purchase or lease of land or buildings.

The three societies operate under the umbrella of the Building Societies Association of Zimbabwe, which acts as a link between building societies, Government and other representative organisations.

Financial structure

There has been a marked change in the financial structure of building societies in Zimbabwe, principally as a direct result of two factors.
First, the Government permitted societies to issue a tax-free 9% per annum paid-up permanent share with effect from 7 November, 1986. As a consequence, funds were transferred from existing 11.25% per annum paid-up permanent shares and fixed deposits to the new issue of shares. Furthermore, the societies received substantial sums of money in the form of new funds which hitherto would probably have been invested in the Post Office Savings Bank, tax-free.

The capital balances of all three societies in these tax-free shares at 30 June, 1987, amounted to ZS90,452,000. The introduction of this form of investment has benefited societies in a number of ways. It has significantly reduced the cost of money and, in addition, has resulted in an increase of money available for lending on mortgage. However, Government has stipulated that a minimum of 25% of the funds invested in tax-free shares be utilised for funding of high-density housing.

Secondly, societies previously held ZS82,750,000 in fixed deposits invested by the Reserve Bank of Zimbabwe to cushion the effect of the withdrawal of funds by non-residents for investment in Government 4% bonds which they were compelled to do by legislation. During the financial year ended 30 June, 1987, societies repaid an amount of approximately ZS16 million to the Reserve Bank, which significantly lowered the percentage held by societies on fixed deposits as indicated in the table. Societies are required to continue repaying the remaining balance to the Reserve Bank by monthly instalments.

In Zimbabwe, societies offer the public the option of shares and deposits as investment opportunities. The table gives a simple overview of the investments on offer.

**Marketing environment**

In terms of economic priority, the building society industry does not rank very highly, and societies are therefore unable to compete favourably in the financial market.

**Government Regulations and Reserve (Central) Bank policies control the major activities surrounding conditions influencing development and growth. There is no doubt that in the plan of controls the role of societies is appreciated and, in its turn, is geared to obtain a portion of available funds, particularly as Government vigorously supports home ownership.**

The rates of interest offered to the public are pegged by the Reserve Bank and each society is therefore similar in this respect. There is a band of rates for savings accounts, otherwise all other investments have a fixed rate. Each investment other than the 11.25% per annum paid-up permanent share has a ceiling related to the amount an individual or company can invest. Banks do not have a similar restriction imposed on them.

Before the introduction of 9% per annum tax-free shares on 7 November, 1986, societies were not competitive as better returns were available elsewhere. With the tax rate and surcharge reaching up to 60 cents in the dollar for individuals earning an
income over $33,000, and with company tax this year at an effective rate of 64%, the 9% tax-free shares have proved popular and have now become the main source of inflow. Intake is restricted to $75,000 per individual and $55,000 for a registered company. The largest share of money held by societies comes from individuals rather than institutions because of the ceilings imposed on investment holdings.

The Post Office Savings Bank is the only competitor for the tax-free investment and enjoys the advantages of a better rate, shorter term and higher ceilings.

The building society 9% tax-free shares have to be held for not less than two years, whilst the POSB period is for a minimum of one year. POSB also has a tax-free savings account on offer at 8.50% per annum, again with a ceiling of $100,000, whilst the ceiling for building society savings accounts is $50,000 and the taxable rate is 7.75% per annum. The POSB enjoyed the tax-free rates for a number of years before building societies were granted a similar concession.

The Reserve Bank gives exchange control directives for non-resident controlled organisations and individuals. Basically, whilst the inflow of new money is welcomed through, in the main, 9% tax-free shares, there is an outflow of non-resident held funds and a discontinuance of investment of funds for any non-resident except in exceptional circumstances and subject to exchange control approval. This has meant a monthly outflow of non-resident monies in one form or another to other institutions and the drying up of investments from this source.

Since 1981 the indices on the Stock Exchange have taken a downward trend and this has not been a popular avenue for investments. In 1981 the bank rate was increased from 4.5% to 6% and then 9%. Other rates generally increased in response to the upward movement in the bank rate, which has since remained static.

Finance houses generally offer a better return on investment, but are smaller and have a natural saturation point. The banks hold the largest borrowing from the public in Zimbabwe and enjoy the most freedom in obtaining funds.

The largest investment in building societies is in savings deposits which are available on demand, and over the years this has proved to be the foremost investment in terms of growth. The greatest appeal for savings deposits is the free service it offers compared to the charges related to a bank account. There are many employers who use savings as a vehicle for payment of salaries countrywide to employees.

