

532 HG 11/46

ISW-31311

PD-AAN2080

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LAC)

FROM: LAC/DR - Dwight B. Johnson

SUBJECT: Revisions to Jamaica Project 532-HG-011

Problem: To revise project description HG project No. 532-HG-011.

Discussion: The project was authorized in September 1981. The timing was designed to reinforce U.S. support to the new government. The authorization coincided with initiation by the Government of Jamaica (GOJ) of a major review of its policy relating to land tenure, cost recovery and institutional responsibilities. This policy review exercise has now been completed by GOJ with AID technical assistance. The result of this process is GOJ initiation of a major restructuring of its shelter interventions designed to:

- (1) Utilize more of G.O.J. resources for an increase in shelter solutions for the below median income families.
- (2) Achieve maximum cost recovery.
- (3) Reflect new institutional or reorganization changes.

To reinforce these basic policy shifts, GOJ requested AID to review the project to insure that the proposed scheme reflected the new policy directives and consequent institutional changes. This review has been undertaken and has identified areas where modifications in the project design were needed to bring the project into conformity with the new policy framework. The revised Project Description has been discussed and approved by GOJ. These policy initiatives are a tremendous step towards rationalizing the allocation of resources in the shelter sector and the project modifications requested by GOJ are basic to achieving the policy.

Specifically, the "Authorization", "CP's", "Goal", and "Purpose", would remain unchanged. The Project Description has been redrafted to better describe the project. The GOJ has increased its contribution of financial and technical resources to permit production of an additional 4,600 shelter solutions. Two components are added to the program: serviced sites with core housing and building loans for owners of lots. Standards have been reduced for most solutions, making them more affordable to the target group. The government has committed itself to a significant cost recovery program.

The official borrower will change from Ministry of Finance to Jamaica Mortgage Bank, the agency now responsible for channeling resources into the sector. Mortgage servicing will be provided by two financial institutions, the Caribbean Housing Finance Corporation and the National Housing Trust, rather than by the Ministry of Construction. These institutional arrangements will help anchor changes mandated by the new policy, especially improved cost recovery. As a result of the increased GOJ contribution, the total project amount increases to an estimated \$59.0 million from the \$18.9 million originally budgeted. This dramatic amount represents a significant reallocation of government funds towards low-income shelter not a significant addition to the budget.

Summary Comparison of Original and Revised Project Description
532-HG-011

<u>Number of Solutions</u>	<u>Original</u>	<u>Revised</u>
a) Squatter Upgrading	a) 2500 lots	a) 6000
b) Services sites/core	b) none	b) 2000
c) Build on Own Land/ Owner-Occupier	c) none	c) 2000
d) Home Improvement Loans	d) 5900	d) 5000

Program Amount (US\$)

a) HG	a) \$15.0 million	a) \$15.0 million
b) DG	b) 0.5 million	b) 0.5 million
c) GOJ	c) 3.4 million	c) 43.5 million
d) Total	d) \$18.9 million	d) \$59.0 million

3. <u>Official Borrower</u>	Ministry of Finance	Jamaica Mortgage Bank
4. <u>Mortgage Servicing</u>	Ministry of Construction	Caribbean Housing Finance Corp. (CHFC) and the National Housing Trust (NHT)

A Revised Project Description Summary and Revisions to Project 532-HG-011 are attached.

Recommendations:

a. That you approve the project revision on the basis of the changes outlined in this memo and the "Revisions to Project 532-HG-011" to be attached to the original Project Paper.

b. That the original Authorization dated September 28, 1981 shall remain in full force and effect.

Approved: Marshall Brown

Disapproved: _____

Date: 10/27/82

- Attachments: 1. Revised Project Description Summary.
2. Revisions to Project 532-HG-011.

Clearances: LAC/DR: SAnnstrong A Date 10/19
 LAC/DR: JSmith (draft) Date _____
 LAC/DR: ILevy IL Date _____
 PRE/HUD: JHowley (draft) Date 9/21
 GC/HUD: MWilliams (draft) Date 9/21
 LAC/CAR: RDeLaney R Date 10/22

A
Goodson/SA Frankel: dpg: 9/21/82: X24283: DOC02828. DAA/LAC: MBrown

PROJECT DESCRIPTION SUMMARY

I. Housing Sector Background

Over the past 35 years Jamaica has experienced rural to urban migration on a massive scale. Between 1960 and 1970, Jamaica's population grew by 15.6 percent while the urban population increased by 43 percent. Available evidence suggests that this trend continues to the present. Between 1970 and 1980, according to the Department of Statistics, 72 percent of the country's growth occurred in urban areas.

This population growth occasioned a 1977 estimated requirement for new housing construction at 20,000 units per year over the next 10 years. This estimate did not include elimination of the backlog of substandard dwellings.

Unfortunately, during the 1971-1977 six-year period, only about 32,000 units were completed. Government constructed half, while the private sector was responsible for the rest. In recent years, however, private housing development has diminished considerably and government-sponsored development has increased. By 1978, the GOJ was developing at least 75 percent of new formal housing. In the pre-election period of 1979-1980 total housing production fell drastically and the new administration is now trying to stimulate both private and public efforts in the field.

In doing so one of the administration's first steps has been to establish a national housing policy to guide its activities in the sector.

II: GOJ SHELTER POLICIES, PROGRAMS, AND INSTITUTIONS

A. Policies and Programs

The GOJ has completed the final steps in the adoption of a comprehensive housing policy. With AID assistance, a National Housing Policy Framework paper was prepared for the Ministry of Construction (Housing) MOC(H) in late 1981. Based on major issues and constraints in the sector, the paper outlined a series of objectives around which shelter policy could be formulated.

After review by senior housing sector officials, the policy framework paper was thoroughly discussed by senior housing officials from both the public and private sectors at a National Housing Policy Workshop. The workshop, which was chaired by the Minister of Construction, produced a consensus on a draft Housing Policy document, short and long term action plans for policy implementation, and specific assignments for follow-up actions and studies. The more important policy objectives discussed at the workshop and the means by which they are to be achieved are:

OBJECTIVE

MEANS

A coordinated approach to the provision of housing and related amenities.

Establishment of policy coordination and implementing mechanisms and clear definition and development of institutional responsibilities

An increase in the availability of funds for the housing sector

Development of new mortgage instruments and the use of public funds as a leverage for attracting private and institutional funds

An effective response to the needs of designated target groups

Careful design of housing programs and the institution of appropriate repayment arrangements to match the affordability of target groups

Prevention of institutional decapitalization

Establishment of effective cost recovery mechanisms

Provision of greater economic power and stability to families

Conversion of public sector leasehold and rental housing to freehold tenure

Although the policy is due to be officially adopted by Parliament in September of 1982, the GOJ has already taken significant steps to obtain the foregoing objectives.

1. It has developed, and the Prime Minister has announced, a Public Sector Housing Finance Framework which clearly defines the roles and responsibilities of the major institutions in the sector.
2. It has projected the total amount of funds available to the sector to 1984/85 with increases based on issuances of housing bonds, sales of mortgages to the private sector, operating surpluses and AID HG loans.
3. It is lowering the standards of squatter upgrading and owner-occupier programs and has initiated a core housing (starter-home) program on a massive scale.
4. It is establishing more effective means of cost recovery through salary deductions at source, the use of private collection agencies and commercial banks, and community education of low income groups.
5. It is streamlining the titling process such that all projects can be conveyed on a freehold basis.

III. Household Income Criteria

For purposes of designing the physical sub-projects of HG-011, it is of prime importance to have access to a reasonably reliable estimate of urban median household income. Unfortunately, a precise current study of household income is

not available since no official GOJ measure of national household income has been carried out since 1968. However, an estimate of household income was undertaken on the basis of three existing surveys.

The three estimated medians, which were updated to July 1983 on the basis of 10 percent annual increments, are shown in the following table.

SAMPLE SURVEY	ESTIMATED ANNUAL MEDIAN HOUSEHOLD INCOME (J\$) JULY 1983
1. C.D.C. Squatter Areas	4,750
2. Department of Statistics	6,750
3. N.H.T. Contributors	8,150

For the purposes of design, the actual national urban median is assumed to fall somewhere between the modified NHT and the Department of Statistics income figures. Therefore, a median household income range of J\$6750 (US\$3800) to J\$8150 (US\$4580) is believed sufficiently representative of the national urban population and will provide a benchmark for the affordability calculations of the target population for the proposed sub-projects.

IV. The Project

A. Institutional and Finance

Tab B describes the roles and responsibilities of the principal housing finance and the development institutions in recently adopted Public Housing Finance Framework. Within this Framework, the Jamaican Mortgage Bank (JMB) has been designated as the institution to mobilize loan funds both locally and overseas for the wholesale finance of low income housing. Thus, the JMB will be the official borrower under HG-011.

Due to the combination of HG-011 funds with varying annual amounts of GOJ funds, the flow of funds and institutional responsibilities within the sector are rather complex. They can, however, be described in three stages:

- (1) construction finance
- (2) long term mortgage finance
- (3) repayments

1. Construction Finance

The JMB will channel fund directly to the MOC(H) with a Ministry of Finance guarantee. The project developer will be the MOC(H) through the Sugar Industry Housing L.T.D (SIHL) for new schemes and the Estate Development Company (EDCO) for squatter upgrading and infrastructure works. Since each of these organizations has their own finance and accounting units, funds will be disbursed directly to them based on actual works completed and advances required. It is also envisaged that the developer for the BOL/Owner - Occupier program will be the

MOC(H) itself or through the SHH. Housing improvement loans will be made by both the CHFC and the NHT.

2. Long Term Finance

Completed projects will subsequently be sold to the CHFC or in cases where beneficiaries are NHT contributors, the NHT. In the latter case, the NHT will originate mortgages for its contributors, reimbursing the MOC(H) for the units. The MOC(H) will subsequently repay the JMB the local nonbudget and HG portions of project financing retaining the remainder for new project development. In the case of the CHFC, due to a present lack of funds and the desire by the GOJ to build up the institution as a mortgage financier, the CHFC will issue promissory notes in the form of mortgage backed bonds to the MOC(H).

3. Repayments

Payments due to the MOC(H) from the CHFC under the mortgage-backed bonds will be repaid to the JMB to service the HG loan. The bonds will, however, contain a release clause vis-a-vis the MOC(H) in case the mortgages are sold to the JMB under its secondary mortgage market faculty.

B. Summary of Costs

HG-011 proposes that a US \$15 million Housing Guaranty program be authorized for low income shelter. The GOJ will contribute an estimated \$43.48 million to the project's four components through funds allocated to the sector under a recently adopted Public Sector Housing Finance Framework. The distribution of capital costs is as follows:

<u>Sub-Project</u>	US \$(million)			
	<u>HG</u>	<u>DG</u>	<u>GOJ</u>	<u>Total</u>
Squatter Improvement	4.20	-	12.68 ¹	16.88
New Scheme	5.41	-	17.10 ¹	22.51
Owner-Occupier	3.15	-	9.21	12.36
Credit Union/Home Improvements	2.24	-	4.32	6.56
Technical Assistance	-	.50	.17	.67
Total	15.00	.50	43.48	58.98

¹ Including land value

It is projected that by the completion of HG-011, the MOC(I) will be fully staffed and reorganized to facilitate the speedy delivery of low income shelter solutions. It is planned that this reorganization will consolidate project implementation units such as the Estates Development Company (planning, design, upgrading and site development), and the Sugar Industry Housing, Limited (construction management of new schemes) into a cohesive project management unit. The Ministry has asked USAID to help in the development of this reorganization.

