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CLASSIFICATION
PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol U-447

1. PROJECT TITLE BARBADOS PRIVATE INITIATIVES IN HOUSING	2. PROJECT NUMBER 538-HG-002 538-0081	3. MISSION/AID/W OFFICE RDO/C
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) 538-85-04	
<input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION		

HG
GRANT

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING		7. PERIOD COVERED BY EVALUATION	
A. First PRO-AG or Equivalent FY 82 82	B. Final Obligation Expected FY 82 85	C. Final Input Delivery FY 87 86	A. Total	\$ 12,995,000	From (month/yr.)	7/82
			B. U.S.	\$ 10,320,000	To (month/yr.)	2/85
					Date of Evaluation Review	03/05/85

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. Extend Technical Assistance Grant PACD to August 31, 1986 to allow further assistance in National Housing Plan and HG Program Implementation.	RDO/C	5/1/85
2. Consider adding to Grant resources as part of the Grant extension to provide up to 2 person months of short-term technical assistance for:-	RDO/C	
A. consultant experienced with private sector builder/developers to assist builders with planning low income subdivision housing solutions and developing a market strategy, and	MOLH, RDO/C	9/1/85
B. consultant to assist NHC in restructuring its Sites and Services program to facilitate implementation of GOB cost recovery policy and remove disincentives to private sector participation in low income housing.	MOLH, NHC RDO/C	9/1/85
3. Address issue in development of National Housing Plan, of need for clear guidelines (standards) for low income subdivisions and buildings which are suitable and affordable, including issues such as lot size, site requirements, housing size and amenities.	MOHL	9/1/85

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS			10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT		
<input type="checkbox"/> Project Paper	<input checked="" type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify)	A. <input type="checkbox"/> Continue Project Without Change		
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	_____	B. <input type="checkbox"/> Change Project Design and/or		
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify)	<input checked="" type="checkbox"/> Change Implementation Plan		
<input checked="" type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____	C. <input type="checkbox"/> Discontinue Project		

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)		12. Mission/AID/W Office Director Approval	
JConnolly, CDO/RDO/C	SFrankel, Chief/RHUDO/CAR	Signature	<i>James S. Holtaway</i>
JStephenson, C/CPO/RDO/C	AJones, MHOL/HPU	Typed Name	James S. Holtaway, Director
BJensen, A/PRM/RDO/C	RFitt, MOHL/HCF	Date	5/2/85
DClarke, SPS/EVAL, RDO/C			
TBrown, D/DIR/RDO/C			

CLASSIFICATION
PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol: U-4

1. PROJECT TITLE BARBADOS PRIVATE INITIATIVES IN HOUSING (CONTD.)			2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
5. KEY PROJECT IMPLEMENTATION DATES			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY)	
A. First PRO-AG or Equivalent FY _____	B. Final Obligation Expected FY _____	C. Final Input Delivery FY _____	<input type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION	
6. ESTIMATED PROJECT FUNDING			7. PERIOD COVERED BY EVALUATION	
A. Total \$ _____			From (month/yr.) _____	
B. U.S. \$ _____			To (month/yr.) _____	
			Date of Evaluation Review _____	

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues: cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., program, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
4. Determine, as part of the plan process, ways of reducing up-front cash needs and increasing the number of households eligible for HG mortgage loans by addressing mortgage insurance, legal and other fees, as well as alternate down-payment and mortgage payment mechanisms.	MOHL	6/30/85
5. Clarify legal issues which hinder Commercial Bank participation in the HG tenantry program including restrictions on resale, to allow lenders other than BNB to widen purchaser access to loans.	MOHL	5/1/85
6. Consider modification of the description of the HG Tenantry program to allow flexibility in combining land purchase and home improvement loans, and if experiences indicate that the BDS\$8,000 loan limit is too low, recommend request AID Agreement to raise limit.	HPU/RHUDO	9/30/85
7. Propose objectives, policies and guidelines, as part of the National Housing Plan process, for the operation of the HCF Revolving Fund in the context of providing continuous additional sources of funds for the housing sector.	HPU, Central Bank MOFP	6/30/85

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	_____
<input type="checkbox"/> Logical Framework	<input checked="" type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

A. <input type="checkbox"/> Continue Project Without Change
B. <input type="checkbox"/> Change Project Design and/or <input type="checkbox"/> Change Implementation Plan
C. <input type="checkbox"/> Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

12. Mission/AID/W Office Director Approval

Signature
Typed Name
Date

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13. Summary Findings and Conclusions

The "Barbados Private Initiatives in Housing" project underestimated the start-up time necessary to obtain full participation by financial institutions and private sector builders. While the project is proceeding reasonably well, up to two additional years may be needed to fully draw down funds. Because of the slower than anticipated implementation time, the project assistance completion date (PACD) should be extended for one year to allow for further assistance in developing the National Housing Plan and implementing the HG program.

The project assumption that making funds available would be sufficient incentive to cause financial institutions to participate and private builders to begin producing affordable units for low income households was overly simplistic. The evaluation team strongly endorses the original project objectives and believe they are still achievable.

The efforts of the Ministry of Housing and Lands' Housing Planning Unit including the HCF staff and the senior housing advisor have greatly facilitated implementation of the project to date by working with the BMFC, commercial banks, credit unions and builder/developers to remove obstacles to their participation. Their inputs to the White Paper on Housing which is the Government's recently adopted housing policy and to the development of the National Housing Plan to implement that policy have contributed to a renewed focus on the needs of the housing sector and provided the basis for policy deliberations on effectively channeling resources into housing. Evidence of this focus includes the GOB's decision to make the HCF a revolving fund and the changed role of NHC from a provider of low and moderate income housing to a provider of serviced sites, some of which are for use by private sector builders to construct low income housing suitable for financing under the HG program. Overall macro-economic needs of Barbados will continue to affect the availability of resources for housing as a result of Central Bank policy actions.

13.1. The Mortgage Loan Program Sub-project

Only 13 mortgage loans have been funded under this subproject. The slowness in disbursement results from a combination of factors. The process of arranging to build a house and get a mortgage is cumbersome and costly. Many potential low income borrowers do not have the "up front" cash required. The size of the actual outlay required by a purchaser for fees related to the mortgage and obtaining planning approvals is very high, totalling as much as 8-10% in addition to the downpayment. These costs were underestimated in the project design and have prevented more extensive participation in the program. Specifically, the high cost of legal fees has been an impediment to buyers to qualify for a mortgage. Reduction of these costs needs to be addressed.

No subdivision houses have been purchased with financing provided by the project. While builders appear to be willing to participate, they have not yet provided any number of houses that are affordable to the target group. Uncertainties as to what are acceptable Town Planning standards have affected the costs and have discouraged creative housing solutions as well as the provision of affordable lots. The builders continue to believe that this is a Government-run program, where the Government sets the rules and makes decisions as to what should be built and by whom. Additional direct communication with developers is needed to help define the real limits and opportunities of the program so that they take certain risks but will also be allowed to develop their own solutions to meet the market demands of low income households. Also planning and building guidelines should be prepared which are tailored to affordability.

The NHC joint venture with private builders may help solve the problem. If the serviced lots planned by NHC are sold at below market prices to individual buyers, private land development will be undermined. If NHC is to continue in this new role it must sell at market prices, to individuals or wholesale lots to builders.

13.2. Home Improvement Loan Sub-project

This program is functioning well with over 1,500 loans made and is meeting the needs of the target community for home improvement loans, reaching families well below the median income. Commercial bank policies and uncertainty over Central Bank actions have limited the willingness of some banks to participate; nonetheless institutional participation is fairly broad.

Credit Union participation is less than anticipated largely because wage increases have made many members of the large and well managed employment-based credit unions ineligible. Other factors preventing greater participation include a perception that a 2% spread was not sufficient, and that the interest rates on the loans were not consistent with the policies of some community-based credit unions. These credit unions, by and large, continue to lack the capacity to participate in the program in any substantial way. Efforts to provide assistance through the Barbados Cooperative Credit Union League may improve this capacity but the entire process may take considerable time and resources.

No major changes are recommended to this program.

13.3. Tenantry Program Sub-project

No HCF funds to date have been used to finance tenantry house plot purchases and home improvements. Initial attention was focused first on plantation tenancies where GOB Sugar Levy funds supported extensive survey and legal work that was required prior to transfer. Because the price of plantation tenantry land was legally set so low, loan funds have been needed only in a few instances. The plantation tenantry program is well underway.

Non-plantation tenancies require even more complex legal and physical survey work before title transfer and in addition, many non-plantation tenancies need infrastructure upgrading. Community-wide upgrading is in fact also required where owned plots are interspersed with tenancies. The price of urban tenantry house plots at market rates could result in few sales. It is not clear that tenants will actually choose to buy given the option to continue renting at a low controlled rate.

The land purchase price for non-plantation tenancies may be high enough to preclude using a home improvement loan in addition to a loan for land purchase within the BDS\$8,000 limit. Consideration should be given to raising that limit and combining the lot purchase and home improvement loans as a more flexible option for beneficiaries.

The law governing the tenancies program is not clear as to whether lenders other than the BNB could participate, and if so, that they could perfect security to protect them in the event of default. Clarification of these issues will allow financial institution participation beyond the BNB.