Insurance companies attract enormous sums in the form of premium income for life cover and pension schemes, 60% of which has to be held in Government Stock. Societies are required to hold 15% of liabilities in a prescribed form, the major share of which would normally be in Government Stock.

Housing finance and development

Housing finance and development in Zimbabwe is of particular importance to the Zimbabwean economy as a whole and to other developing countries on the African continent which face acute housing shortages. Historically the market in Zimbabwe has been divided into two sectors: (a) the high-density sector and (b) the low-density sector.

The high-density sector relates primarily to low income earners with austerity houses. The traditional means of financing these houses was primarily through the public sector. On the other hand, low-density housing was, and still is to a large extent, financed mainly by the private sector primarily through the medium of the building societies where security of tenure is in the form of freehold title.

Building societies refrained from participating in the provision of mortgage finance directly to high-density applicants as the security of tenure

\[ \text{Savings with Financial Institutions (Z$ million)} \]

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<tr>
<th></th>
<th>Commercial Banks</th>
<th>Accepting Houses</th>
<th>Finance Houses</th>
<th>POSB</th>
<th>Building Societies</th>
<th>Total</th>
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was in the form of leasehold property, where the conditions of the lease were by and large not acceptable as security for mortgage purposes. In addition, the type of construction and high administration costs for small mortgage advances added to the restriction imposed by societies. However, in recognising the need to provide houses for all, societies advanced bulk loans to Government, which in turn lent these monies to local authorities to continue their high-density housing programmes.

Supply and demand in the low-density areas followed and continues to follow political events and the normal business cycle with its inherent peaks and troughs. In contrast, the demand for high-density housing has always been, and will for the foreseeable future remain, exceptionally high. However, during the course of the past few years demand has remained exceptionally high for both sectors, leading to an acute shortage of housing.

Despite efforts to solve the problem, the housing backlog in urban areas and rural council authorities has risen to 240,000 and 26,000 respectively. Given the current population expansion statistics, the situation is destined to deteriorate rapidly unless an ambitious housing programme is undertaken. In recognising this, the Government’s Five Year National Development Plan includes a development programme aimed at constructing some 100,000 new housing units over the plan period.

The Public Sector Investment Programme for housing over the five-year period is estimated at $812 million, which in itself is formidable given the size of the country’s economy. In addition, the Government has called for greater participation by the private sector in the provision of housing to alleviate the situation. In this respect, Government has created the necessary conditions to induce private sector investment in this vital field.

In order to attract a greater inflow of funds into building societies to enable them to continue providing mortgage finance, certain tax-free investments are now on offer to the public by these organisations. To a limited extent tax concessions have been increased to certain taxpayers constructing staff houses. In addition, extensive survey programmes have been instituted to ensure that freehold title is available and thus building society participation in the high-density sector of the market.

Low density

At independence in 1980, apart from numerous diplomatic residences being purchased, low-density property prices were unrealistically low. Generally there were sufficient properties on the market for sale at probably half their current day replacement costs. Emigration was, at that stage, fairly high and consequently there was a continuous supply of affordable housing being placed on the market. Despite the fact that interest rates levied by societies were exceptionally low at 7.25% per annum, the actual mortgage demand remained relatively low.

As the earning capacity of the majority of the population increased and expectations of a higher standard of living permeated, so the demand for better quality houses followed suit. On the other hand, emigration began to decrease and the supply of properties offered for sale gradually reduced. Demand continued to increase, prices began to firm and today there is an acute shortage of affordable accommodation.

Very little development has taken place in the country in recent years as market prices have generally lagged behind replacement costs. As a result, it has been far cheaper to acquire an existing property than to construct one to a similar standard. Although the gap between market prices and replacement costs has narrowed considerably owing to market forces, inflationary trends have escalated building costs at an alarming rate, thus maintaining a certain disparity between the two and curtailting mass development. With wage restraints, high taxation and inflation, the concept of constructing spacious, good quality homes on hitherto relatively large stands has become a thing of the past.

Low density housing in an attractive suburb in Zimbabwe.
In recognising the situation, and in an effort to provide much-needed accommodation for the middle income earner, developers have commenced, albeit at a slow pace, constructing cheaper austerity-type houses. These houses have no second fittings such as built-in cupboards, parquet flooring, or wall and floor tiles and are constructed on smaller plots. Generally where austerity houses are concerned, the borrower is expected to complete the second fittings to the house as and when he is in a financial position to do so.