C. Physical Sub-Projects

I. Squatter Settlement Improvement

The proposed HG-011 Squatter Improvement program would upgrade approximately 6,000 plots which would include approximately 24 sites at 250 plots per site. Based on existing densities and the number of household per plot, this sub-project would benefit approximately 30,000 persons.

All selected upgrading areas will be provided with a minimum improvement package including freehold land tenure, purchase/transfer of presently occupied sites from either private ownership or GOJ ministries, and rationalization of the existing plot layout pattern. This rationalization of the existing plot configuration is a prerequisite to the establishment of secure tenure and to any subsequent incremental improvement in public services.

Rationalization or legalization/reorganization of the selected upgrading areas would include the legal requisites and surveys required for individual plot purchases from either the GOJ or private owners; the actual plot purchase by the sub-project's beneficiaries, and the regularization of the existing site layout. This regularization program would include the following components:

1. a more equitable distribution of the total residential area between existing residents
2. a pegging of the new plot boundaries
3. road/footpath alignment and reservation to provide minimum access to and circulation within the area
4. set back or relocation of plot fences in accordance with road reservations and new property lines
5. removal and reconstruction of dwelling units presently located within road reservations or on a neighbor's property
6. relocation of any public services or other obstructions located within road reservations

In addition, the sub-project would offer the option to extend basic urban services, such as roads, storm drainage, water supply and sewerage, either separately or in combination, to the selected upgrading areas. It is expected that most of these basic services would not be implemented at the same time in every settlement because of affordability constraints and/or the resident's perceived priorities exclude the simultaneous acquisition of all basic services, or because the settlement has already been supplied with one or more of the services.

2. New Scheme Development

The new scheme sub-project would provide approximately 2,000 solutions located in Kingston and St. Andrew and other major urban centers (Montego Bay, May Pen, Mandeville, Negril, etc.). In addition to a mix of basic core houses to be developed in stages for low income families, each project area could include larger serviced plots for rapid sale to households at or near the national urban median. A range of unit types will be offered depending on local conditions and effective demand. The following table presents a mix of potential housing solutions which could serve as a guide during final HG-011 project design.

New Scheme Alternatives

Option 1 - 5,000 square foot fully serviced plot including land purchase.

Option 2 - 2,000 square foot plot with partially completed 300 square foot core with habitable bedroom and bathroom.

Option 3 - 3,000 square foot serviced plot with partially completed 530 square foot duplex (divided by shared party wall) unit with habitable bedroom and bathroom.

3. Owner-Occupier Homes

The MOC(H) proposes to produce two of its most popular owner-occupier models as part of this sub-project. Two thousand of these units will be produced in HG-011. The following table provides an illustration of possible types of owner-occupier units which could be produced as part of this sub-project.

Owner-Occupier Options

Option 1 - Model 543/A: 306 square foot unit with three rooms and porch, absorption pit (no electrical installation).

Option 2 - Model 542/B: Model 542/A with septic tank.

Option 3 - Model 604/A: 440 square foot unit with two bedrooms, living room, bathroom, kitchen, porch, absorption pit (no electrical installation).

Option 4 - Model 604/B: Model 604/A with septic tank.

4. Home Improvement Loans

Approximately 3000 home improvement loans at an average of J\$3900 (US\$2200) would be available to project beneficiaries and other eligible low income households. The loans would be made primarily by the CHFC to residents of the settlement upgrading and new scheme sub-projects.

It is also envisaged that a portion of the home improvement funds would be channeled through the JCCUL in a similar fashion as under HG-010. Disbursement of these loan funds will be made by the Jamaica Cooperative Credit Union League following submission of executed loans for home improvement from individual credit unions. The League will provide direct loans to the individual credit unions for the amount of the loan. The loan amount will not exceed 85 percent of the face value of the executed loans with a minimum of 15 percent provided by the credit union. Each individual credit union will be responsible for the collection of loan repayments and for verifying that the loan proceeds are used in the proper manner.

D. Affordability

HG-011's four sub-projects are targeted at those families whose incomes fall at or below the national urban median income which is estimated to range between J\$6760 (US\$3800) and J\$8165 (US\$4590).

Based on rates of 6, 8 and 10 percent as contained in the National Public Sector Housing Finance Framework and on estimated costs for the sub-project mixés, all options are affordable below the national urban median. In the case of the squatter upgrading sub-project, families with incomes at the 5th percentile can afford the lowest cost solution, while the lowest cost new scheme and owner-occupier solution would reach families at the 25th and 11th percentiles, respectively.

E. Cost Recovery

All on-site capital development costs for squatter settlement improvements, new schemes and owner-occupier homes will be directly recovered from project beneficiaries either through salary deductions, or for beneficiaries who are self-employed, the conventional system of bank transfers. Servicing of all loans will be carried out by the CHFC and the NHT or possibly private sector collection agencies.

Operation and maintenance costs of sub-project public facilities will be recovered through monthly user service charges.

**REVISIONS
TO
PROJECT 532-HG-011**

**In Accordance with RFS No. 13a
Contract No. AID/OTR-0000-C-00-2142-00**

September 10, 1982

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I. PROJECT DESCRIPTION

A. GOJ SHELTER POLICIES, PROGRAMS AND INSTITUTIONS

I. Policies and Programs

The GOJ has recently completed the development and promulgation of a comprehensive housing policy. With AID assistance, a National Housing Policy Framework paper was prepared for the Ministry of Construction (Housing) in late 1981. Based on major issues and constraints in the sector, the paper outlined a series of objectives around which shelter policy could be formulated. Some of the more important of these objectives, which were incorporated into a short term immediate action policy were:

- o coordination of policy and programs;
- o clarification of institutional responsibilities;
- o affordability of shelter programs;
- o effective cost recovery.

Other, more long term objectives dealt with stabilizing construction costs, increasing the availability of land at reasonable prices and with secure tenure, mobilizing private sector support for national housing programs, and preserving existing communities and new housing estates.

After review by senior housing sector officials, the policy framework paper, along with another policy paper completed by the National Housing Advisory Committee (NHAC), was thoroughly discussed by senior housing officials from both the public and private sectors at a National Housing Policy Workshop. The workshop which was chaired by the Minister of Construction, produced a consensus on a draft Housing Policy document, short and long term action plans for policy implementation, and specific assignments for follow-up actions and studies. The more important policy objectives discussed at the workshop and the means by which they are to be achieved are:

<u>OBJECTIVE</u>	<u>MEANS</u>
o A coordinated approach to the provision of housing and related amenities.	Establishment of policy coordinating and implementing mechanisms and clear definition and development of institutional responsibilities.

OBJECTIVES

- o An increase in the availability of funds for the housing sector.
- o Prevention of institutional decapitalization.
- o Provision of greater economic power and stability to families through home ownership.
- o An effective response to the needs of designated target groups.

MEANS

Development of new mortgage instruments and the use of public funds as a leverage for attracting private and institutional funds.

Careful design of housing programs and the institution of appropriate repayment arrangements to match the affordability of target groups.

Establishment of effective cost recovery mechanisms.

Conversion of public sector leasehold and rental housing to freehold tenure.

Although the policy is due to be officially adopted by Parliament in September of 1982, the GOJ has already taken significant steps to obtain the foregoing objectives.

- a. It has developed, and the Prime Minister has announced a Public Sector Housing Finance Framework which clearly defines the roles and responsibilities of the major institutions in the sector.
- b. It has projected the total amount of funds available to the sector to 1984/85 with increases based on issuances of housing bonds, sales of mortgages to the private sector, operating surpluses and AID HG loans.
- c. It is lowering the standards of squatter upgrading and owner-occupier programs and has initiated a core housing (starter-home) program on a massive scale.
- d. It is establishing more effective means of cost recovery through salary deductions at source, the use of private collection agencies and commercial banks, and community education of low income groups.
- e. It is streamlining the titling process such that all projects can be conveyed on a freehold basis.

2. Institutions

Before describing the project in greater detail, it is useful to give a brief description of the institutions which will be primarily responsible for executing this US\$15-million Housing Guaranty. HG-011 will deal primarily with the following institutions:

- o the Jamaica Mortgage Bank;
- o the Ministry of Construction (Housing);
- o the Estate Development Company of MOC(H);
- o the Sugar Industry Housing, Ltd.;
- o the Caribbean Housing Finance Corp.
- o the National Housing Trust;
- o the Jamaica Cooperative Credit Union League.

Detailed analysis of their performance is undertaken in Section III.

- a. Jamaica Mortgage Bank (JMB): The JMB was the official Borrower under HG-010 and has also been designated as Borrower under this project. Under HG-010, it has built up substantial experience in disbursement of HG generated funds and the required record-keeping. Further, the institution itself was established by previous HGs and consequently has a close working relationship with PRE/HUD and the USAID/RHO in Jamaica.
- b. Ministry of Construction (MOC(H)): The MOC was created in 1979 by combining the Ministry of Housing and the Ministry of Public Works, although these two elements continue to operate more or less separately. The Ministry has been the largest government housing developer and has the primary responsibility for the majority of public housing programs.

Until the World Bank's Sites and Services program was authorized in 1974, most public housing involved completed units aimed at low income families on a heavily subsidized basis. Funding for these projects was to come from the MOC(H) Housing Fund, a statutory fund generating resources from the sale or rental of MOC(H)-built housing. In fact, data indicate that only some 8 percent of the Ministry's programs were financed from the Fund, the rest coming from the central budget.

- c. Estate Development Company (EDCO): The Estate Development Division, a parastatal of the MOC(H), was

recently created from the former Sites and Services Division (SSD) of the Ministry. The Sites and Services Division was established in 1972 to implement the World Bank project and later became the executing agency for all multilateral and bilateral programs. Since the first phase of the World Bank schemes was completed several years ago and Phase I of the US\$30 million Housing Guaranty program was begun in 1978, the EDD is now primarily occupied with completing the USAID squatter upgrading schemes. It is also locating sites and preparing plans for the improvement of a new series of squatter settlements under this project.

- d. Sugar Industry Housing, Ltd. (SIHL): The SIHL began operations in 1976 as a wholly-owned government corporation affiliated with the Sugar Industry Authority under the Ministry of Agriculture. From 1976 to 1981 it designed, built and provided financing for 2,008 units in 14 projects. It also provided individual houses on sites owned by sugar workers under an owner-occupied program. Due to a lack of funds to continue such projects, the SIHL is now being used to complete over 3,000 core houses on the unoccupied portions of the World Bank Sites and Services schemes.
- e. Caribbean Housing Finance Corp. (CHFC): The CHFC was established by the CDC as a primary mortgage lender for mainly moderate income housing. Subsequently, it became a subsidiary of the JMB and services of all JMB's primary mortgages. Under the new housing policy CHFC is to be built up to service MOC(H) mortgages and originate those for non-NHT contributors.
- f. National Housing Trust (NHT): The NHT was established in 1976. It raises its funds through a 3 percent employer tax on wages and a 2 percent contribution on wages by employees. The latter contribution is withheld and paid to the government by the employer and is refundable after seven years at an interest rate of 1 percent below the lowest NHT rate.