13.4. Technical Assistance

Technical assistance has been well structured to date. Progress is being made on developing a consensus on the policy issues needed to support the National Housing Plan. Demands and priority given to the Plan have resulted in a substantial percentage of resources being spent in support of this effort. The evaluation team supports this decision and believes the resources have been well used. Additional resources may be needed to support implementation of the Plan.

The HPU staff has been effective in administering the program. As the tenancies program progresses and the HCF is established as a revolving fund additional staff resources may be required.

A program of technical assistance is being negotiated in the form of training for credit union staff through the Barbados Cooperative Credit Union League.

HCF staff has devoted considerable time to help the BMFC develop policies and procedures to make participation by low income people feasible. HCF and other technical assistance may be needed to assist BMFC in further dealing with affordability in such areas as lower cost approaches to titling and legal fees, and alternate downpayment and mortgage payment mechanisms.

Of particular importance is the need to set objectives, policies and guidelines for the operations of the HCF revolving fund in the context of providing continuous additional sources of funds for the housing sector. Also, macro-economic considerations of providing housing sector finance need to be explored in the context of developing the National Housing Plan.

14. Evaluation Methodology

14.1. Purpose of the Evaluation

AID, as a matter of standard policy, requires project evaluations as a regular part of project implementation. The evaluations are seen as important management tools for implementing agencies and project managers.

This is the first evaluation for the Housing Guaranty Loan (538-HG-002) and complementary technical assistance project (538-0081) which were authorized in August 1982. The Loan Agreement for US\$10 million was signed on July 27, 1983. The evaluation is intended to assess progress toward attainment of the objectives of the projects; to identify and determine problem areas or significant constraints to attainment of project objectives; propose options or remedies for the constraints; and determine to the degree feasible, the development impact of the projects to date on the housing sector. Each sub-project (Mortgage Financing for New Homes, Home Improvement Loans and The Tenantry Program) as well as the progress and content of the Technical Assistance program has been evaluated.

This evaluation is consistent with the evaluation plan proposed in the Project Paper, and assumes mutual participation by RHUDO/CAR, RDO/C and the Housing Planning Unit (HPU) of the Ministry of Housing and Lands (MOHL). Interim reports prepared by the HPU form an integral part of the evaluation.

14.2. Approach to the Evaluation

In designing an evaluation to assess progress toward objectives of the projects, three types of standards are used to measure performance: responsiveness to the development needs of the target group and the priorities of the borrower/grantee; conformance with AID statutory and policy provisions; and specification of project targets. Responsiveness to the development needs of the target group and conformance with AID statutory provisions were largely assured by the project design and management controls but have been verified by review of the required progress reports and other documents. The evaluation, therefore, focused primarily on the specifications of project targets contained in the logical framework.

The evaluation's quasi-experimental design required the comparison of quantitative outputs projected in the Project Paper and Implementation Agreement with numerical measures of actual performance, and subjective evaluation of broader goals based on performance measures and field studies. Quarterly reports, other interim reviews, and products of research efforts were reviewed, and interviews conducted with individuals responsible for policy direction, management and implementation of the program. Interviews were also conducted with representatives of the private institutions participating in the program, beneficiaries, and other involved persons. A full list of interviewees is attached as Annex A.

The evaluation reflects the situation and the progress made as of February 1985 when the evaluation team visited Barbados.

The evaluation was conducted by a four person team composed of AID staff and consultants working in close conjunction with the MOHL staff (the entity designated to manage the project by the Government of Barbados-GOB) the resident technical advisor and RDO/C. The evaluation team was headed by Royce LaNier, Senior Housing Consultant and Executive Vice President of Technical Support Services, Inc. (TSS) of Washington, D.C. Other TSS consultants on the team were Carol Oman, Housing Finance Specialist and April Young, Economic Development Specialist. The AID staff member of the team was William Mann, Senior Housing Officer, RHUDO/CAR. Total cost of AID financed portion was approximately US\$35,000.

14.3. Participating Agencies/Individuals

Care was taken to draw information from the most knowledgeable sources and also to obtain a broad cross section of views.

Lengthy discussions were held with the MOHL Housing Planning Unit including the Chief Housing Planner, Allan Jones who administers the HPU at the MOHL. More frequent discussions were held with Ron Fitt, Administrative Officer in charge of the Housing Credit Fund (HCF) and Vibert Best, HCF Senior Accountant. In addition, Mr. Fitt participated in the majority of interviews. Therefore, those most closely associated with project implementation were closely associated with the evaluation. The MOHL Permanent Secretary was also consulted as was the Permanent Secretary in the Ministry of Finance and Planning (MCFP). Apart from MOHL officers, discussions were also held with officers of the Barbados Mortgage Finance Company Ltd. (BMFC), the National Housing Corporation (NHC), the Barbados National Bank (BNB) and the Chief Town Planner. In addition, officers of several commercial banks, credit unions and the Barbados Co-operative Credit Union League were interviewed. Also, views were obtained from several private developers and a lumber company. A memorandum of conversation was prepared after each meeting. These memoranda are available from the RHUDO/CAR.

A list of institutions and a list of persons contacted are combined in Annex A.

14.4. Data Sources other than the above

Other than the above, an important source of information was the actual field visits to tenancies and similar communities. Firsthand observation helped verify conclusions on subjects such as land use, lot size, the use of wood, unit upgrading patterns and construction methods. Annex D contains photographs which illustrate housing conditions observed and the various shelter activities being stimulated under the project.

Several study reports provided useful data as well as insight into the realities of housing conditions. Some of these reports, like the "Housing Costs in Barbados" were financed under the

AID grant project. Others, like the study of the New Orleans community, were financed by others.

A listing of the documents used for this evaluation is appended as Annex B.

15. External Factors

15.1. Major Changes in the Project Setting

15.1.1. Socio-economic Conditions of the Target Group

During the evaluation substantial time was devoted to discussing the appropriateness of the present income limitations established for the project. In the Project Paper, limitations on participation in the program were set based on an estimate of median household income at the time, of BDS\$976 per month or BDS\$11,712 per annum. This limit was raised in the implementation document to BDS\$1333 per month or BDS\$16,000 per annum on the basis of further study. The question of whether this income level truly reflects median income today in Barbados was discussed extensively. In the period since the current ceiling was established, the island has experienced inflationary pressures on wages, and government workers have been granted a 15% wage hike. These two factors have led to the speculation by a number of people interviewed that median income is actually above BDS\$ 16,000, and that income limits should be raised accordingly.

The conclusion of the evaluation team is that while it is possible that some incomes have risen, there is no firm evidence to support a conclusion that the present household median income is greater than BDS\$16,000; and therefore there is no specific reason to consider raising the income ceiling for the HG program at the present time.

At the current level, the project is clearly reaching a low income target group, and persons in this group have both the interest and capacity to participate. Raising the income limitation could increase the disbursement rate of the HG funds. While higher income limitations would qualify additional households, it would not promote more cost efficient housing solutions within reach of the original target group. Promoting such solutions is clearly consistent with HG objectives, in terms of creating private sector capacity to provide low income shelter. More to the point, while a modest change in the project setting may have occurred, no specific evidence reached the attention of the evaluation team to substantiate that the median income is above the current limit. Therefore, no change to the income restrictions is recommended.

15.1.2 Government Priorities

In the period since the HG project's inception, the GOB has formulated and adopted policies which considerably enhance the operating environment of the project. A White Paper on Housing was

prepared by the MOHL's Housing Planning Unit. Many of the strategies proposed are now being implemented while others have not yet been addressed. This paper, which describes the nature and history of current housing problems and outlines the Government's policies, objectives and strategies for addressing those problems, was approved by the Cabinet on May 24, 1984. It was discussed by the Parliament on February 26 and March 5. Adoption is expected soon after completion of this report.

In addition to the elaboration of a broad-based policy covering the housing sector, the White Paper specifically addresses a number of issues that were of concern when the HG project was being developed. Among the most significant of these are homeownership, the role of the NHC, the rationalization of the housing finance system, and the role of the private sector in providing low income housing.

The Paper restates the GOB's commitment to homeownership for individuals at all levels of the society; to that end, it made a commitment to the provision of serviced lots, to a continued emphasis on the transfer of freehold title under the Tenancies Freehold Purchase Act, to the sale of units currently available for rent under an NHC program, and to creating financial incentives for the purchase of units.

The NHC's role and functions are restated. Emphasis is placed on supporting housing for low income people and improved management of rental property. Actions being taken include institution of a cost recovery mechanism which is a significant departure from present NHC practices; adoption of rental policies which encourage residents to give up subsidized units when their incomes permit; restructuring rent subsidies to reflect the needs of a particular family rather than the cost of the structure; de-emphasising the NHC's direct involvement in providing housing; and increased emphasis on the provision of serviced lots. These latter two policies have been extended and expanded to remove the NHC from a major role in housing construction and to replace its construction program emphasis with a program initially designed to provide 1000 serviced lots over the next year for construction of low cost dwellings.

The proposed rationalization of the housing finance system recognizes the housing system as part of an overall economic system, but seeks to create a climate for investment in housing through continuing review of the national interest rate structure, particularly in terms of mortgage rates and construction financing. Specific proposals include creation of a mortgage bank, promotion of alternate mortgage instruments, and assistance to credit unions to enhance their participation in financing home improvement loans.

Finally, in order to expand the role of private developers and financing agencies in providing housing solutions, the White Paper proposed entering into joint agreements with private developers for the provision of units; the provision of fiscal

incentives to land developers who cater to low income earners; and the provision of a revolving fund for housing on which private sector financing agencies catering to low income earners could draw. Some of these policies are already being implemented. Joint venture agreements have been undertaken and the MCF has been designated as a continuing revolving fund to provide a pool of resources for housing finance.