High density

The reasons for restraints imposed by societies in the provision of mortgage finance in the high-density sectors has previously been touched upon. To a certain extent it is recognised that these organisations already have the necessary technology and expertise to venture into the high-density sector, thus avoiding the duplication of services by public and private sector alike. The high costs of administering a large number of small loans has to a degree been offset by the introduction of a tax-free investment now on offer by building societies. The dividend rate on these investments is 9%, which is considerably lower than the previous 11.25% investment on offer, which dividend is subject to tax by the investor. This has obviously lowered the cost of procuring money by societies and made the venture into high-density areas more attractive. Government has accordingly sought direct active participation by societies in the provision of mortgage finance for low income earners.

To overcome the problems previously encountered on leasehold title, international aid organisations have channelled through Government large sums of money towards the provision of fully serviced and surveyed stands, thus enabling local authorities to offer freehold title to mortgagees. Basically, the local authority allocates a small stand, between 200 and 500 square metres and costing between Z$500-Z$2,000, to a beneficiary and makes available a set of 14 floor plans from which the would-be home-owner makes his choice of house type.

The plans also make provision for the subsequent addition of a number of rooms which the borrower constructs as and when he can afford to do so. The beneficiary, having made his selection of plans, is then directed to the building society of his choice to arrange mortgage finance. Such mortgage finance normally covers the purchase price of the stand and the cost of erecting the house.

The move into high density housing has introduced a new concept of lending in Zimbabwe for these financial institutions. The previously high standards set by building societies for the construction of houses have been relaxed considerably, as has been the method of construction in order to cater for a relatively unsophisticated borrower. Traditionally to qualify for building society mortgage finance borrowers have had to have their houses constructed by reputable contractors or under a sub-contract basis where the artisans are registered with the National Industrial Council for the Building Industry.

Under the Aid Programmes governing participation by beneficiaries, houses may now be constructed by either large-scale developers, building brigades, self-help (family participation) or small developers where the builder does not have to be registered with the National Industrial Council. The latter two methods of construction have caused considerable problems to financiers and would-be home-owners alike as the procurement of materials on favourable credit terms is difficult and construction often takes place over an exceptionally long period. This has resulted in relatively few houses having been constructed.
Zimbabwe’s building societies

Beverley

THE first registered building society, the Bulawayo Permanent Mutual Building & Investment Society, subsequently merged with Beverley, and it is anybody’s guess what the tellers of those far-off days would have thought of the three VAX 750 super mini-computers which now provide on-line facilities, linking 23 branches.

Beverley has always had a reputation for innovation and was the first society in the country to provide staff with canteen facilities and a clinic with resident doctor in attendance. Employees also enjoy the benefit of pensions and medical aid schemes administered in-house. Both schemes receive large contributions from the society, but there are additional subsidies for lower paid employees participating in the medical aid scheme. This ensures that every member of staff can afford medical treatment for himself and his family.

However, innovation has not been limited to staff matters. Beverley was the first society to participate in a low-cost housing plan designed to assist those on small incomes. A pilot scheme linking Beverley with USAID and United Nations provided 1,200 housing units in Kwekwe and Gutu on a self-help basis. The success of this pioneering venture encouraged further projects of a similar type and currently Beverley is participating with the other building societies in a World Bank scheme which will provide 14,000 units of housing.

Beverley is a relatively small society and finances its 8,000 mortgage advances with funds from 150,000 savings accounts and 17,000 share and fixed deposit accounts. Persistent striving for growth has recently pushed assets through the $200 million barrier, and the general manager is confident that this upward trend will continue. Perhaps the most striking evidence of confidence in the future is the plan for a large training complex adjoining the head office building.

In recent years an increasing number of staff from building societies in Malawi, Botswana and other countries on the African continent have been sent to Beverley for training. The new complex will therefore not only have extensive training facilities, but will also have living accommodation, lounges and a restaurant to cater for these students from beyond Zimbabwe’s borders.

Central Africa

THE formation of the Central Africa Building Society (CABS) dates back to 1949. At that time there was no building society legislation in the country and it was not possible to operate a building society under the Companies Act — that is to say through the means of a limited liability company. The solution proposed was to incorporate two limited liability companies which would enter into partnership for the purpose of carrying on the business of a building society.

Two companies were formed — Central Africa Investment Ltd and Central Africa Building Society. Those interested were asked to subscribe an equal amount of capital to each company. Approximately 50 people, together with an assurance company, participated in raising the initial capital of $60,000. The companies entered into a formal deed of partnership in terms of which they agreed to establish, initially in Harare, and then throughout the country, a building society to be called “Central Africa Building Society.”