The funds are used to finance loans to contributors at below market interest rates for the purchase, repair or improvement of houses. Loans are available at up to 10 times the borrower's income, and repayment up to 33 1/2 percent of income. Interest rates of 6, 8 and 10 percent vary with the borrower's income and the term is a function of the amount borrowed and the borrower's income.

- g. Jamaica Cooperative Credit Union League (JCCUL) and Credit Unions: JCCUL is the trade association for the 96 credit unions in Jamaica totalling about 192,000 members -- up from about 142,000 at the end of 1978. The total savings at the end of 1980 was J\$138 million. Most of the credit union funds go

to finance consumer items. There is, however, increasing interest in expanding their mortgage and home improvement operations. Demand far exceeds available funds for mortgages which are now limited to J\$20,000 per loan. More details on the operation of the JCCUL and the credit unions are contained in Section III.

B. PROJECT OUTPUTS

I. Physical

- a. Squatter Settlement Improvement. The squatter settlements improvement program provides a minimum improvement package which includes secure land tenure, purchase of presently occupied sites from either private owners or GOJ ministries, and rationalization of the existing plot layout pattern. In addition, this sub-project would offer the residents of squatter areas the option to extend basic urban services, such as roads, storm drainage, water supply and sewerage, either separately or in combination, to the selected upgrading areas.

The proposed HG-011 squatter improvement program would upgrade approximately 6,000 plots which, in terms of Phase I experience, would equal approximately 12 sites at 250 plots per site. However, it is expected that the actual number of plots per site will vary from as low as 50 to as high as 500.

- b. New Schemes. The new scheme sub-project would provide approximately 2,000 solutions located in the Kingston and St. Andrew area and other major urban centers. In addition to a mix of basic core houses to be developed in stages for lower income families, each project area could include larger, serviced plots for rapid sale to households at or near the national urban median income.
- c. Owner-Occupier. Phase II proposes to finance approximately 2,000 MOC(H) owner-occupier units scattered on individually-owned plots throughout the island. The MOC(H) has expressed interest in producing two owner-occupier models which have proved most popular in the past (models 542 and 604). Due to existing production problems at the post and panel pre-fabrication plant, it is likely that, in the short-term, owner-occupier units will have to be constructed by block and steel and/or on-site systems methods.
- d. Home Improvement Loans. Based on experience gained in HG-010, it is planned that approximately 3,000 loans could be processed under the present phase. An average loan of J\$3,900 (US\$1,191) is proposed.

C. Household Income Analysis

For purposes of designing the physical sub-projects of 532-HG-011, it is of prime importance to have access to a reasonably reliable estimate of urban median household income. Those households whose incomes fall below the Jamaican urban median are defined as the target population for the four sub-projects of HG-011. Unfortunately, a precise, current study of household income is not available since an official GOJ measure of national household income has not been carried out since 1968. However, an attempt at estimating household income can be undertaken on the basis of three existing sample income surveys. The three sources are the following:

1. The Community Development Division (CDD) of the Ministry of Construction (Housing) sample surveys of the Norwood, 75-77 and 81-91 Waltham Park Road, March Pen Road (Africa), Rectory Lands and Yorktown squatter areas;
2. The Department of Statistics' bi-annual sample surveys of wage earners;
3. The National Housing Trust (NHT) sample survey of its contributor population.

The CDD's sample surveys measure total household income -- head of household, partner and other sources -- while the other two surveys measure only wage incomes. In order to approximate household income for comparable purposes in the latter two cases, it was assumed that an average household contains 1.38 wage earners (Department of Statistics) and that an additional 20 percent of total household income accrues from informal sources and foreign remittances. Household distributions for the NHT and the Department of Statistics wage earner surveys were approximated accordingly. All three estimated distributions were updated to July 1983 on the basis of 10 percent annual increments income. Table II-1 summarizes the updated household income distributions for the three previously-described sample surveys. Table II-2 presents the three annual median household incomes.

The CDD squatter area income information provides a good proxy for the HG-011 target population, but obviously is not representative of the entire national urban population. Furthermore, neither of the other two estimates is believed sufficiently indicative to stand alone as the national urban median. However, taken together as a range of estimated household income, GOJ and Embassy officials consider the NHT and Department of Statistics income figures to be sufficiently representative for purposes of design.

Therefore, affordability calculations of the target population for the proposed sub-projects in Section IV, Technical Analysis, are based on an urban median household income range of J\$6,750 (US\$3,790) to J\$8,150 (US\$4,580).

TABLE 11-1
COMPARISON OF ESTIMATED WEEKLY HOUSEHOLD INCOME DISTRIBUTIONS
PROJECTED TO JULY 1983

INCOME RANGE (\$)	SAMPLE OF SQUATTER AREA RESIDENTS ¹		EMPLOYED LABOR FORCE ^{2 3}		N.H.T. CONTRIBUTORS ^{3 4}	
	PERCENT OF TOTAL	CUMULATIVE PERCENT OF TOTAL	PERCENT OF TOTAL	CUMULATIVE PERCENT OF TOTAL	PERCENT OF TOTAL	CUMULATIVE PERCENT OF TOTAL
less than 20	3.4	3.4	7.0	7.0	16.6	16.6
20 - 39	7.3	10.7	20.4	27.4	7.9	24.5
40 - 59	14.4	25.1	18.2	45.6	10.0	34.5
60 - 79	17.9	43.0	13.1	58.7	8.5	43.0
80 - 99	13.1	56.1	7.5	66.2	7.5	50.5
100 - 119	43.9	100.0	11.5	77.7	6.7	57.2
120 - 139			29.8	107.5	5.9	63.1
140 - 159					36.9	100.0
160 - 179						
180 - 199						
200 and Greater						
TOTAL	100.0	--	100.0	--	100.0	--

SOURCES: See following page.

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TABLE II-1

COMPARISON OF ESTIMATED WEEKLY HOUSEHOLD INCOME DISTRIBUTIONS PROJECTED TO JULY 1983

SOURCES:

- 1/ Update of Community Development Division of the Ministry of Construction (Housing) Surveys of Norwood, 75-77 and 81-91 Waltham Park Road, March Pen Road (Africa), Rectory Lands and Yorktown Squatter Areas, November 1981 - March 1982.
- 2/ Department of Statistics, The Labour Force--1980 Wage Earner Distribution with agricultural sector wage earners and wage earners with no income subtracted out.
- 3/ Wage earner converted to household distribution by assuming 1.38 wage earners per household (Department of Statistics), and an additional 20 percent of total household income accruing from informal sources and foreign remittances.
- 4/ Update of November 1981 National Housing Trust Contribution Population sample survey.

TABLE II-2

<u>SAMPLE SURVEY</u>	<u>ESTIMATED ANNUAL MEDIAN HOUSEHOLD INCOME (J\$)</u> <u>JULY 1983</u>
1. C.D.D. Squatter Areas	4,750
2. Department of Statistics Wage Earners	6,750
3. N.H.T. Contributors	8,150

II. INSTITUTIONAL ANALYSIS

A. GENERAL

As described in Section II.B.1. Policies and Programs, the MOC(H) has completed a new National Housing Policy for the country. Due to the total lack of coordination in the sector as a result of the pre-election chaos, one of the primary objectives of the new policy is the establishment of a coordinated approach to the provision of housing and related amenities, as well as a clear definition and development of insritutional responsibilities.

Presently, governmental powers and functions in the housing field are spread throughout 5 ministries and 21 agencies of the GOJ. In order to coordinate the inputs of these ministries and agencies, the establishment of a Housing Coordinating Committee has been proposed. The Committee will be chaired by the Minister of Construction and will include representatives of the principal agencies in the sector. The primary functions of the Coordinating Committee will be:

- o the resolution of major supply bottlenecks;
- o the approval of housing plans;
- o coordination of the flow of funds within the sector; and
- o the integration of housing plans and projects within the national economic development plan.

The Coordinating Committee will be supported by a Housing Policy Secretariat attached to the MOC(H). The primary purpose of the Secretariat will be to develop a three-year rolling National Housing Plan by adding projections for an additional year and revising previous projections based on actual performance. If realistic, such a plan should become a major vehicle in the coordination of activities and funds in the sector. Presently, only rough estimates of housing needs and effective demand exist. In addition, total capacity of the public and private sectors to meet this demand, as well as the quantity of funds available, are unknown from one year to the next.

Under the recently issued Public Sector Housing Finance Framework, the definition of insritutional responsibilities has also been clarified. The major roles of the institutions involved in the present project are summarized in section V, Financial Analysis.

B. JAMAICA MORTGAGE BANK

The official Borrower is the Jamaica Mortgage Bank, a wholly owned government financial institution which was established in 1971 and commenced operation in 1972. It provides the housing sector with long and short term housing finance, secondary mortgages, and insures home mortgage loans. The JMB has made a significant contribution to the transformation of mortgage practices in Jamaica, especially regarding lending for middle income housing

units by a number of institutions and acceptance of the principle of complete amortization of a home mortgage loan through regular monthly payments of principal and interest over a long period of time.

o The Secondary Market Operations

The Secondary Market Operations of the Bank represented one of its major activity. As of December 31, 1980, the JMB had a total major activity. As of December 31, 1980, the JMB had a total portfolio of J\$7.5 million. However, in the past two years, secondary market operations have fallen off drastically. These operations are now due to be revived under the new policy.

o Primary Market Operations

The JMB has assisted in supplying long term funds through funds mobilized from USAID, CDB, JNIC, etc. Its portfolio (as of December 1980) of long term mortgage commitments was of J\$98.8 million covering 8,339 units. However, under the new system, a portion of these loans will be sold off and JMB will cease to lend in the primary market.

o Mortgage Insurance Operations

Some 6,636 policies have been issued since June 1973 for J\$61.5 million out of some 9,445 for J\$87.9 million. In 1973, the JMB also inherited 7,574 policies for J\$33.9 million from the JDB. These mortgage insurance operations have had the effect of lengthening the repayment period and reducing down payments, thus making housing more affordable to low income groups.

Up to 1978, the JMB was a viable financial institution. Since then, it has been running at a loss due primarily to the devaluation of the Jamaican dollar. However, as seen in the introduction to this section, the GOJ has made a firm commitment to upgrade the JMB to a central role in the sector. The GOJ not only plans to inject J\$10 million into the institution in 1983/84, but it is also assuming JMB's substantial foreign exchange from former Euro-dollar loans.

In order to increase the supply of funds to the housing sector, the JMB will be authorized to issue Housing Bonds which will be tax free, interest bearing and will offer a priority entitlement to mortgage financing from the National Housing Trust. The bond will be marketed both locally and to Jamaicans residing overseas.