15.1.3. Trade Balance - Interest Rates as a Means of Controlling Imports

As a matter of national economic policy the Central Bank carefully exerts control over lending institutions and specifically controls mortgage interest rates. Interest rates and other restrictions on financial institutions are designed to allocate financial resources and foreign exchange to sectors of the economy seen as economic priorities. As a small island economy, Barbados must depend heavily on imports. The economy has been adversely affected in the last several years by low worldwide sugar prices and weaknesses in the tourism and manufacturing sectors which have led to substantial unemployment. Because the currency is tied to the US dollar, the strength of the US dollar on world markets has resulted in Barbadian exports being less competitive and imports cheaper. The strength of the US dollar contributes also to keeping hotel prices high which seems to make Barbados less competitive with other winter vacation destinations. This weaker economic performance has resulted in a need to conserve foreign exchange resources and to prioritize allocation of foreign exchange to sectors of the economy which the GOB views as most productive.

Expenditure on housing in Barbados is costly in terms of foreign exchange. An August 1984 study of housing costs in Barbados prepared by PADCO estimates that 20-28% of total construction costs and 35-48% of material costs to build a house require foreign exchange. This was lower, however, than commonly perceived by policymakers. It is also estimated that residential construction accounts for about 4.2% of all imports.

To control imports in the construction sector, the GOB has set maximum interest rates for mortgage loans, minimum rates for deposits, and limits on the amount of loans that can be made by financial institutions in certain categories particularly consumer loans. In recent years, additional National Insurance Funds (NIF) resources, which are a major source of long term funds, have been used by Government as a means of financing the budget rather than invested in the trust companies to provide funds for long term mortgages. The net result is that financial institutions are unwilling to lend for mortgages because they cannot earn a sufficient spread. Without access to mortgage money, households cannot easily purchase homes. Therefore, less construction materials are imported and foreign exchange is conserved. PADCO estimates that if the lack of mortgage funds reduces residential construction by 50-75 percent, imports are reduced by 1.5 to 2.3 percent.

The Project Paper noted that the mortgage interest rate ceiling and other Central Bank actions effectively dried up funds for mortgage lending and curtailed home improvement lending. At that time the Government indicated it would be willing to examine the interest rate question if economic conditions permit. Interest rate controls have been maintained since the start of the HG program because of the continuing need to limit expenditures which require foreign exchange. A number of changes in the interest rate ceilings in the past 3 years have created additional uncertainty which has had the effect of causing financial institutions to be even less willing to lend for housing. (These changes are discussed in more detail in the following section.)

The net effect in terms of the HG program has been to slow program implementation by limiting the willingness of financial institutions, particularly the trust companies, to participate in the program.

Interest rate ceilings at levels below that which would exist in the absence of controls could be viewed as a subsidy. However, when the controls have the effect of severely limiting available funds the subsidy effect is minimal. Clearly in this instance, the objective is not subsidy but is rather to control imports as part of national economic policy to conserve limited foreign exchange resources.

The HG funds do provide foreign exchange. This foreign exchange is however not available until disbursed as a result of activities under the HCF program. So from another point of view, it is in the interest of the GOB to see that HG funds are utilized quickly.

15.1.4. Central Bank Policy

The GOB in the past 3 years has continued a policy of restricting residential construction sector activity through the maintenance of interest rate and other controls on financial institutions. In addition, government expenditure for the housing sector both in the current and capital budgets has been reduced each year since the 1981/82 fiscal year. Current expenditure on housing declined from 2.4% of all current expenditure in 1981/82 to 1.6% in 1983/84. Capital expenditure on housing declined about BDS\$3 million in the same period while the percentage of total capital expenditure for housing remained steady at about 3.7%

When the effects of inflation are considered, GOB housing expenditure has declined even further. However, private residential construction has taken up some of the slack so that residential construction increased about BDS\$20 million from BDS\$50 million in 1981 to almost BDS\$70 million in 1983.

In October 1981 the Central Bank raised the mortgage interest rate ceiling to 12%, but at the same time raised minimum deposit rates to 8% and increased reserve requirements from 20 to

25%. In early 1982 the reserve requirement was again increased to 27% where it is today. In 1982 the minimum deposit rate was lowered to 7% and then to 6% in December when the mortgage rate ceiling was lowered to 11%. In 1983 the savings rate was again lowered to 5% and the mortgage rate decreased to 10%. The mortgage rate for new loans was increased to 11% and then to 13% in 1984 and most recently was reduced to 12% effective February 1985. The rate was maintained at 11% for HCF funds.

Also the Central Bank restricts the amount of loan portfolios to 1976 levels with only modest changes since that time. Certain exemptions to the loan ceilings have been granted such as for home improvement loans under BDS\$5,000 and home improvement loans to BDS\$2,000 for the HG loan programs. Recently the Central Bank mandated that the commercial banks reduce the average interest rates on their portfolios by 1%.

These multiple changes in several areas have the effect of creating uncertainty in the minds of lenders as to what Central Bank policies will be in the future. Uncertainty over the overall course of the economy as well as over future Central Bank actions has made financial institutions very reluctant to lend long term and to accept long term deposits. Depositors share this uncertainty and are unwilling to deposit funds for more than one year. Furthermore, use of NIF funds (social security fund) to support Government's current expenditure requirements has resulted in reduced long term funds being deposited in commercial banks and trust companies. NIF funds have been primary source of longer term funds in Barbados and diversion of these funds results in less availability of funds for private sector residential lending. In this climate, the ability to earn large returns on home improvement loans under BDS\$5,000 and under the HCF program where loan terms are generally three years or less has resulted in greater lending in this area.

The Central Bank views the mortgage market as supply driven not demand driven. A lower rate will lower the supply of mortgage money even if there may be more demand. The lower rate will make lending unprofitable and thus dampen the market. By making financing of construction unattractive to lenders, the Government is also acting to prevent overheating in the construction sector which would not only use scarce foreign exchange resources but contribute to inflation.

The specific impact of each of the Central Bank mandated multiple short term changes in interest rates on imports and uses of foreign exchange is difficult to determine. What can be said is that the overall impact has been a greater uncertainty and that the supply of mortgage funds provided by the trust companies continues to be limited.

The Central Bank intervention in the credit markets through setting interest rates and other restrictions continues to affect the commercial banks and trust companies participation in the HCF program. To a significant extent the slower than anticipated

response by these financial institutions to participation in the program can be attributed to the Central Bank policies and uncertainty about changes in those policies.

The Government is aware of the effect of its actions. The White Paper on Housing recently adopted by the Cabinet states with respect to interest rates:

"The availability of finance on terms and conditions which those who require housing can meet is an essential pre-requisite for any successful housing programme. In its efforts to provide and motivate financing for housing Government shall:

- (1) seek to create a climate for investing in housing through continuing its review of the national interest rate structure and its implications for housing. Particular emphasis shall be placed on the interest rates for mortgages and on the monetary conditions surrounding construction financing."

What is not clear now is what actions the Central Bank will take in the next few years to "create a climate for investing in housing."

However, the willingness to consider a secondary mortgage market facility currently under study as well as the recent decision to make the HCF a revolving fund suggest that the GOB is willing to pay more attention to the housing sector, but will still want to maintain some controls over the sector. In view of the fact that foreign exchange resources are finite and that competing demands exist for these resources, the GOB will be required to continue to make decisions as to what sectors will receive priority in allocation of scarce foreign exchange resources. A sustained dialogue between the Central Bank and MOHL on the housing finance is important over the future.

15.2. Continued Validity of Project Assumptions

The Project Paper's Logical Framework treated the Housing Guaranty loan and Technical Assistance Grant as two sources of support for a single project. For that reason, the assumptions for the project must be reviewed against both the HG loan and TA grant experience to date.

The assumption that funds could be disbursed in a two year period was invalid. The start-up time for the program was underestimated, particularly in the home mortgage and tenancies program subprojects. The project is proceeding reasonable well, but up to two additional years may be needed to draw down funds (see Section 17 on Outputs).

The assumptions for achieving goal targets were that banks and developers would respond, and experience would be positive. The project paper recognized that the interest rate ceiling imposed by the Central Bank would limit participation by financial institutions

in the mortgage program unless the onlending rate to financial institutions was set at levels which amounted to extremely deep subsidies. Such deep subsidies were inconsistent with the overall intent of the project. Many commercial banks and trust companies have declined to participate in the mortgage component, but since some reluctance was anticipated, no change in the assumptions is required. Commercial banks have participated in the home improvement program, where no such interest ceiling was imposed. Their experience has been positive, confirming the validity of this assumption.

The assumption that private developers would respond appears to be invalid as it applies to the mortgage program. For a variety of reasons discussed in depth in section 17.1.1.2., private builders have not as yet participated to any degree in providing low cost housing solutions. It appears that the assumption that making mortgage funds available would be sufficient incentive to cause private builders to begin producing housing units for low-income households was simplistic. Additional incentives and tools are evidently required if private developer participation in low and moderate income new home construction is to be assured. Small private builders are participating in the home improvement program, and the assumption is valid as it relates to this project component.