In 1948/49 office accommodation was at a premium as a result of post-war developments, but eventually offices, consisting of a small reception room and two inter-connecting rooms, were acquired in the central business district in Harare. The society opened its doors on 16 August, 1949, with a staff comprising a manager, a full-time assistant and a part-time receptionist/typist.

Mr. J. L. Wood, general manager of the Central Africa.

In 1951 legislation was passed to cater for the building society industry and this enabled CABS to expand considerably. An indication of this growth is amply illustrated by the increase in assets. The $2 million mark was passed in 1951/52, $10 million in 1954/55 and $20 million in 1956/57. CABS’ assets in 1959 exceeded $334 million; in 1970 $510 million; at 30 June, 1980, $330 million, and it is anticipated that assets will reach $500 million shortly.

In 1961, with the uncertainty prevailing in the country after the Congo crisis and the imminent break-up of the Federation of Rhodesia and Nyasaland, Central Government saw the need to reduce the number of
societies in order to strengthen the movement and minimise competition. It was therefore agreed that CABS, The Old Mutual Building Society of Central Africa and the Bulawayo & National Building Society merge to form Central Africa Building Society. The newly-formed society “CABS” has become a household name throughout Zimbabwe.

Today CABS employs more than 700 staff and operates 62 branch offices throughout Zimbabwe. In July 1987 a new corporate office block away from the central business district of Harare was opened to house the entire administrative staff of the society and to cater for the phenomenal growth the society has experienced. The savings portfolio illustrates the performance by the society over the last seven years. In June 1980 there were 278,581 savings accounts, which in that year generated 5.3 million transactions. Today there are over 500,000 accounts generating more than 8 million transactions annually.

The total amount invested in shares and deposits with the society as at 30 June, 1987, was ZS423,390,000, which is approximately 56.2% of the total held by building societies in Zimbabwe. Amounts advanced on mortgage totalled ZS318,088,000. The society’s reserves now total ZS40,722,000, representing 8.5% of total assets.

Progressive computerisation of the society’s systems has played a significant role in supporting the growth in numbers of accounts and related services required. Batch-processing commenced early in the 1970s with all application software then, and since, being developed in-house by CABS computer personnel. On-line real-time services were introduced in 1980 for the first time in Zimbabwe, and these were gradually extended to cover all branches in the main centres. At present all 62 branches are equipped with NCR on-line teller terminals and passbook printers, providing a real-time service.

The nationwide network is supported by two ICL mainframe computers in Harare using IDMS database systems for information storage and retrieval. Micro-computer systems are presently being introduced at head office.

Founders

FOUNDERS Building Society was established in 1954, opening its doors to the public in May 1954 with capital of only ZS200,000. It was established mainly through the enterprise of Sir Albert Robinson, who became deputy chairman and who retired from the board in March last year.

The society has grown steadily in the past 33 years. From the start of business in its original premises, it now has 19 branches in all the major centres, with many more agencies being operated throughout the country. In 1961 Founders amalgamated with the Rhodesia Century Building Society, one of the smaller societies that existed in what was then Southern Rhodesia. By that time assets exceeded ZS10 million. Today the society has assets of ZS150 million and provides jobs for a permanent staff of almost 300 people throughout Zimbabwe.

During its last financial year, assets increased by almost 17% - shares rose by ZS12.4 million and deposits by ZS6.8 million. The balance of mortgage advances rose by just under 16% to ZS103 million and reserves increased by ZS2.6 million.

As a result of the tax-free shares introduced in November 1986, Founders Building Society has made ZS1 million available to Government for its National Housing Fund and has loaned out ZS4.2 million for low-cost housing. This sum has provided 364 new homes for families in the lower income groups and it represents almost 60% of Founders’ loans for new houses during the past year.

In order to help middle income earners towards home ownership, the society has come up with a mortgage package which substantially reduces the front-end costs. It includes a 30-year repayment term, as opposed to the currently prevailing 15-year one, for mortgages of up to ZS35,000, a three-month grace period before the first installment falls due, front-end charges debited to the loan accounts and reduced valuation fees under certain circumstances.

As part of the commitment to the average Zimbabwean, and following a successful year, Founders is decentralising and opening up new branches in growth points and high-density suburbs. Three such branches and agencies have been opened in the past year.

The society is keen to keep abreast of new technology and a major computerisation exercise has been going on for the past five years. To date, Founders has completed its computerisation programme in four of its main branches. The programme includes mortgages, on-call savings accounts and paid-up permanent shares.