The JMB will concentrate its lending activities in secondary market operations and wholesale marketing of funds with special emphasis on facilitating the increased provision of mortgages to lower income groups. It will deploy funds raised locally and overseas to the Ministry of Finance and to CHFC to support the housing construction activities of the Ministry of Construction and will, if required, provide funds to the National Housing Trust to meet repayment obligations to its contributors. Present financial projections of JMB on the restructured basis show it moving from a loss position in of J\$3.8 million in 1981 to a profit position of J\$3.1 million in 1984/85.

C. MINISTRY OF CONSTRUCTION (HOUSING)

Subsequent to the authorization of HG-010, the Ministry of Housing and the Ministry of Public Works were combined into a new Ministry of Construction. Organizationally, the Ministry is still composed of its two parts, each with a permanent secretary. In the past, the public housing sector of the MOC(H) has perceived its role as being the public sector institution responsible for the development, management, and control of the housing sector in Jamaica. It has been the major actor in the provision of shelter to low income groups in urban areas. From 1971 until 1978, inclusive, the MOC(H) experienced a sharp growth in its activities from 895 to 2,676 units/year. During the same period, the number of units completed by the public sector increased from 1,173 to 4,913 units/year. However, a drastic decline in the housing sector as a whole was experienced in the last three years. Housing built by the MOC(H) during this period fell to 1,131 units in 1979, 601 in 1980, and only 62 during the first 6 months of 1981. (See Annex F for a detailed description of MOC(H) programs and operations.)

Due to pre-election violence and rapid increase in construction costs, the MOC(H) has also experienced massive cost overruns averaging 37 percent for Housing Fund projects (see Table 5, Annex F). In its role of developer, manager, and long-term financier of public housing, it has also heavily subsidized its projects in various ways; i.e., through planning and administration costs, below market value of land prices, little or no down payment, and below market interest rates. Perhaps the largest hidden subsidy, however, is the large-scale arrears in its programs: owner-occupier schemes -- 80 percent of allottees in arrears three months or more, sales schemes -- 65 percent, and rental schemes -- 94 percent (as of March 31, 1981).

In keeping with the principle of cost recovery enunciated in the Housing Policy, the MOC(H) plans to institute the following measures:

- o Rationalization (i.e., updating, selling off or writing off) the existing mortgage portfolio and transferring it where appropriate to the CHFC.
- o Transfer of the mortgage financing function to the CHFC and/or suitable private sector institutions.
- o Modernization of accounting procedures and the collection system for the remaining portfolios.
- o Development of a public education program as to the responsibility of mortgagors in meeting financial obligations.

The review and rationalization of the MOC(H)'s existing portfolio will be undertaken by a high level Jamaican Task Force assisted by an international advisor. The Task Force and advisor have already been nominated and are beginning their work on the marketing and collections of the World Bank and USAID schemes, concurrently.

Regarding the traditional planning and development roles of the MOC(H), the former Planning and Development Division has been transferred out of the Ministry to EDCO. It is planned that the actual development of new housing projects, and squatter upgrading schemes including all infrastructure work will be undertaken by the SIHL and the EDCO, respectively. Thus, the Ministry proper will be left with the primary functions of:

- o housing policy and plan formulation;
- o land acquisition and estate management; and
- o community development and organization.

Although several staff vacancies and the inexperience of new employees have left these functions in a weakened state, the Ministry is presently rebuilding these divisions. Grant-financed technical assistance placed in the Ministry will assist this process along with the long-term operations of the recently constituted Task Force.

1. Estates Development Company (EDCO):

The EDCO will have full responsibility for all infrastructure work on the squatter upgrading component of this project. The Estates Development Division is the new name for the former Sites and Services Division (SSD), and several key staff members of the SSD have remained with the EDCO. In addition, a new director, the former city engineer for the Kingston-St. Andrew Parishes, was appointed in early 1982. The director has taken definitive steps in rebuilding the organization. There are essentially two major sections: Contracts Administration and Operations Management. Under the former, there are a Deputy Manager and three cost estimators. The Operations Management Division, however, contains the core function of the EDCO. It is composed of a Deputy Manager, four construction managers, each having four teams composed of a site manager, construction inspector, and a clerk-of-works. The Deputy Director supervises the finance, accounting, salary and personnel sections. These teams will be able to supervise an island-wide squatter upgrading program, each concentrating on certain areas. In addition, there are minor sub-sections for Materials Supervision and Self-Help.

In order to better equip the Division to handle squatter upgrading operations in this and future projects, the Director is proposing to hire several draftsmen, quantity surveyors, and land surveyors. The Division will, therefore, be equipped to do its own planning, design, estimating, and surveying. However, since the Division is no longer treated as a "Special Division" of the Ministry, it will have problems recruiting the necessary staff due to lower pay scales. This matter has been brought to the attention of the Minister of Construction and the Parliamentary Secretary for resolution.

In preparation for the execution of its portion of this project, the EDCO has already selected several squatter settlements for upgrading while bringing to completion the HG-010 schemes. In undertaking the HG-011 schemes, EDCO is taking a "fast-track" approach, i.e., merely doing basic drawings before tendering to qualified local contractors. Works are also carried out at far lower

standards than those under HG-010. This procedure will, therefore, lend itself to rapid implementation and improved affordability by client households. However, increased control mechanisms may be required.

2. Sugar Industry Housing, Ltd. (SIHL)

As mentioned in Section II, the SIHL is responsible for the housing needs of sugar workers. It built new schemes, houses on individually owned plots and extended home improvement loans. Due to a lack of funds, its activities decreased in 1980/81. However, it remained endowed with a good managerial and technical staff. Due to this excess capacity, it was charged by the Minister of Construction to complete 3,288 core houses on two World Bank Sites and Services Schemes: Hunts Bay in Kingston and Catherine Hall in Montego Bay. It has, therefore, established a Sites and Services Division which is in charge of construction management on the two sites. In addition to this Division, the SIHL contains a small Technical (Engineering) Division, a Legal Division, and a Registry Division. It is, therefore, fully capable of executing either new sites and services and/or core housing schemes.

By September 1982, when the World Bank schemes will be essentially completed, the SIHL will have substantial excess capacity. It is largely for this reason that MOC(H) views the SIHL as continuing to implement MOC(H) new schemes. SIHL remains formally under the Ministry of Agriculture, but recently it has been reporting to the MOC(H) on the sites and services projects. Moves are being considered, however, to transfer it to MOC(H) to facilitate the major role it is earmarked to play in future construction. Since construction on the World Bank projects is completed at Hunts Bay and about complete at Catherine Hall, it is felt that SIHL will have more than adequate capacity to execute the new schemes to be selected under Phase II (see Section III, Technical Analysis for details).

D. NATIONAL HOUSING TRUST (NHT)

Based on the concept of a joint employer/employee tax fund for housing the NHT was established in 1976. Since inception to December 31, 1980 contributions from employers and employees have amounted to J\$247.6 million

TABLE III-I
EXPENDITURE ON NEW HOUSING UNITS BY AGENCY
APRIL 1977 — DECEMBER 1980
(\$M)

<u>AGENCY</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>
Building Societies	3.4	4.4	4.2
Jamaica Mortgage Bank	41.7	15.4	7.3
Government of Jamaica	39.7	41.6	25.0
Private (Non-NHT)	<u>34.6</u>	<u>39.6</u>	<u>35.0</u>
Subtotal	118.4	101.0	71.5
National Housing Trust	35.9	52.7	60.0
Total	<u>154.3</u>	<u>153.7</u>	<u>131.5</u>
NHT's Share	23.0	34.3	45.6

SOURCE: Economic and Social Survey, National Planning Agency, Project Appraisal and Lending Section -- NHT.

TABLE III-2
AWARDS BY INCOME GROUPS AND BENEFIT TYPES
1976 - 1981

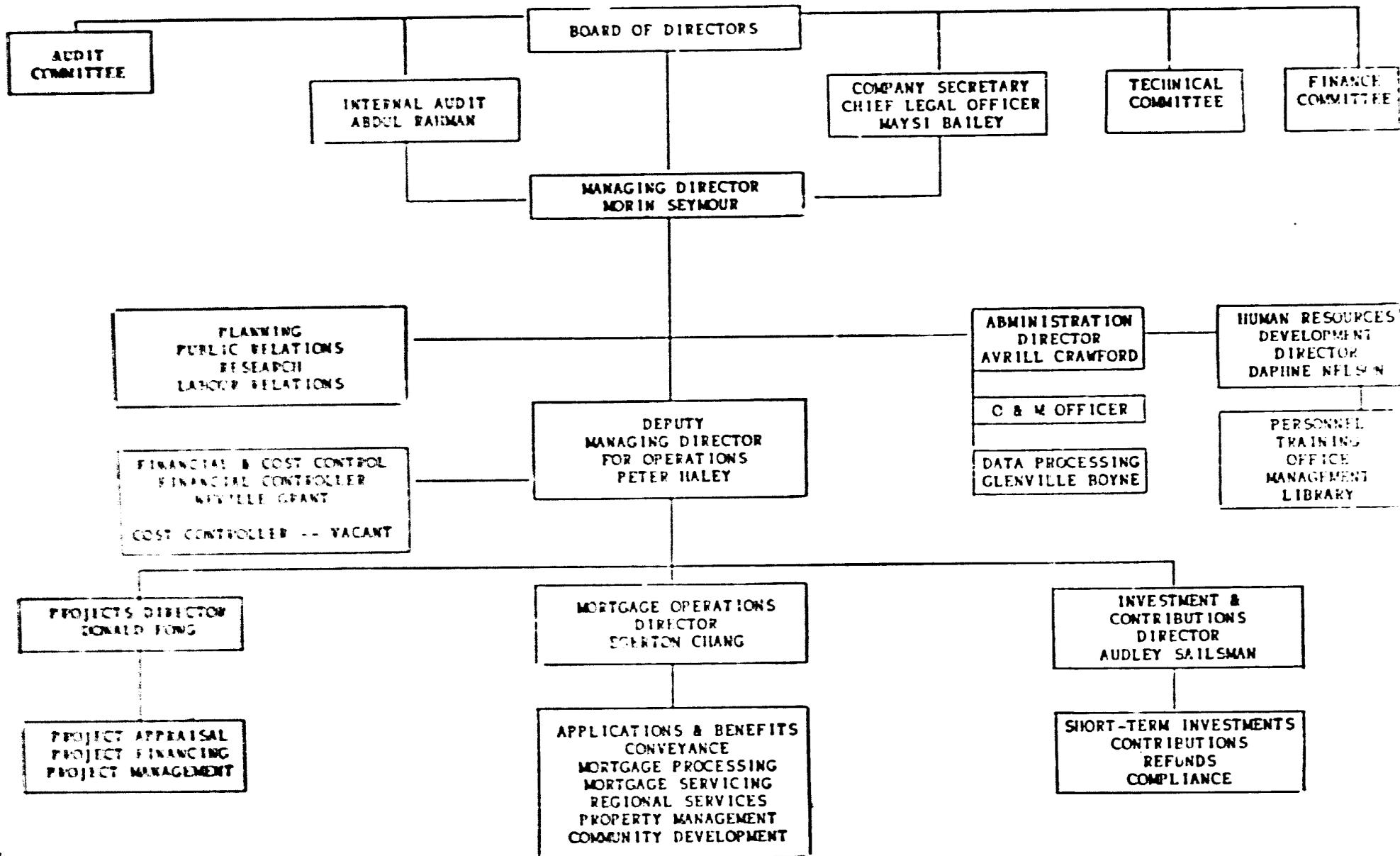
<u>INCOME GROUPS</u>	<u>BOL</u>	<u>BENEFIT TYPES</u>		<u>SCHEMES</u>	<u>TOTALS</u>	<u>PERCENT</u>
		<u>OM</u>	<u>HI</u>			
Under \$60.00	2,521	667	3,202	2,848	9,238	51.3
\$60 - \$119	1,818	199	1,153	2,938	6,106	33.9
\$120 - \$199	594	49	175	1,390	2,208	12.3
\$200 and over	126	15	17	294	452	2.5
Totals	5,059	930	4,547	7,468	18,004	100.0

SOURCE: Research Department, NHT, 4/27/82.