Achieving the purpose of the project assumed that the GOB would encourage the private sector to the view that it would facilitate private sector efforts over the longer term, and that the GOB intended to reduce its production function. In addition, it was assumed that the GOB would undertake a major effort intended to implement the Tenancies Freehold Purchase Act. These assumptions continue to be valid. The GOB has taken several significant steps to assure the private sector that it intended to turn over a major portion of the low income housing market to it, and has reduced its housing production function through the NHC. Interestingly, while the private financial institutions appear quite willing to accept these actions on their face, the private development community has demonstrated reluctance to accept these actions as a significant commitment. This may suggest that the communication of a policy change is a two-way process and that more direct demonstration of the implications of such a change is required for certain sectors.

The GOB has undertaken a major program to implement the Tenancies Freehold Purchase Act, consistent with the assumption.

Assumptions for achieving outputs held that BMFC would staff up to handle the volume of loan requests generated, that Banks and BNB would earmark the effort as a priority, and that top level attention would be given to the project by the MOHL and the MOFP. Additions to BMFC staff have not been necessary to date in order to implement the home mortgage loan subproject and will most likely not be needed in the future as staff appears to have adequate skill to make loans but may not be providing all the technical assistance to borrowers that is needed (see Section 17.1.1.).

As the HG loan funds are being administered by the HCF in the MOHL, the role of the MOFP has generally been limited to participation in the HCF committee.

Some banks and trust companies have declined to participate. However, response has been sufficient to carry out the goals of the program. See sections 17.1.1 and 17.1.2.

Finally, assumptions for providing inputs were that MOHL would provide project direction; people want homes; U.S. investors would respond; the GOB would provide budget support for the MOHL; and the U.S. technicians would be available. Each of these assumptions has proved to be valid.

16. Inputs

16.1. External Inputs

16.1.1. Housing Guaranty Loan (538-HG-002)

The Project was authorized on August 6, 1982; the HG Implementation Agreement and Grant Agreement were both signed on September 29, 1982.

The major input for this project is a US\$10,000,000 HG Loan from Citibank, N.A. to the Government of Barbados, acting through the Ministry of Finance and Planning. The Loan Agreement was signed on July 27, 1983 for the full US\$10,000,000. The undisbursed funds were placed in an escrow account in the Riggs Bank, Washington, D.C. The first disbursement of US\$2,000,000 was made to the GOB in August, 1983. A second disbursement of US\$1,500,000 was made in September 1984 and a third disbursement of US\$1,000,000 was made on March 1, 1985. The total amount disbursed to the GOB to date is US\$4,500,000.

HG loan funds were provided to the GOB in a timely manner and in the amounts needed. No delays or other problems have resulted from the quality, quantity or timing of this input.

16.1.2. USAID Technical Assistance (538-0081)

The Technical Assistance Grant Agreement was signed on September 29, 1982. The USAID contribution is US\$320,000. To date, over US\$135,000 has been expended. Other amounts have been obligated, and a revision of these obligations is under consideration at AID. If these changes are made, it is estimated that about US\$55,000 of the Grant funds remain. The following discussion notes the changes in emphasis that have been made since the Grant Agreement was signed.

16.1.2.1. GOB Institutional Development

Technical assistance has been provided to facilitate the GOB's development of institutional capacity to undertake low income shelter projects, and particularly to assist in

the implementation of the Housing Guaranty program. A Senior Housing Advisor has been employed and assigned to the MOHL's Housing Planning Unit, reporting to the Chief Housing Planner. In this capacity the Housing Advisor has assisted in the preparation of housing policy papers, in designing low income housing demonstration projects, and in deliberations over various policy and program issues to be submitted to the Minister, the Permanent Secretary, and other GOB units involved in providing low income shelter solutions.

The Housing Advisor also serves as a resource for the HCF staff charged with administering the Housing Guarantee program, and is available for consultation on a daily basis. While not assigned specific administrative responsibilities related to the implementation of the HG program, he assists in the design of technical assistance under the Grant and facilitates contracting procedures associated with it. He also provides technical advice on policy issues when requested, prepares policy papers and program evaluations and participates in discussions of related research and analysis projects. He keeps AID informed of progress on a regular basis. Activities undertaken as inputs to this component are clearly consistent with the terms of the grant agreement. Some delays have been experienced with respect to contracting for technical assistance. There appears to be a need for more cooperation and for AID officers to facilitate completion of required documents and procedures to allow contracts to go forward in a timely manner. While delays could be attributed partially to GOB lack of experience in preparing contract submissions to AID, the GOB and the Senior Housing Advisor are neither expected to know all AID procedures nor to prepare AID contract documents. The evaluation team believes the quality of the Technical Assistance is excellent, and has been delivered in response to the institutional development needs of the GOB. No changes are required in this input.

Extensive training for individuals involved both in the institution-building aspects of the program, and specific administration of the Housing Guaranty Program has been provided and is considered an important technical assistance aspect. To date, training opportunities have been provided to MOHL staff as well as other senior government officials. The Chief Housing Planner (Allan Jones) was supported during four months of independent study on housing finance issues at the University of California at Berkeley. The Administrator of the HCF Unit (Ronald Fitt) was sent to the October, 1983 AID Shelter Workshop in Washington, D.C. Five GOB officials including the MOHL Minister and Permanent Secretary attended a Housing Policy Conference in Jamaica. Other professional training opportunities are presently scheduled for the Permanent Secretary of the Ministry of Housing and Lands and the Senior Accountant of the HCF. One RHUDO has assisted in training the Manager of the BMFC by exposing him to savings and loan practices in Jamaica and the United States.

The training activities have been well justified in both applicability and cost-effectiveness. While no change in this input is recommended, continuation of these

activities to meet additional responsibilities is appropriate. The Ministry has recently purchased a computer and grant funds will be used to assure that maximum use is made of this facility. Training in related housing policy issues such as the dynamics of private real estate development, alternate low-cost shelter solutions, managing urban upgrading projects and stimulating urban development through private reinvestment would be appropriate.

16.1.2.2. National Housing Plan

A major objective of the technical assistance input component is assistance in the preparation of a National Housing Plan. The Senior Housing Advisor has been assigned direct responsibility for preparation of the National Housing Plan, and has proceeded to prepare or contract for preparation of materials which support the process of policy dialogue needed before finalizing such a document. Working papers have been prepared on housing finance, components of housing costs, the availability of land for housing development, housing needs, and the role of housing in the national economy. Local and international consultants were selected in consultation with the Chief Housing Planner and RHUDO/CAR. The reports have been well received and are being used as the basis for formulating the National Housing Plan. The reports are also being circulated to key Government officials to make them aware of the policy issues that need to be addressed by the sector.

The following working papers have been completed.

Housing Costs in Barbados, Robert Olsen (PADCO), August 1984.

Analyzes the components of cost of four prototypical homes, and examines the foreign exchange costs of new housing. Reviews the potential for cost reduction and for improving Government programs.

Housing Finance in Barbados, Don Gardner (USL, International), September 1984.

Describes the institutional practices and policies in the housing finance sector, including both public and private institutions. The need for financing is assessed and recommendations about how the level of financing could be expanded are presented.

Housing Needs and Investment in Barbados, 1980-2000. Robert Dubinsky and Raymond Struyk (Urban Institute), November 1984.

Projects the needs and investment requirements to improve housing conditions in Barbados over a 20 year period using alternate assumptions. Key GOB policy issues are identified.

A Revolving Fund as a Mechanism for Financing Housing: A Case Study of Barbados. Allan Jones (MOHL), November 1984.

Assesses the construction sector in Barbados and its place in overall economic activity. Reviews the housing finance market and

the Housing Credit Fund. Proposes establishing a revolving fund for use of the reflows to the Fund to meet additional housing needs.

Evaluation of the Availability of Land for Housing in Barbados
Len Ishmael, December 1984.

Assesses the projected need for land and its current cost and availability. Notes that adequate land is available, and presents recommendations for Government land policies.

A Description of How the Private Sector is Involved in Housing and How its Efficiency and Capacity Could Be Improved. Len Ishmael, January 1985.

Describes the functioning and cost of house construction, sales and home improvement processes, and suggests ways the efficiency and capacity of the private sector might be improved.

The Macroeconomic Implications of Residential Construction in Barbados. Marion V. Williams, February 1985 (draft).

Examines the macroeconomic aspects of housing, including its contribution to gross domestic product, jobs, and foreign exchange. Forecasts its likely economic impacts over the next five years.

Government Expenditures for Housing. Robert Dubinsky, March 1985 (draft under preparation).

Describes and analyzes Government expenditure for housing over the period 1974-1983 in both nominal and real terms.

The Senior Housing Advisor arrived later than anticipated. In addition, assessment of the information needed to prepare the Plan revealed that additional background work was necessary to underpin the final Plan elements. The documents produced by this background work, in addition to being inputs to the Plan, added to the body of knowledge on housing in Barbados. This approach was the most effective way of achieving the desired results even though it delayed Plan completion beyond the date set in the Implementation Agreement.

Review of the content of the process to date suggests that additional working papers could contribute to the Plan's final utility. Among these issues are the upgrading needs of the island's older/deteriorated communities, the role of private builders and developers in providing low cost housing solutions, the role of the housing sector in macro-economic policy-making, formulation of planning and building standards in support of adequate housing for all income groups, and the appropriate role for the HCF and its relationship to a proposed secondary mortgage market.

16.1.2.3. Credit Unions

The grant envisioned technical assistance for credit unions, particularly the small, community-based societies, as an integral part of creating private sector capacity to implement

the HG program. To date, a seminar for credit union officials designed to explain and promote the HG program has been held, and a manual detailing the program and its procedures prepared. Individual consultations have been held with several of the credit unions, urging their participation in the program.

The block to credit union participation is not so much only related to limited management skills as was originally thought, but due as much to the nature of their membership and particular operating preferences. In the case of the employment-based credit unions such as Public Workers, the vast majority of the membership receive salaries or wages in excess of the maximum set for the program. These credit unions are generally well managed in any case, and were not, as a result, the primary target of the technical assistance project.

Several of the community-based credit unions declined to participate in the program because their current policy sets loan fees at 6%, 25% below the recently lowered on-lending rate (8%). Other unions felt they could not handle the program, even with technical assistance, because of the voluntary nature of their management structures. In response, the HCF proposes to provide some centralized management assistance using the Barbados Co-operative Credit Union League, and is working to assist the League. Under the proposed contract, the League would make HCF loans to members of the smaller credit unions upon the credit unions' recommendation, and manage the disbursement and repayment processes. In addition, the League would hold periodic training programs for credit union officials, such as one planned for early March on loan management. If successful, the League participation will provide access to the members of the community-based unions, and in so doing facilitate access to an important segment of the target population. The evaluation team acknowledges that this input has been limited, to date, and supports the plan to build a service unit in the League to encourage participation, but cautions that this process may take considerable time and resources. In addition, as appropriate, efforts should be made to link this effort with the larger credit union development project now being financed by USAID and the Canadian International Development Agency through the Caribbean Confederation of Credit Unions. While the League is already working with this project, particular care should be taken to identify resources available through that project which would directly support the Barbadian effort.

The Grant Agreement also specified the preparation of a generic study of the credit unions which would elaborate on the deficiencies identified in the course of assisting individual credit unions, recommend a training program which would address these deficiencies, assess the institutional setting in which credit unions currently exist, and propose ways of enhancing the credit unions' ability to manage increasing volumes of savings and loan disbursements.

An initial study was done by Owen Arthur in June, 1983 in order to assess the technical assistance needs of the

credit unions. This study provided the basis for activities to date. The remaining items have not yet been formally performed, although most elements have been addressed, and the current proposal to work with the League is an attempt to deal with several of these related concerns.

The provision of technical assistance to the credit unions has, to some degree, been influenced by demands from other sectors and the time needed to reach agreement with the League. Resources have been concentrated on the preparation of the National Housing Plan, as the context in which credit unions and all private financial institutions will ultimately function. While it is not clear whether more emphasis on this particular element would have changed the outputs of the program, it is clear that the priorities established are appropriate and relate to the central goal of the program.

16.1.2.4. Barbados Mortgage Finance Company

The technical assistance inputs proposed for the BMFC focused primarily on the nature of the Company's function within the housing finance arena, and its capacity to cater to the overall mortgage financing needs of the community. To this end, two major areas have received attention: discussions have been held and a proposal drafted for a feasibility study to consider the potential of BMFC as a deposit-taking organization similar to a savings and loan association; and assistance has been provided in updating BMFC's operating procedures and manuals.

In the former effort, an expert on the structuring of housing finance organizations from the National Council of Savings Institutions was invited to participate in discussions of BMFC's potential in this area. Following these discussions BMFC management decided to request UNDP support for a feasibility study. UNDP has agreed to partially support the study. While grant funds could be used to fund the balance, the evaluation team concurs with the MOHL position that the BMFC should be prepared to demonstrate their interest in the concept by providing the additional funds required.

In the latter effort, a contract was funded for the revision of BMFC procedures and manuals. This contract has been completed, and its products currently provide the basic operating procedures for the BMFC. Technical assistance in coordination with the UNDP was provided to develop computer system specifications for the BMFC. A new system is now being acquired.

As in the case of technical assistance to credit unions, not all the originally identified technical assistance has been required. The quality and timeliness of efforts to date are good. Any additional efforts should be determined based on identification of other needs and policy decisions made as part of the housing plan process.

16.2. Internal Inputs

16.2.1. Housing Credit Fund Staffing/MOHL Budget

Under the terms of the initial implementation agreement, the MOHL agreed to create and fund the establishment of a special unit which would administer the Housing Guaranty Program. This unit was fully staffed quickly with the hiring of competent staff completed by February 1983. The five person HCF unit is composed of an Administrative Officer 1 (Ronald Fitt), Senior Accountant (Vibert Best), Administrative Officer 2 (Michael Hoyte), Accounts Clerk (Neville Brathwaite) and a Stenographer (Rudelle Rochford). The staff, called the HCF Unit, reports to the Chief Housing Planner and carries out the policy of its steering committee, and the Housing Credit Fund Committee. Members of the HCF Committee include the MOHL Permanent Secretary, the Chief Housing Planner, the Director of Finance and Planning or his representative, a Central Bank representative, the Accountant General, and a representative of the NHC.

The costs of the unit were initially absorbed by the Ministry. At present, consistent with the terms of the Implementation Agreement, these costs are funded by the HG loan. Local inputs continue in the form of time allocated to the project by members of the HCF Committee and other MOHL staff involved on an occasional basis.

The size of the HCF unit appears adequate for its overall administrative tasks, based on the manner in which reports have been prepared and submitted, and the progress of the program to date. Funds should continue to be allocated to support this unit, and resources should be reserved for training needs of unit members. (See Section 17.2 Staff Development, for additional recommendations).

16.2.2. Tenancies Program Funds

16.2.2.1. Sugar Levy Funds

The GOB committed BDS\$1.26 million from the Sugar Levy Funds in support of the tenancies program, of which approximately BDS\$800,000 has been expended to date. The vast majority of the funds have been used to pay for surveying of plantation tenancies, in order to permit their subdivision into legally described and thus purchaseable lots. This task is largely complete, and purchase of house spots defined with these funds has begun. Expenditure of the Sugar Levy Funds in this way is consistent with the restrictions on their use, and was clearly prerequisite to successful implementation of the plantation tenantry purchase aspect of the project.

The remaining funds should be used to finance actual purchases by tenants and to provide concessionary loans for those who are otherwise unable financially to complete such a

purchase. This use is consistent with the uses envisioned in the Project Paper and the Tenancies Freehold Purchase Act, and represents no change in the input.

16.2.2.2. Other Local Funds in Support of the Tenancies Program

The GOB also agreed to provide local funds in support of needed infrastructure improvements and community facilities to those tenancies, primarily non-plantation tenancies, in greatest need. No specific dollar figure was determined in the Project Paper on the grounds that no reasonable estimate could be made until the surveys were completed.

A comprehensive cost estimate has not been made to date. An estimated BDS\$8.4 million has been spent by the Ministry of Transport and Works in support of this element since 1982 on 41 tenancies.

Because a large portion of the tenancies are interspersed among houses on individually owned spots which have similarly inadequate infrastructure and community facilities, arriving at a cost estimate for infrastructure needs of tenancies alone is quite complex. The GOB is clearly operating in good faith in this element and making improvements as both necessary and possible. Future activities should focus on overall upgrading in areas including both tenancies and owned spots which could benefit from broad infrastructure improvements. While it is recommended that an annual estimate of infrastructure costs in support of the tenancies program be prepared and adhered to, it should be done in the context of community-wide improvements.

16.2.3. Interest on the HG Loan Above the On-Lending Rate

Implicit in the statement of local inputs is the requirement that the GOB make budgetary provisions for the repayment of interest costs which represent the difference between its cost of funds and its on-lending rates. At present, a differential on-lending rate has been established, which is outlined below.

GOB Cost of Funds	11.65%	+	.5%/Year Guarantee Fee
	<u>Current</u>		<u>Current</u>
	<u>HG On-Lending Rate</u>		<u>Rate to Borrower</u>
Barbados National Bank	9%		12 ³ / ₄ %
3 ³ / ₄ % spread			
Barbados Mortgage Finance Co.	9%		11%
2% spread			
Caribbean Commercial Trust Co.	9%		11 ¹ / ₂ %
2 ¹ / ₂ % spread			
Commercial Banks	11.65%		18-22%
Credit Unions	8%		12%

As of December 31, 1984, the GOB had paid \$3.64 million in interest on the HG funds. Inasmuch as a policy decision has been made very recently by the GOB to use reflows to form a revolving fund for housing, this payment represents not only the commitment to fund the difference between the cost of money and on-lending rates, but also an actual commitment to allocate the total cost of the HG funds to housing sector finance. The requirement of the initial input has been met, and no change in it is required.

16.2.4. Downpayments

The project paper noted that downpayments made by those purchasing new homes and receiving home improvement loans should be considered as local inputs. In each case, some difficulties have been experienced.

Downpayments have in fact been required of the purchasers of new homes. These range from a minimum of ten percent to considerably more, depending on the income of the borrower and the cost of the home being purchased. The maximum home value has been raised to BDS\$50,000 and therefore the maximum mortgage amount was increased in effect to reflect maximum payment capacity of households earning BD\$16,000, given current interest rates and terms of the loans. In so doing, situations were created where the savings requirements for beneficiaries substantially exceed the \$2400 (10% of a maximum mortgage of BDS\$24,000) originally envisioned.