In addition to being the principal source of concessionary funds in the sector, the NHT is presently a well-managed institution. Chart I shows its newly reorganized structure. The chart reflects the NHT's increasing concern with allocation of benefits and mortgage servicing. These functions, along with regional services, property management, and community development, have recently been grouped under one division, Mortgage Operations, with a new Director. This division will be in charge of resolving one of NHT's persistent problems, that of mortgage arrears. Table III-3 shows the status of arrears by program as of February 1982.

NATIONAL HOUSING TRUST
 PROPOSED ORGANIZATION CHART

APRIL 1982



-15A-

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TABLE III-3
NHT ARREARS BY PROGRAM
(J DOLLARS)

	<u>Program</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Percent Over 7 Months</u>
1.	New Schemes	2,418,044	58.0	41.6
2.	Build on own Land	660,851	15.3	13.6
3.	Home Improvement	1,014,173	24.3	22.5
4.	Open Market	<u>103,242</u>	2.4	1.8
	Total	4,196,310	24.7	20.4

The NHT has already taken action to reduce these arrears, most of which are a carry-over from pre-election days. For example, all new loans are now put on a salary deduction basis. While this system presently covers approximately 10 percent of total accounts, legal opinion recently received states that the National Housing Act allows NHT to deduct from salaries without the permission of the employee. Thus, the NHT plans to put as many as possible of its accounts on a salary deduction basis. To this end, and to reduce arrears further, the Mortgage Operations Division is expanding its collections staff from 4 to 12 employees, 7 of whom will be in the Parish Branch Office. (The NHT has a regional presence in the island with 12 branch offices divided into East and West Regions, 8 of which contain technical officers.)

E. CARIBBEAN HOUSING FINANCE CORP. (CHFC)

Under the recently approved Public Sector Housing Finance Framework, the CHFC has been designated a more prominent role in the sector than it has been fulfilling in the past. Up to now, the CHFC has been primarily a mortgage servicing organization for mortgages financed by the JMB (approximately J\$78 million now in its portfolio). While it is presently 50 percent owned by the JMB and 50 percent by the Commonwealth Development Corp. (CDC), plans are for the GOJ to purchase at least half of the CDC shares thus making the CHFC a majority owned government corporation.

In addition, to JMB's mortgage portfolio for which it does the credit checks and originating, the CHFC carries approximately J\$9.7 million of mortgages in its own portfolio. As of June 30, 1982 mortgage arrears three months and over were slightly less than J\$60,000 or about .62 of one percent. On JMB's portfolio at total of J\$897,675 or 1.14 percent were in arrears more than three months as of 6/30/82. Thus, it can be said that the CHFC has been performing its primary function quite efficiently.

Its fee for mortgage servicing has been one percent in the declining principal balance. However, as many of mortgages it presently services are quite mature, it is planning to change its fee structure to a fixed sum per account per month. Further, many of the CHFC's mortgages are either variable rate or graduated payment mortgages (GPM's). In 1978 in order to sell a project, the CHFC went to a GPM in which payments increase from 5 to 12.5 percent per year for the first ten years of the mortgages. However, for low income families CHFC officials believe a flat amount increase per year would work better since it is more predictable.

Under the new housing finance framework, the CHFC would have two major additional functions:

1. It would be the major primary mortgage lender for low income families not able to obtain financing from the NHT.
2. It would gradually take over the existing, serviceable mortgage portfolio of the Ministry of Construction.

In order to carry out these additional responsibilities CHFC officials feel the staff would have to be increased from the present 39 to approximately 54 as follows:

	<u>Present</u>	<u>Future</u>
1. Mortgage Administration Department	5	9
2. Data Processing	3	5
3. Accounting Department	6	9
4. Arrears Department	8	11
5. Collections Department	8	10
6. Registry	3	4
Property Department	3	3
7. General Manager's Office	<u>3</u>	<u>3</u>
	39	54

Mortgage servicing would still primarily be through commercial bank transfers and the procedure for collecting data payments (beginning with a late payment letter at two months and ending with auction of the house after about six months) would remain unchanged. However, due to the lower income of the clientele, an expanded community education process in conjunction with the Community Development Department of the MOC(H) will be necessary.

F. JAMAICA COOPERATIVE CREDIT UNION LEAGUE (JCCUL) AND CREDIT UNIONS

The JCCUL, briefly described in Section II.B2.d., is the first level implementing agent for of the home improvement program of HG-010. HG funds for this program are on-loaned to the JCCUL who in turn on-lends to individual

credit unions. The credit unions lend to the ultimate borrowers at 12 percent. As a service to its members, the JCCUL agreed to guarantee repayment to the JMB (the Phase I Borrower).

The JCCUL is a private institution and sees itself as responsive to its membership. It does not, however, necessarily interpret its role as providing special assistance to low income rural residents. It does want to promote new members (this was one of the objectives of HG-010 but also wants to retain its independence from Government.

The League currently has 25 employees, professional and administrative. This includes managers of the following functions: mortgages, finance and property, training, and field services. In late 1979, the League assigned two of its senior staff and several other employees to work with the home improvement program on a part-time basis. They are responsible for administering and promoting the program. Overall the JCCUL performs a number of functions for the program: promotion, monitoring, administration, collection, and advisory for the guaranty. For the most part it has performed successfully, receiving a 3/8 percent fee for these services.

With regard to the credit unions, none of them has extensive staff and most are stretched a bit thin relative to the home improvement program. It had been assumed that the \$2.5 million in HG Phase I funding for this program would not only satisfy demand but would also generate sufficient income to cover costs. The most recent review indicated that some of the smaller credit unions do not have the capacity to manage additional funds economically and effectively. Nor does their one percent spread give them the resources necessary to improve administration sufficiently. (The credit unions generally get a 4 to 6 percent spread on their other activities, paying 6 to 8 percent for savings.) Although procedures at the credit unions are generally good, poor performance in some of the credit unions cited has resulted from poor management and finance practices.

Simply increasing the availability of loan funds to the credit unions would only aggravate the problems. The JCCUL will, in the remainder of HG-010 and in HG-011, apply more stringent criteria to credit unions applying for loans to ensure that they have the capacity to handle them. It will, at the same time and in conjunction with AID, have to step up its training and advisory services to individual credit unions.

III. TECHNICAL ANALYSIS

A. Squatter Settlements Improvement

This sub-project builds on and expands the successful upgrading experience gained under Phase I and the minimum improvement fast-track concept recently instituted by the Estate Development Division (EDCO) of the MOC(H). Initially, all selected upgrading areas would be provided with a minimum improvement package including secure land tenure, purchase of presently occupied sites from either private ownership or GOJ ministries, and rationalization of the existing plot layout pattern. The rationalization of the existing plot configuration is a prerequisite to the establishment of tenure and to any subsequent incremental improvement in public services.

Rationalization or legalization/regularization of the selected upgrading areas would include the legal requisites and surveys required for individual plot purchases from either the GOJ or private owners; the actual plot purchase by the sub-project's beneficiaries; and the regularization of the existing site layout. This regularization program would include the following components:

1. a more equitable distribution of the total residential area between existing residents;
2. a pegging of the new plot boundaries;
3. road/footpath alignment and reservation to provide minimum access to and circulation within the area;
4. set back or relocation of plot fences in accordance with road reservations and new property lines;
5. removal and reconstruction of dwelling units presently located within road reservations or on a neighbor's property;
6. relocation of any public services or other obstructions located within road reservations.

In addition, the sub-project would offer the option to extend basic urban services, such as roads, storm drainage, water supply and sewerage, either separately or in combination, to the selected upgrading areas. It is expected that most of these basic services would not be implemented at the same time in every settlement because of affordability constraints and/or the resident's perceived priorities exclude the simultaneous acquisition of all basic services, or because the settlement has already been supplied with one or more of the services.

The proposed Phase II Squatter Improvement program would upgrade approximately 6,000 plots which, in terms of HG-010 experience, would equal approximately 24 sites at 250 plots per site. However, it is expected that the number of plots per site will vary from as low as 50 to as high as 500. Assuming a final allocation of roughly one household per plot (which is certainly not the

case before regularization), the sub-project would benefit approximately 30,000 persons (5 persons per household).

As a guide to more detailed project design and as an indication of the type of infrastructure options which could be combined with the minimum legalization/regularization package, the following table presents various illustrative alternatives, including their July 1983 costs. Section V, Social Analysis, analyzes the affordability of the upgrading options:

<u>UPGRADING OPTIONS</u>	ESTIMATED JULY 1983 COST (J\$)
<u>OPTION 1</u>	
Minimum upgrading package--legalization/ regularization (including land purchase)	3,165 (US\$1,772)
<u>OPTION 2</u>	
Option 1 plus improved road network (9' base course, minimum surfaced 10' average roadway, no curbs or sidewalks)	4,255 (US\$2,383)
<u>OPTION 3</u>	
Option 2 plus 100mm P.V.C. water distri- bution network with standpipes serving 30 families each	5,190 (US\$2,906)
<u>OPTION 4</u>	
Option 2 plus 100mm P.V.C. water distri- bution system with individual lateral connection	5,520 (US\$3,091)
<u>OPTION 5</u>	
Option 2 plus open, lined storm drain, one side of roadway (assume drain 3'0" x 2'6" deep)	5,660 (US\$3,170)
<u>OPTION 6</u>	
Option 4 plus open, lined storm drain	6,925 (US\$3,078)
<u>OPTION 7</u>	
Fully serviced site (Option 6 plus 200mm P.V.C. sewerage collection network with individual lateral connection; cost does not include required off-site works such as treatment plants, ponds nor collection pipes)	8,465 (US\$4,740)

B. New Scheme Development

Increasing the efficiency and supply of serviced land and/or the provision of basic shelter units has become a central element of the MOC(H)'s new housing policy. The new scheme sub-project would provide approximately 2,000 solutions located in Kingston and St. Andrew and other major urban centers (Montego Bay, Maypen, Mandeville, Negril, etc.). In addition to a mix of basic core houses to be developed in stages for lower income families, each project area could include larger serviced plots for rapid sale to households at or near the national urban median. A range of unit types and prices will be offered depending on local conditions and effective demand. The following table presents a mix of new housing solutions which could serve as a guide during final HG-011 project design. In addition, Sugar Industries Housing Limited (SIHL), is presently working on a lower cost modification to its Hunts Bay shell unit which should also be examined for its applicability to HG-011 new scheme development.