In addition, by limiting local input to downpayments related to the purchase of new homes, the Project Paper considerably understated the local investments to be generated and required by this program. Expenditures for legal and other costs related to the purchase of a home, referred to as "soft costs" in Barbados (commonly called "closing costs" in the US) may reach an additional 8-10 percent of the home value. While this increases the magnitude of the local input associated with this program element, it has also reduced participation in the program to those households with substantial savings relative to their annual incomes. The underestimation of this input in the project design, and the failure to understand its implications for low income purchasers has had repercussions for implementation of the new home construction element because many potential buyers in the target group do not have sufficient savings for both the downpayment and the "soft costs". (A more detailed analysis is contained in Section 17.1.1.). The input should be redefined to include payments of these soft costs, and attention given to assessing ways in which they can be better reflected and addressed in the program design. While it may be inappropriate to subsidize such costs, attempts should be made to reduce them and they should clearly be considered in estimating costs of homes affordable under the program.

Local input related to the savings or share requirements of credit union members wishing to obtain home improvement loans through the HG project is less than anticipated. The reluctance of

the majority of credit unions to participate in the program reduces the credit union deposits which may be considered to be associated with the project. Technical assistance and additional involvement with the Barbados Co-operative Credit Union League proposed in 16.1.2.3 may result in some additions to this input.

16.2.5. Reflows

A final element of local inputs are the reflows received from the repayments of loans and interest on the unexpended funds remaining in escrow. These reflows amounted to US\$2.62 million as of the quarter ending December 31, 1984.

As previously mentioned, the GOB has recently decided to make the MCF a revolving fund. Thus, all repayments will form a permanent pool of funds that could be allocated to low income housing finance. The MCF unit in the MOHL, which was created to manage the HG loan project has the capacity to manage this pool of housing finance funds on a continuing basis (see Unplanned Effects Section 21.1.). The GOB has determined that program reflows will be reinvested in various types of housing programs. Consideration is being given to using the funds for mortgage loans for persons whose incomes are between BDS\$16,000 and BDS\$20,000. This income group is ineligible for the HG program, but has been identified as having serious housing needs. In addition, policy generated as part of preparing the National Housing Plan acknowledges the needs of this income group and commits the GOB to action on their behalf. Also bridge finance for builders of low income housing and mortgages to low income households to purchase homes built before execution of the HG project are being considered as appropriate uses for the revolving fund. The use of the input as a revolving fund in the ways being considered supports the overall mission of the HG project and requires no further change.

17. Outputs

17.1. Physical Products

The logical framework in the Project Paper for the HG loan program described the major project outputs as (1) owner occupied modest homes, (2) improved conditions of the homes of a significant number of families, (3) tenantry plots improved and ownership attained, and (4) a private sector experienced in producing for low-income people. The following sections evaluate the progress towards attaining these outputs.

The project "Barbados Private Initiatives in Housing" contains three sub-projects that relate specifically to the outputs mentioned above. As the project evolved from initial design in the Project Paper to signing the Implementation Agreement and subsequently by agreement between the MOHL and AID changes were made in the amounts allocated to each sub-project, the maximum income levels eligible for loans, and the maximum house value for which home improvement

and mortgage loans could be made. These changes are summarized as follows:

The Project Paper proposed that US\$5 million (BDS\$10 million) be allocated for the Home Mortgage Loan subproject, US\$3 million (BDS\$6 million) for home improvement loans and US\$2 million (BDS\$4 million) for the tenantry purchase and home improvement loan subproject. When the Implementation Agreement was signed in August 1982, the allocations were changed to US\$3 million for new homes and US\$5 million for home improvements, reflecting greater expected demand for home improvement loans.

The Project Paper initially estimated that based on the available information the median income in Barbados was BDS\$11,712 per year. Further study suggested that the median income was in fact higher and the Implementation Agreement recognized BDS\$16,000 as the median income in 1982. The median income which is used as a basis to determine eligibility in the program remains BDS\$16,000 at the present time.

Based on the initial median income estimate of BDS\$11,712, the maximum value of a house and land eligible for a mortgage or home improvement loan was set at BDS\$35,000. The maximum house valuation was subsequently raised in June 1984 to BDS\$50,000 because it was considered too restrictive, since it did not recognize the larger payments that could be made with BDS\$16,000 per annum income assuming a maximum payment of one third of income.

17.1.1. New Owner Occupied Modest Homes

One of the three major outputs anticipated from the HG loan was the financing of new homes. According to the Project Paper, the project was expected to produce mortgages for 500 new

homes at an average mortgage of BDS\$20,000 using BDS\$10 million allocated to the subproject. At present, based on the BDS\$16,000 income limitation, the maximum mortgage is about BDS\$42,000 depending on term and interest rate. With the current allocation of BDS\$6 million to the mortgage loan program and assuming an average mortgage of BDS\$28,000 (approximately 1.75% of median income), the number of potential loans is about 215. The BMFC is anticipated to be the primary mortgage lender.

As of the end of January, 1985, the BMFC has held interviews with 1900 persons interested in applying for loans under the project. Applications were distributed to 1079 persons. Of these, 118 completed applications, requesting a total of BDS\$2.9 million. Sixty five offers of financing have been made, totalling potential loans worth BDS\$1.5 million. Forty-one offers were accepted, 5 of which were eventually withdrawn. The 36 offers now outstanding represent firm commitments of BDS\$868,000. Funds amounting to BDS\$236,000 have been advanced against 16 of the loans. BMFC has requested reimbursements for 13 loans from the HCF totalling BDS\$292,970. (BMFC may request reimbursement before or after actual advances have been made.)

Information on these 13 loans indicates that the average loan amount is BDS\$22,536; individually they range from BDS\$17,357 to BDS\$24,360, considerably less than the maximum allowable under the project. This reflects household income ranging from BDS\$8,232 to BDS\$14,872. The median borrower income is BDS\$10,644, well below that required to carry a maximum loan. These figures suggest that the project, small though it may be at this point, is reaching a range of low income families, many of whom earn as little as 55% of the median income.

Household sizes vary from 1 to 4 persons, with the average being 2. All of the 13 loans now on the books are financing wood houses most of which are on rented land, and thus the loan term is uniformly 15 years.

The Project Implementation Agreement anticipated commitments of over BDS\$3,800,000 by this point in the project. The shortfall can be attributed to several causes. The high cost of houses available on the market, the complexity of the construction process and the time required to build a house were underestimated. Downpayment and soft cost requirements demand personal savings in excess of those usually available to low income people. Builders have been hesitant to propose and/or construct dwelling units which fit both the project limitations and the pocketbooks of the target population. Administrative difficulties have slowed the project's ability to mortgage certain units.

Chattel homes on rented land are one solution to the high cost of new housing. However, such housing adds an additional element to the problem of downpayments. If a borrower does not own the land on which he/she is building, only the parts of house that can be moved are considered in valuing the house. For a timber house, costs associated with building a foundation, providing sewage disposal and a masonry wall for bath and kitchen, cannot be included in the value of the house for purposes of determining mortgage size, because they cannot be sold if the borrower defaults. This adds substantially to the costs which a borrower must pay directly and further increases the amount of savings a household must have.

Also, there is the problem of actually getting the house sited and built. In the absence of builder-developer built homes affordable by the target population, some individuals have found a house spot, contracted for the preparation of a site plan, submitted the site plan to the Office of Town and Country Planning, received approval, contracted for the design of a house, hired a builder and thus built him/herself a house which has been mortgaged under this program. This process is however, both expensive and time consuming. BMFC anticipates that the process takes at least 6 months to a year. BMFC makes construction advances to individuals which facilitates the process. It is the only financial institution to do so. Overall, the process is sufficiently difficult that few families have been able to take advantage of the availability of mortgage funds.

Builders and financial institutions also believe that people want houses that cost more than they can afford and will not accept lesser solutions. BMFC reports applicants present plans to build larger, more expensive homes than they can afford. Without low cost solutions being build it is hard to determine what would be an acceptable house to Barbadians within the price range they can afford.

If a household is planning to have a house built and obtain a BMFC mortgage, substantial cash outlay is required in addition to the 10% down payment. These so-called "soft costs" include payment of the BMFC's legal fees for mortgage preparation, recording and stamp duty fees, application fees for BMFC (BDS\$25) and Town Planning and fees for on-site inspections during and after construction.

Fire insurance is required, and in addition mortgage insurance on the full amount of the loan is required on chattel houses. The BMFC has recently agreed to finance mortgage insurance in the mortgage amount. While financing mortgage insurance reduces the front-end costs, it also reduces the amount of mortgage that can be assumed given what a household can afford to pay. Also, if draftsmen or architects are often used for house design fees must be paid for their services.

In essence, as a house price rises, the minimum 10% downpayment, coupled with legal and related fees which amount to an additional 8 to 10 percent of the house cost create front-end cash costs which are often greater than the personal savings low income earners have available. The Project Paper did not take into account the magnitude of these front-end costs. In the present market, few subdivision houses are being planned whose final cost is less than BDS\$50,000. Without both substantial personal savings and personal income at or very near the BDS\$16,000 maximum, these homes cannot be purchased by the target population.

The absence of readily available subdivisions offering moderate cost homes requires substantial explanation. The Project Paper anticipated that individual builders and developers would respond to the newly available HG mortgage funds by offering new, moderate priced homes which could be purchased under its terms, even though these builders had not produced units for this market before. This has not occurred. Overall, misperception has worked to slow the building community's response to the needs of the project. This issue is discussed at length in Section 17.2.1.2. By way of example the one instance where a solution was developed and built by Ideal Homes, cost and administrative difficulties have so far prevented the sales of the units under this program. Ideal Homes developed several models to sell under the HCF program, one of which it was prepared to sell at BDS\$45,000. Unfortunately, BMFC appraisals indicated that the unit was worth BDS\$58,000, and thus ineligible for the program. This problem however, has been recently resolved, with a decision that the lesser of the appraised value or

the purchase price may be considered the value of the unit for project purposes. With this decision, it is expected that a few of these units will go to settlement under the project.

This combination of factors - the difficulties associated with individual development of a house, underestimating the actual costs of purchasing a home, the lack of readily affordable units produced by the private sector, and administrative complexities - have resulted in disappointing outputs in this sub-project.

The evaluation team feels that serious steps have been taken by the MOHL to address this problem. Several builders are now expected to build units which will qualify for the program. Additional individual loans are now in processing which will increase to about 80 the number of loans approved. As noted in section 17.2.1.2, the NHC is developing a program of cooperating with builders to provide serviced sites for construction of units eligible for purchase under this program, and there is clear evidence that a variety of low priced units will be developed. Finally, the MOHL has proposed a starter home demonstration project to bring smaller, relatively inexpensive homes to the marketplace. These efforts represent an institutional response to facilitate active private sector participation in providing low and moderate income shelter consistent with the Government's housing policy objectives outlined in the White Paper on Housing. Although the team perceives some difficulties with each of these last two efforts (see section 17.2.1.2), they will promote in some form the output of this subproject and may move the project closer to its end of project status.

Special note needs to be made of MOHL actions, largely initiatives by staff of the HCF, to improve program implementation. The role of this staff is far more extensive than was originally contemplated. In administering the HG program, staff of the HCF have been called upon to develop a variety of initiatives to insure that the program is successfully implemented. These have included the two mentioned above: (1) development of a project to demonstrate the marketability of starter homes and (2) development of a competitive scheme to earmark mortgage funds for these builders to organize their participation in the program. In addition the HCF negotiated an agreement with Town Planning to give priority consideration to HCF applicants and negotiated as well with the Insurance Corporation of Barbados to eliminate the requirement of a formal lease for insurable chattel loans. The HCF has prepared brochures to inform the public on the program and how to secure Town Planning approvals, and also prepared and developed radio and T.V. publicity about the program. The HCF monitors on a regular basis a sample of the loans made by lenders and periodically reviews policy, procedural and problem issues with the BMFC. Also HCF provides technical assistance to BMFC applicants. Furthermore, recently the HCF negotiated an agreement with the BMFC to finance the legal costs associated with buying a house.

The role of BMFC in this activity presents special challenges. While the BMFC is generally acknowledged to be among the better managed of the units of the Barbadian Government, its role in this project has been narrowly conceived to making loans, and not to providing necessary technical assistance to borrowers. Through this project, the BMFC has been given clear responsibility for promoting low income housing, yet it seems uncertain as to what this requires. It is anxious to avoid the pitfalls of prior NHC projects and is concerned that over-involvement in this arena will somehow reduce its ability to function effectively in the mortgage finance area as a whole. In the absence of an aggressive stance from the BMFC, the HCF unit took on an extensive marketing and technical assistance program, (outlined above) designed to increase the number of families which made it through the BMFC process to a HG supported mortgage. The evaluation team questions whether this is an appropriate role for the HCF staff, and while recognizing its contribution to the success of the program to date, suggests that alternate means of providing this individual counseling should be sought. The BMFC could be encouraged to take on this function internally, perhaps coupled with an alternate means of providing legal and design assistance. While a special unit could probably be created, it appears that this function is more appropriately BMFC's than the HCF's. An alternate approach would be the creation of an independent housing advisory unit, whose mission it is to assist low and moderate income families through the design, legal and financing requirements and to promote the use of the HG and related programs.

Solutions should also be sought to reduce the front end costs of home purchase. While it is beyond the scope of this evaluation to recommend specific changes in the way legal services are rendered in Barbados there appear to be some possibilities which could be explored. BMFC could hire an internal legal staff, whose responsibility it would be to handle the mortgage related legal work needed by BMFC. A flat fee would be charged borrowers, who would have the option of hiring a personal attorney, or relying on the legal work of the BMFC. Adequate legal services would be provided at a fixed cost. Sufficient volume would have to exist in order to make this a cost-effective option. An alternative to in house legal staff would be a retainer arrangement between the BMFC and a private law firm, with fees set to reflect the repetitive nature of the work. Again, the borrower would have the option of retaining private counsel or accepting the legal work by the law firm on retainer from BMFC. Perhaps the most effective way of dealing with this issue would be to request the cooperation of the Bar Association in finding a reasonable solution. The current Bar Association President has indicated willingness to approach the matter; it should most certainly be pursued.

For its part, Government should also examine ways of reducing costs related to this program. A flat fee for recording of title, a reduction in stamp duty and reducing or waiving application fees for the Office of Town and Country Planning are three

possibilities. As a unit cost, these items represent small increments to the income of the Government of Barbados, but as an individual cost, they represent significant disincentives to the successful functioning of the project.

In the main, however, the evaluation teams feels that for this element of the project to reach its successful conclusion, the builders and developers must participate. The individual building process is generally both too expensive and too complex to be successfully completed by many low income families. If however, the private sector can be induced to provide a range of moderate cost housing solutions, there is a possibility that the total of about 200 loans projected using HG funds can be achieved. Without such cooperation, it is unlikely that more than 50 loans will be generated per year. The participation in the program by the trust companies would also increase the potential for expediting the disbursement of funds (see Section 17.2.1.1.1).

The perception by some financial institutions including the BMFC and private sector builders that the program is temporary and that no further funds will be available after the HG program, may also be inhibiting participation. This suggests the need to address the question of overall finance resources for the housing sector. This is partially being addressed by making the HCF a revolving fund. Further consideration to this issue is being undertaken in development of and deliberations on the National Housing Plan.

17.1.2. Improved Housing Conditions

The logical framework in the Project Paper describes a major project output as the "improved condition of the houses of a significant number of families." These loans would be "to individuals for improvements and expansion to their homes and will serve to upgrade and expand the housing stock".

The home improvement loan sub-program is structured currently as follows:

HG Allocation	US\$5 million (BDS\$10 million)
Projected Number of Loans	3,333
Average Loan Size	BDS\$3,000
Maximum Loan Size	BDS\$8,000
Maximum House Value	BDS\$50,000
Maximum Household Income	BDS\$16,000

The following chart compares disbursement in the home improvement loan subproject under the first Master Plan with actual and currently projected disbursements. The revised Master Plan dated January 1985 outlined a new projected disbursement schedule for home improvement loans for the January - June, 1985 period.

HOME IMPROVEMENT LOANS
PROJECTED VS ACTUAL DISBURSEMENTS

(US\$)

Disbursement Schedule	Master Plan Projections	Actual*	Variance	%
<hr/>				
Jul - Dec 1983				
Commercial Banks	1,125,000	46,350	(107,865)	4.1
Credit Unions	533,612	211,283	(322,329)	39.6
Total	1,658,612	257,633	(91,751)	15.5
Jan - June 1984				
Commercial Banks	1,125,000	885,888	(239,112)	78.7
Credit Unions	487,584	269,435	(218,149)	55.3
Total	1,612,584	1,155,323	(457,261)	71.6
July - Dec 1984				
Commercial Banks	1,125,000	998,377	(126,623)	88.7
Credit Unions	-	-	-	-
Total	1,125,000	998,377	(126,625)	88.7
Jan - June 1985				
Commercial Banks	638,434	1,450,000	811,566	227.6
Credit Unions	-	300,000	300,000	-
Total	638,434	1,750,000	1,111,566	274.1
<hr/>				
Total Through 6/85				
Commercial Banks	4,013,434	3,380,615	(632,819)	84.2
Credit Unions	1,021,196	780,718	(240,478)	76.5
Total through 6/85	5,034,630	4,161,333	(873,297)	82.7

*Actual is for October-December 1983 as first disbursements were made in October.

January - June 1985 is HCF Estimate. Actual Jan-Feb 1985 Commercial Banks lent US\$126,550; Credit Unions lent US\$20,350.

Outputs have not reached anticipated levels with approximately 51% disbursed as of mid-February 1985. Commercial banks initially were expected to take about 80% of funds available and credit unions about 20%. The revised Master Plan projects only slightly higher commercial bank participation of about 84% through June 1985. Clearly disbursements, especially in the initial year were slower than expected.

17.1.2.1. Commercial Banks. To date commercial banks have made 1,219 loans totalling BDS\$4,114,328 with BDS\$3,375 the average loan amount.

A major constraint to greater commercial bank participation is the interest rate on the HCF funds of 11.65% set to recover the cost of funds of the HG loan. The cost of funds for commercial banks' own funds ranges from 6% to 8%. Thus the interest rate spread on home improvement loans is substantially greater using commercial bank deposits than using HG funds. However, when home improvement loans are larger than BDS\$5,000 (up to BDS\$8,000), when portfolio ceilings are met, or when the bank is not liquid, commercial banks find HCF funds for home improvement loans particularly attractive. For example, Scotia Bank began to participate in the program in November of 1984. Scotia Bank cited as reasons for previous non-participation that the bank had been very liquid and was not at the Central Bank's limits on lending. Scotia joined to obtain additional funds and viewed the program as a new business opportunity. Using add-on interest, effective rates on commercial bank home improvement loans range from 18 to 22%. Thus while spreads on HCF funded loans are not as large as on deposits funded loans, the returns are still attractive and sufficient to compensate for any perceived increase in risk to serve low-income borrowers and to cover costs associated with servicing a number of small loans.