<u>NEW SCHEME MIX</u>	ESTIMATED JULY 1983 COSTS (J\$)
<u>OPTION 1</u>	
5,000 ft ² fully serviced plot including land purchase	12,745 (US\$ 7,137)
<u>OPTION 2</u>	
2,000 ft ² serviced plot with partially completed 300 ft ² core with habitable bedroom and bathroom	20,025 (US\$11,214)
<u>OPTION 3</u>	
3,000 ft ² serviced plot with partially completed 530 ft ² duplex (divided by shared party wall) unit with habitable bedroom and bathroom	24,345 (US\$13,633)

As will be seen in the affordability section, it is suggested that all new scheme beneficiaries be required to pay a 10 percent downpayment of total plot development capital costs.

In discussions with professionals of MOC(H)'s Implementation Division and the Human Settlements Division of the National Development Agency (NDA), approximately 900 plots on six sites were identified as already in the MOC(H) pipeline. All sites are located on GOJ-owned land and vary in development from the planning stage through completion of civil works. Early analysis and approval of these sites for USAID financing under HG 011 could lead to accelerated project implementation and rapid disbursement of loan funds.

C. Owner-Occupier Houses

The MOC(H) owner-occupier program, as well as similar programs at the NHT and the SIHL, provide landowners who possess clear title to their property with a housing unit at a cost which includes materials, labor (usually through use of a small contractor), and transportation of the unit to the individual scattered sites. The MOC(H) program uses a post and panel, prefabricated system for its units, while the other programs rely mainly on block and steel methods. The overall program has proved very popular over the past ten years; however, combined production of the various programs has never exceeded 700-800 units annually.

Table III-1 clearly points out the decline in the MOC(H) owner-occupier program over the past several years. For 1980-81, production and sale of owner-occupier units came almost to a standstill. This drastic reduction was due primarily to political turmoil, economic recession and production problems at the prefabricating plants. The main plant on Marcus Garvey Drive in Kingston was/is plagued by old and poorly maintained equipment, periodic shortages of materials, and labor problems. The Cuba-Jamaica plant, located in Falmouth, was closed in 1980.

Due to space limitations and the inability to control theft and vandalism, current MOC(H) thinking appears to favor sale of existing inventory and closure of the Marcus Garvey Drive plant. The MOC(H) is presently trying to line up financing to purchase three new US\$0.96 million Italian prefabrication plants which would be able to produce 2,000 units per year each. The plants would be strategically located in the MOC(H)'s three island-wide regions. Plans have also been discussed to revive the production activities of the Falmouth plant in order to supply north coast needs.

USAID is very interested in supporting the MOC(H) in its efforts to revive this most worthwhile program. However, fears persist as to the MOC(H)'s actual production and implementation (tenure verification, sales and erection) capabilities in this area over the next 2-3 years. Before the new prefabrication plants come on-line, it is possible that owner-occupier units will have to be constructed by block and steel and/or on-site prefabrication methods. It is of special concern to USAID what negative affects this short-term supply constraint will have on the local small-scale contractors and building materials industry. It is imperative that the new MOC(H) prefabrication plants be operational by the end of 1983. In the meantime, based on past experience with similar programs and on projected excess capacity, both the SIHL and the NHT most likely will have to assist the MOC(H) in the initial implementation stages of the Phase II owner-occupier program. Furthermore, existing SIHL and NHT units offered for sale in this program area must be thoroughly examined to ensure that they are targeted to appropriate income groups.

The MOC(H) has expressed interest in producing two owner-occupier models which have proved most popular in the past. Since very few prefabricated units have been produced, and fewer yet sold, over the past several years, cost estimates supplied by the MOC(H) are probably low. Present cost

TABLE III-1
OWNER/OCCUPIER SCHEME APPROVALS
1973 - 1981

Year	No. of Applications Received	No. of Applications Sent to Legal	No. of Applications Sent for Investigation	No. of Applications Approved		No. of Units Requisitioned	No. of Units Sent Out	Backlog	Amt. of Loan Granted (\$)
				Houses	Loans				
1973/74	1,785	1,988	1,988	232	110	232	187	45	49,002.10
1974/75	1,339	1,339	1,339	413	99	338	295	118	71,370.35
1975/76	1,369	1,369	1,369	322	80	271	351	-29	77,808.70
1976/77	1,400	1,400	1,194	286	78	360	334	-48	140,150.10
1977/78	1,205	1,205	852	204	78	203	178	26	162,495.50
1978/79	1,102	1,102	751	211	99	206	114	97	160,273.80
1979/80	956	956	588	161	154	122	31	130	328,766.40
1980/81	471	471	327	52	64	48	12	40	174,947.00
TOTAL	9,627	9,830	8,408	1,881	762	1,780	1,502	379	2,608,813.95

SOURCE: NOC(H) -- Legal Section
 -- Estate Management Division
 -- Stores

figures are based on questionable updates of past figures, and it is also unclear whether labor costs at the plant are included in total costs to be recovered from the beneficiary. Phase II proposes to finance approximately 1,000 MOC(H) owner-occupier units. While new cost estimates are certainly called for as part of continuing project design, the following table, based on existing cost information, provides an illustration of possible types of owner-occupier units which could be produced as part of this sub-project and, in turn, serves as the basis for a preliminary affordability analysis.

<u>OWNER-OCCUPIER OPTIONS</u>	ESTIMATED JULY 1983 COSTS (J\$)
<u>OPTION 1</u>	
Model 542/A: 306 ft ² unit with three rooms and porch, absorption pit (no electrical installation).	6,476 (US\$3,627)
<u>OPTION 2</u>	
Model 542/B: 542/A with septic tank	6,823 (US\$3,821)
<u>OPTION 3</u>	
Model 604/A: 440 ft ² unit with two bedrooms, living room, bathroom, kitchen, porch, absorption pit (no electrical installation)	13,343 (US\$7,472)
<u>OPTION 4</u>	
Model 604/B: Model 604/A with septic tank	13,690 (US\$7,666)

IV. SOCIAL ANALYSIS

A. Target Groups and Affordability Analysis of Sub-Projects

HG-011's four sub-projects are targetted at those families whose incomes fall at or below the national median income which is estimated to range between J\$6,760 (US\$3,800) and J\$8,165 (US\$4,590) (See Income Analysis section). Specifically, the following sections examine the affordability of the alternative components of the physical sub-projects which were described and costed in the Technical Analysis section. It is assumed that all sub-project costs (including land) will be directly recovered from the beneficiary.

1. Squatter Settlement Improvement

The affordability analysis for the seven previously-presented Squatter Settlement Improvement options is initially undertaken on the basis of the lower limit of median income (Department of Statistics "Employed Labor Force") and two illustrative beneficiary financial packages. A third analysis based on the income distribution for a sample survey of squatter settlement residents (thought to be most representative of the target populations in this case) was also undertaken. (See Table IV-1 for a summary of this analysis.)

It is readily apparent from the table that all squatter improvement options are affordable at or below the median household income. This is true even for a level payment mortgage of zero percent downpayment at 12 percent interest for 25 years with the assumption that a family will spend 15 percent of income to improve its living area. In an attempt to make the upgrading sub-project more affordable to target households, a graduated mortgage repayment schedule based on 12 percent for 25 years, with the initial monthly payment increasing at 7.5 percent per year for 15 years was tested. The results show that the most expensive option (a fully serviced plot) can serve down to the 29th percentile. In a final attempt to better approximate the purchasing power of the target population for squatter settlement improvement, affordability of the seven options was checked using the income distribution for the sample survey of squatter settlement residents in combination with the previously-described GPM financing terms assuming a household will spend one week's income (23 percent) to pay for squatter settlement improvements. Once again the results are very encouraging; the most costly option is affordable down to the 20th percentile, with the least costly down to the 3rd percentile.

2. New Scheme Development

Table V-2 summarizes the affordability of the three new scheme options on the basis of the upper limit of the median income (the NHT income distribution of its contributor population was believed most representative of the target population in this case) and two alternative financing plans. The table shows very clearly that the recently expressed concerns of MOC(H) officials with respect to meeting USAID's affordability criteria were valid, i.e., using a straight level repayment plan, it is practically impossible to provide a serviced plot with any kind of minimal housing core to households below the median. This situation is improved greatly by introduction of a graduated monthly payment

mechanism). Based on the same terms as in the previous exercise (12 percent, 25 years increasing at 7.5 percent for 15 years), the affordability threshold for the two options which include a partially completed core house can be lowered to serve the 31st and 42nd percentiles, respectively.

3. Owner-Occupier Houses

Based on summary Table IV-3, all four MOC(H) owner-occupier options are affordable at or below the 50th percentile of the Department of Statistics "Employed Labor Force" income distribution (lower limit of national median income range). This level of affordability assumes a 5 percent down payment in the case of options 3 and 4 (MOC(H) models 604/A and B) and one week's household income available for purchase of a prefabricated unit). Use of the same GPM financing plan lowers the threshold of affordability of the most expensive unit to the 28th percentile.

TABLE IV-1
 AFFORDABILITY ANALYSIS FOR PROPOSED HG-011 SQUATTER IMPROVEMENT SCHEMES
 JULY 1983

DESCRIPTION OF HOUSING SOLUTION	UNIT COST RECOVERABLE FROM BENEFICIARY (J\$)	MONTHLY PAYMENT FOR ALTERNATIVE FINANCING PLANS (J\$)	
		LEVEL PAYMENT 6, 8 & 10 % for 30 yrs.	TARGET GROUP REACHED ⁴ (Assuming one week's income for housing)
1. SQUATTER IMPROVEMENT			
-- <u>OPTION 1:</u>			
LEGALIZATION/REGULARIZATION (incl. land purchase)	3,165	19	3rd
-- <u>OPTION 2:</u>			
OPTION 1 plus improved roads ²	4,255	31	5th
-- <u>OPTION 3:</u>			
OPTION 2 plus stand-pipes serving roughly 30 families each ²	5,190	38	7th
-- <u>OPTION 4:</u>			
OPTION 2 plus individual plot water connection ²	5,520	41	8th
-- <u>OPTION 5:</u>			
OPTION 2 plus lined, open storm drains ²	5,660	42	8th
-- <u>OPTION 6:</u>			
OPTION 4 plus lined, open storm drains ³	6,925	61	18th
-- <u>OPTION 7:</u>			
OPTION 6 plus individual connection to water borne sewerage (fully serviced plot) ³	8,465	74	24th

¹ 6% for 30 years

² 8% for 30 years

³ 10% for 30 years

⁴ According to Department of Statistics, Employed Labor Force Income Distribution.

TABLE IV-2

AFFORDABILITY ANALYSIS FOR PROPOSED HQ-011 NEW SCHEME DEVELOPMENT SUB-PROJECT

JULY 1983

DESCRIPTION OF HOUSING SOLUTION	UNIT COST RECOVERABLE FROM BENEFICIARY ¹ (J\$)	MONTHLY PAYMENT FOR ALTERNATIVE FINANCING PLAN (J\$)	
		LEVEL PAYMENT 10% (J\$)/ 30 yrs.	TARGET GROUP REACHED (%) ² (Assuming one week's income i.e., 23% for housing)
2. <u>NEW SCHEME DEVELOPMENT</u>			
-- <u>OPTION 1:</u>			
Serviced Site (incl. land purchase)	11,470	100	25th
-- <u>OPTION 2:</u>			
OPTION 1 plus partially completed 300 ft. ² starter unit	18,025	158	50th
-- <u>OPTION 3:</u>			
OPTION 1 plus 1/2 of partially completed 1,060 ft. ² duplex unit	21,910	192	41st

¹ Assumes 10 percent down payment for three options.

² According to income distribution of NHT contributors.

o All curies notes of 33 1/3 %

TABLE IV-3

AFFORDABILITY ANALYSIS FOR PROPOSED HG-011 OWNER-OCCUPIER PREFABRICATED HOME SUB-PROJECT
 JULY 1983

DESCRIPTION OF HOUSING SOLUTION	UNIT COST RECOVERABLE FROM BENEFICIARY (J\$)	MONTHLY PAYMENT FOR ALTERNATIVE FINANCING PLANS (J\$)	
		LEVEL PAYMENT 10% - 30 yrs.	TARGET GROUP REACHED (%) ² (Assuming one week's income for housing)
<u>OWNER-OCCUPIER PRE-FABRICATED HOME</u>			
-- <u>OPTION 1:</u>			
Model 542/a: Three rooms with verandah, absorption pit (no electrical installation)	6,476	57	16th
-- <u>OPTION 2:</u>			
OPTION 1 with septic tank	6,823	60	17th
-- <u>OPTION 3:</u>			
MODEL 604/a: Two bedrooms, living room, bathroom, kitchen, porch, absorption pit (no electrical installation) ¹	12,676	111	42nd
-- <u>OPTION 4:</u>			
OPTION 3 with septic tank ¹	13,000	114	43rd

¹ Assumes 5% down payment.

² According to Department of Statistics, Employed Labor Force, Income Distribution.

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V. FINANCIAL ANALYSIS

A. Institutional Framework

Financing for public sector housing projects in Jamaica has been channelled primarily through three agencies namely:

- (1) National Housing Trust - (Wage related contributions of employers and employees)
- (2) Jamaica Mortgage Bank - (Institutional loans and funds derived from secondary market operations)
- (3) Ministry of Construction - (Director budget allocations and loans from international institutions)

The operations of these agencies have suffered from a lack of co-ordination and the absence of clearly defined institutional roles. The National Housing Trust which ought to be the principal supplier of mortgage financing for public sector housing has also been engaged in performing the role of a developer. The Jamaica Mortgage Bank which ought to ensure a steady flow of funds to the housing sector through institutional loans and secondary market operations has been engaged in providing interim financing has been significantly reduced because of cost overruns incurred on its projects. Despite the excess liquidity prevailing in some financial institutions, the Jamaica Mortgage Bank has been unable to maintain a steady flow of funds to the housing sector because of its weak financial position arising from its primary mortgage and interim activities. The effectiveness of the Ministry of Construction as a developer is severely impaired because it carries large financial arrears on its mortgage accounts.

The absence of a coordinated approach to public sector housing finance has thus prevented the most efficient utilization of the funds which are available for housing investment. Rationalization of the housing finance system and clarification of institutional roles are essential if the housing sector is to achieve an adequate level of performance.

1. National Housing Trust:

It is obvious that the National Housing Trust cannot continue to operate on a financially viable basis if it continues to sustain the level of overruns which it has been incurring on its various projects. In addition, because of the method by which the National Housing Trust has operated, the award of benefits bears no relationship to the income distribution of its contributors. The random selection or "lottery" system by which beneficiaries are selected, while having the commendable objective of impartiality, leaves the award of benefits entirely to chance and accords no special consideration to such factors as the length of time one has been contributing to the Trust. It is theoretically possible, therefore, for someone to contribute to the Trust for all his working life without ever being able to receive a benefit because while the present system makes him eligible, it offers him no entitlement.

2. Jamaica Mortgage Bank:

The Jamaica Mortgage Bank was established for the primary purpose of maintaining a steady flow of funds to the housing sector through its secondary market and mortgage insurance operations. However, its secondary market activities have totally dried up over the last three years and its mortgage insurance operations steadily declined up to 1980 and showed only modest improvement in 1981. The following table illustrates the level and direction of the activities of the JMB between 1978 and 1981.

Jamaica Mortgage Bank
Market Transaction (1978 - 1981)

	1978	1979	1980	1981
Primary Market Distributions	\$17.2m	\$8.5m	\$9.4m	\$8.7m
Secondary Market Disbursements	.5	-	-	-
Mortgage Insurance	15.4	3.2	1.9	3.1

Up to 1978, the JMB was a viable financial institution. Since then, it has been operating at a loss and in its present state, is unable to adequately perform its role of supporting the housing sector by increasing the flow of funds.

3. Ministry of Construction:

The Ministry of Construction has been the major developer of public sector housing projects and procures financing through budgetary allocations, NHT disbursements and institutional loans. However, the Ministry has operated at a low level of efficiency due to the lack of proper construction management and the fact that the method by which it is funded does not permit proper planning and execution of projects. Funds derived from the budget and from institutional loans are used to develop projects and are converted to long-term mortgages. As a result, the Ministry is constantly decapitalized and must rely on the frequent injection of new funds in order to sustain its house construction programme. In addition, because it lacks an efficient cost-recovery mechanism, mortgage repayments are continuously in arrears. Approximately 75% of the repayments presently due to the Ministry are not being collected. In order to correct the foregoing situation and rationalize the roles and relationships of institutions financing public sector housing, the GOJ has recently announced a new Public Sector housing, the GOJ has recently announced a new Public Sector Housing Finance Framework. The institutional objectives and responsibilities in the sector can be summarized as follows:

B. Objectives

- (1) To convert the National Housing Trust into an exclusive mortgage financing and servicing institution to operate on a commercially viable basis in providing mortgages to its contributors.
- (2) To transform the Jamaica Mortgage Bank into a viable financial institution for the purposes of:
 - (a) mobilizing loan funds, locally and overseas, to finance housing development on a wholesale basis;
 - (b) providing secondary mortgages facilities;
 - (c) providing mortgage insurance.
- (3) To expand the Caribbean Housing Finance Corporation to service the existing mortgage portfolio of the Ministry of Construction and to provide mortgage financing to purchasers of houses built by the Ministry who are not financed by the National Housing Trust.
- (4) To expand the capacity of the Ministry of Construction to build houses by:
 - (a) ensuring an adequate flow of construction finance;
 - (b) developing adequate systems for the production of low-cost houses.

I. National Housing Trust

The National Housing Trust will cease to perform the role of a developer and will discontinue the practice of providing interim financing. It will continue, however, to promote its "Build on Own Land" programme in conjunction with Ministry of Construction as well as the informal sector.

In its lending policies, the NHT will:

- (a) provide mortgages to its contributors on a basis which reflects their income distribution
- (b) select beneficiaries on the basis of a Priority Entitlement Index
- (c) structure its mortgages interest rates on the following basis:
 - (i) 6% for eligible beneficiaries earning less than J\$100 per week
 - (ii) 8% for eligible beneficiaries earning between J\$100 and J\$200 per week

- (iii) 10% for eligible beneficiaries earning over J\$200 per week.
- (d) increase the age limit of beneficiaries to whom mortgages may be issued without a guarantor or a mortgage partner from 30 to 45 years
- (e) provide take-out mortgage commitments to private developers of approved projects
- (f) charge service fees only for closing and other costs for new houses which it is financing
- (g) provide take-out mortgage commitments to qualifying contributors.

2. Jamaica Mortgage Bank

In order to put the JMB on a sound financial basis to enable it to carry out the required functions, the GOJ is planning to provide a capital injection of \$10m in 1983/84. The following measures will be instituted:

- (i) capital injection by the GOJ of J\$10m in 1983/84
- (ii) capitalization of interest due and rescheduling of JNIC loan for J\$7¹/₂m.
- (iii) rescheduling of NHT loan of \$4m.
- (iv) increase in authorized capital.
- (v) assumption by the Government of foreign exchange losses arising from Euro-dollar loans.

In addition, the JMB will take steps to dispose of those primary mortgage assets not consistent with its objectives. By these measures, it is anticipated that its balance sheet should be positive within one year. The JMB will be designated the borrowing agency for all institutional loans (local and overseas) to the housing sector.

In order to increase the supply of funds to the housing sector, the JMB will be authorized to issue Housing Bonds which will be tax free, interest bearing and will offer a priority entitlement to mortgage financing from the National Housing Trust. The bond will be marketed both locally and to Jamaicans residing overseas.

The JMB will concentrate its lending activities in secondary market operations and wholesale marketing of funds with special emphasis on facilitating the increased provision of mortgages to lower income groups. It will deploy funds raised locally and overseas to the Ministry of Finance and to CHFC.

to support the housing construction activities of the Ministry of Construction and will, if required, provide funds to the National Housing Trust to meet repayment obligations to its contributors.

3. Caribbean Housing Finance Corporation

Caribbean Housing Finance Corporation will receive wholesale mortgage funds from the Jamaica Mortgage Bank with which it will provide mortgages to persons purchasing houses built by the Ministry of Construction who are not otherwise financed by the NHT. It will also use collections from its existing mortgage portfolio to provide new mortgages. In addition, it will service those mortgages now being held by the Ministry of Construction.

4. Ministry of Construction

The Ministry of Construction will function principally as a developer of low income housing which will be eligible for NHT and CHFC mortgage financing. It will discontinue its mortgage lending and servicing operations and will phase out its existing mortgages by gradual transfer to CHFC.

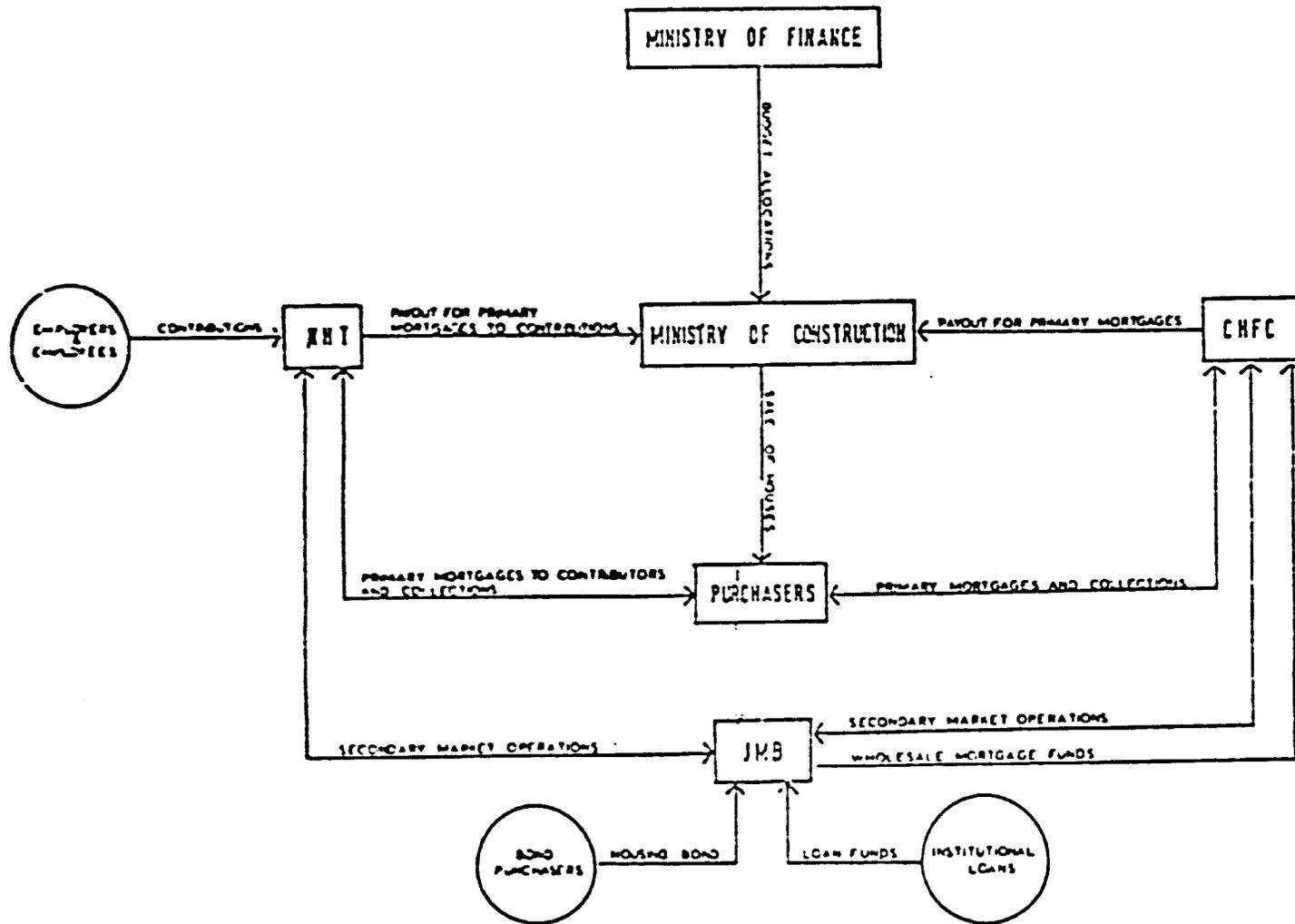
The Ministry of Construction will therefore concentrate on expanding its capacity to produce houses for the lower income groups efficiently and at reasonable prices.

The flow of funds within the public sector and the relationships between the various agencies are illustrated in the diagram on the next page.

C. Supply of Funds to Public Housing Sector

On the basis of the foregoing assumptions, the GOJ has made projections as to the level of funding which will be available to the public housing sectors for the period 1982 - 1985. It is projected that a total of \$510.4m will be available from the following sources:

FLOW CHART FOR PUBLIC SECTOR HOUSING FINANCE



LEGEND
 NHT: NATIONAL HOUSING TRUST
 JMB: JAMAICA MORTGAGE BANK
 CHFC: CARIBBEAN HOUSING FINANCE CORPORATION

<u>Source of Funds</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>Total</u>
NHT				
(a) Ordinary	80.0	85.0	110.0	275.0
(b) BOL	15.0	20.0	20.0	55.0
MOC				
(a) Budget allocations	30.0	30.0	30.0	90.0
(b) Recoveries	2.0	3.0	4.0	9.0
CHFC Surplus	3.1	3.9	2.9	9.9
JMB				
(a) Housing Bonds	5.0	7.5	10.0	22.5
(b) Equity	-	10.0	-	10.0
USAID/HG	<u>13.0</u>	<u>13.0</u>	<u>130.0</u>	<u>39.0</u>
Total	148.1	172.4	189.9	510.4

From the foregoing, it can be readily seen that:

- (1) the GOJ has taken major steps in rationalizing public sector housing finance,
- (2) a major increase of funds to the sector is planned, and
- (3) USAID HG loans are to be integrated with GOJ funds in the sector.

For the purposes of HG-011 (1982/83 and 1983/84) HG funds are to be combined with MOC(H) budget allocations (J\$60 million), CHFC surpluses (J\$7 million) and the GOJ equity capital injection into the JMB (J\$10 million). Thus, over the next two years a total of approximately J\$77 million will be blended with J\$267 million of HG funds. According to assertions by sector officials, GOJ funds will be made available at one percent. If the foregoing ratio of local to HG funds is maintained, the effective borrowing rate to the CHFC and the NHT should be 4.86 percent. This assumes HG funds are borrowed at 15 percent plus one percent margin for the JMB.

If program funds are on-lent to individuals at the now official categories of 6, 8 and 10 percent, given the present program mix, the effective on-lending rate should be in the neighborhood of 9 percent. Thus, both the CHFC and the NHT should have substantial spreads to cover the administrative costs of the program and build up their operations.

VI. PROJECT IMPLEMENTATION

A. Administrative Arrangements

I. Finance

Tab B describes the roles and responsibilities of the principal housing finance and the development institutions in recently adopted Public Housing Finance Framework. Within this Framework, the Jamaican Mortgage Bank (JMB) has been designated as the institution to mobilize loan funds both locally and overseas for the wholesale finance of low income housing. Thus, the JMB will be the official borrower under HG-011.

Due to the combination of HG-011 funds with varying annual amounts of GOJ funds, the flow of funds and institutional responsibilities within the sector are rather complex. They can, however, be described in three stages:

- (a) construction finance
- (b) long term mortgage finance
- (c) repayments

(1) Construction Finance

The JMB will channel funds directly to the MOC(H) with a Ministry of Finance guarantee. The project developer will be the MOC(H) through the Sugar Industry Housing LTD (SIHL) for new schemes and the Estate Development Company (EDCO) for squatter upgrading and infrastructure works. Since each of these organizations has their own finance and accounting units, funds will be disbursed directly to them based on actual works completed and advances required. It is also envisaged that the developer for the BOL/Owner-Occupier program will be the MOC(H) itself or through the SIHL. Housing improvement loans will be made by both the CHFC and the NHT.

(2) Long Term Finance

Completed projects will subsequently be sold to the CHFC or in cases where beneficiaries are NHT contributors, the NHT. In the latter case, the NHT will originate mortgages for its contributors, reimbursing the MOC(H) for the units. The MOC(H) will subsequently repay the JMB the local non-budget and HG portions of project financing retaining the remainder for new project development. In the case of the CHFC, due to a present lack of funds and the desire by the GOJ to build up the institution as a mortgage financier, the CHFC will issue promissory notes in the form of mortgage backed bonds to the MOC(H).

(3) Repayments

Payments due to the MOC(H) from the CHFC under the mortgage-backed bonds will be repaid to the JMB to service the HG loan. The bonds will, however, contain a release clause vis-a-vis the MOC(H) in case the mortgages are sold to the JMB under its secondary mortgage market faculty.

2. Construction

The newly reorganized Estates Development Co (EDCO), a parastatal under the Ministry of Construction, will administer this program. EDCO will focus exclusively on implementation of settlement improvement, upgrading and the provision of minimally serviced plots. As discussed under Section III, the responsibilities for construction of basic shelter units and starter homes will be the responsibility of the SIHL. This division of responsibilities reflects the MOC's effort to streamline the construction management and implementation process.

Each household will enter into a purchase agreement with either the CHFC or the NHT. Upgrading and new development costs will be recovered through long term mortgage payments. A newly organized community development section will also operate out of the Minister of Constructin to assist CHFC and NHT in cost recovery improvement unit.

Implementation responsibility for the owner-occupier/build-on-own land (BOL) sub-project, remains to be worked out in detail. It is envisaged, however, that until the MOC remodel its existing or purchases a new prefabrication plant, the SIHL will undertake the implementation of this component through on-site construction.

The house improvement loan fund will be channeled either through the NHT or the CHFC to beneficiaries under the squatter improvement and new scheme programs.

3. Home Improvement Loans

The role of the JCCUL will remain essentially the same as in the first phase. It will draw funds from the MOF for on-lending to its credit union members for home improvement loans. JCCUL staff will continue to administer, monitor, promote and provide technical assistance to the program.

The credit unions will process loan applications and service the loans. The spread to the credit unions (now 1%) will be analyzed to see if some increase is justified. Some sort of spread to cover costs will also be examined for the JCCUL. Currently, this has been agreed to for the remainder of Phase I at 3/8 percent.

B. Conditions

With the authorization of the FY 81 \$15.0 million loan, the MOF will be advised of the general terms and conditions of the HG, including the conditions precedent to first disbursement.

Authorization second to such other conditions as AID may deem necessary:

1. Progress satisfactory to AID on implementation of the Phase I \$15.0 million loan, project number 532-HG-010, including a new, revised cost recovery plan and agreement on new land tenure instruments;
2. Reorganized and adequately staffed Sites and Services and Community Development units in the Ministry of Construction;
3. A Phase I Project Delivery Plan including a financial and construction schedule for each sub-project;
4. A substantial number of leases shall be signed to cover the individual projects that have been completed under the Phase I project; and
5. The completion of the study, in form and substance satisfactory to AID, of the interest rate structure in Jamaica and its effect on the housing sector.

C. Implementation Schedule

The loan will be disbursed over a 24-month period. It is expected that an Implementation Agreement will be negotiated in October 1982 with a loan agreement anticipated in November 1982. These dates are subject to change based on GOJ actions on the conditions above.

A full time advisor is presently working with the JMB and the JCCUL. Since this technical assistance arrangement will expire in December 1982, additional short and long term technical assistance including a resident Project Coordinator in the MOC(H) is included in HG-011. Procurement through an RFP is already underway and the long term resident advisor expected to be in post by January 1983.

D. AID Management

The project will be under the direct management (development, negotiation, implementation) of the Office of Housing's Caribbean Regional Housing and Urban Development Office (RHUDO). The Assistant Director in charge of the office is currently based in Washington, but day-to-day management will be provided by the Regional Housing Officer (RHO) based in Jamaica and attached to the USAID. As a significant part of AID's bilateral assistance program to Jamaica, USAID/Jamaica will provide the policy framework within which the project is implemented. Short term assistance,

either from the Office of Housing or consultants to the Office of Housing will be available as needed.

E. Monitoring and Evaluation

A new project monitoring system is expected to be established by the MOC(H) with the assistance of AID. This management tool will lend itself to the preparation of quarterly progress reports which will be submitted to AID prior to regular review meetings chaired by the project manager. These review meetings will include participation by the chief officers of the implementing agencies, RHUDO staff and senior representatives of the MOC(H), JMB, NHT, CHFC, SIHL, and EDCO.

In accord with Office of Housing requirements, annual regular evaluations will be undertaken commencing one year after a new loan is signed.