Despite the attractive returns, several commercial banks have not participated or only participated for a short period of time in the HCF program. Lack of participation by some banks such as Barclays and Canadian Imperial Bank of Commerce can be attributed to their perception of their primary objective being to serve the commercial sector or higher income groups rather than the retail market. Because these institutions have at different times shown interest, the HCF should continue to encourage these banks to participate in the program.

The commercial banks indicate that defaults and loans in arrears have not been a problem. One bank noted that loans in arrears are a function of the unemployment rate, but the bank is not concerned about actual defaults.

Currently Royal Bank of Canada and Scotia Bank are the major commercial bank participants in the program. Scotia intends to request an allocation of BDS\$750,000 for the April to September period. The HCF projects disbursements of BDS\$1,350,000 for the quarter January - March 1985.

17.1.2.2. Credit Unions. Credit union participation in the home improvement program has totalled BDS\$1,002,134 to date. Credit unions have made 327 loans averaging BDS\$3,065 per loan. Only three employment-based credit unions have participated. The initial Master Plan projected that four employment-based and two community credit unions would participate. The Public Workers and Teachers participated in the program from its inception until April and June 1984 respectively. The borrowings of these credit unions dropped off as increases in public sector salaries made many of their members ineligible for the program because their incomes were too high to meet the BDS\$16,000 eligibility standard. In addition these unions believed that borrowing from the HCF was not cost effective because the 2% spread was not sufficient to cover administrative costs. The recent increase in spread to 4% as a result of lowering the cost of borrowing from HCF to 8% may result in some loan activity from those people in the credit unions who still earn less than BDS\$16,000.

The one exception is the employee-based Purity Credit Union which has a membership with varied levels of income and active management which works with members to secure low cost housing solutions. Participation by Purity can be expected to continue.

The Project Paper stated that it was not expected that the community-based credit unions would be a factor because of the limited volume of home improvement lending they did, particularly above BDS\$3,000, and the lack of trained staff to administer such loans. In fact the primary reason for non-participation by the larger community-based credit unions has been the high interest rates on HCF funds. Some community-based credit unions lend at rates as low as 6% and do not want to lend to members at a 12% rate because this is not perceived as in the interest of the community. Furthermore, the HCF funds were made available at 10% while the maximum on-lending rate for credit unions was 12%. A two percent spread was not considered sufficient. The 10% rate has recently been reduced to 8%. The increase to a 4% spread may facilitate participation by community-based credit unions, although the questions of capacity of the community-based credit unions to service more than a small number of loans remain. Technical assistance by the Barbados Co-operative Credit Union League supported by HCF may facilitate eventual community-based credit union participation (see Section 16.1.2.3.).

Based on the above, credit union participation up to the Master Plan projected level of about BDS\$2 million cannot be expected in the near future.

17.1.2.3. Home Improvement Loans Contribution to Improved Housing Conditions. The home improvement loan sub-project appears to be meeting the needs of the target population for funds to undertake repairs and improvements to their homes, whether on owned or rented land. Commercial banks have indicated that a very large proportion of the loans they have made under the

program are for improvements to chattel houses while credit unions state that many loans are for improvement to homes which are on owned land.

A random sample of about 25% of the loans made through December 1984 indicates that about 10% of loans have been made for toilet facilities (8.9%) and foundation improvements (1.7%) which are the type of improvements that would typically not be made except to houses on owned land. Roof repairs (35% of all borrowers and 43% of bank borrowers) are by far the most common uses of home improvement funds.

Over 86% of loans were made to borrowers with household incomes ranging from BDS\$5,000 to BDS\$14,000. Over 20% were in the BDS\$5,000 to BDS\$8,000 income range and over 30% had incomes ranging from BDS\$8,000 to BDS\$10,000. These figures suggest that the program is serving the loan needs of low income people over a wide range of income levels and not just at or near the median. It is noted, however, that commercial banks and credit unions indicate that if income limits were increased to BDS\$20,000 for example, significantly more loans could be made. The evidence presented by loans made to date does not confirm that an increase in eligible incomes would result in more lending, in particular for commercial banks.

About 40% of total home improvement loans have been made to service workers with about 46% of bank loans being made to the same group. Credit unions lent more often than banks to professional and clerical employees (46% of credit union loans). Commercial banks indicated that loans under the program were typically to customers to whom the banks had lent money previously. This suggests that additional promotion of the program by participating banks and continued efforts to involve other banks will facilitate access of the target group to the program.

The average loan size for commercial bank loans is BDS\$3,375 and for credit unions slightly less at BDS\$3,065. About 35% of the loans ranged from BDS\$1,000 to BDS\$2,999, and another 37% ranged in size from BDS\$3,000 to BDS\$4,999. Twenty-two percent were for amounts of BDS\$5,000 or more.

In summary, overall the home improvement loan sub-project can be said to be operating effectively. Broadening the base of participating institutions would provide greater access to the target population. However, credit union participation is expected to be limited. As long as the eligible income remains BDS\$15,000, employment based credit unions will not make many loans under the program. Community-based credit union participation cannot be expected to be significant until they have developed requisite capacity to make and service loans under the program. AID supported technical assistance for training under the sponsorship of the Barbados Co-operative Credit Union League and eventual development of a central loan servicing capacity could facilitate participation by these credit unions.

17.1.3. Ownership and Improved Services on "Tenantry Plots"

The tenantry sub-project of the HG has as its objective to facilitate ownership and to improve services on tenantry plots through providing loan financing for lot purchase and home improvements to carry out the purposes of the 1980 Tenancies Freehold Purchase Act. Two million US dollars (BDS\$4 million) of the funds are allocated to this subproject to assist in purchase and improvements to 1,000 tenantry plots. The average loan size would be US\$2,000 (BDS\$4,000). The home improvement loan portion of the tenantry subproject is required to meet all the criteria of the Home Improvement Loan subproject (discussed in the previous section).

A tenantry is an area of land, usually not officially subdivided into house spots, but rented as sites for chattel houses. The Tenancies Freehold Purchase Act (1980 - 53 Laws of Barbados) and the Tenancies Development Act (1980-54 Laws of Barbados) provide a scheme for the purchase of house spots by their occupants and the improvement of tenantry infrastructure by the MOHL. The Tenancies Freehold Purchase Act provides for purchase of plantation tenancies (mostly rural) at a low fixed rate per square foot. The price of non-plantation tenancies (urban) is to be negotiated between the landlord and the tenant purchaser. Before tenantry house spots can be sold, eligibility to purchase under the law must be determined and the land surveyed in order to convey title. Socio-economic surveys, surveying of lots and design work were required as a first step to implement the Tenancies Acts. The costs for these activities were considered as the GOB contribution to this project. Of the BDS\$1,260,000 Sugar Fund Levy funds allocated by the GOB, BDS\$800,000 were spent for these purposes on plantation tenancies.

The Government of Barbados has established a loan fund with BDS\$400,000 in Sugar Levy funds, administered by the Barbados National Bank to finance the purchase of tenantry house spots. Special consideration, such as lower interest rates and waiving of down payment requirements, is given to old age pensioners and families with a weekly income of less than BDS\$100.

No loans have been made to date under the HG Tenantry Program subproject. The primary reasons for the lack of activity relate to the amount of preliminary work required before tenancies could be purchased and the lack of need for loan funds for purchase of house spots on plantation tenancies which are the first tenancies being conveyed. The progress on the implementation of the Tenancies Acts and reasons for the lack of utilization of loan funds are described in more detail below. It is the opinion of the evaluation team that the subproject as initially conceived did not take into account adequately the amount of time required to implement the program. Thus we conclude that loans under the tenantry subprogram could not have been disbursed as quickly as envisioned in the original project documents. Furthermore, lack of information on effective demand, cost and infrastructure needs made

estimates of the timing of disbursements even more difficult. The Master Plan projected disbursements of US\$1,783,746 in the period from January 1984 to June 1985, one third of which would be loaned in each six month period.

The Housing and Planning Unit in the MOHL has been taking actively the steps required to facilitate tenantry purchases. Major efforts to date have concentrated on plantation tenancies. Three hundred and six plantation tenancies areas have been identified, on which approximately 6,000 housing units are located. Interviews have been conducted to determine eligibility to purchase, assess infrastructure needs and determine socio-economic characteristics of the tenants. This data could be compiled using a mini-computer recently purchased as an eligible expenditure under the HG loan. It is estimated that 4,500 to 5,000 households will be eligible to purchase their plantation tenancy house spots. Lot plans required for legal conveyance have been completed for 3,400 lots; almost all the remaining lots have been surveyed and lot plans are being prepared. Nine hundred and ten plantation tenantry plots have been sold or about 20% of the lots where tenants are eligible to purchase. Conveyances are increasing as crops come in and people have money for purchase. Also lawyers are being contacted directly to speed up the conveyance process. Apparently lawyers often do not make these conveyances a priority since fees are set at a maximum of BDS\$100 which is significantly below normal rates.

The Housing Planning Unit at the MOHL projects the number of conveyances will grow rapidly to about 2,000 by the end of 1985 and then will pick up again once the remaining surveys are completed. For these the MOHL plans to use a word processor to prepare conveyances, and then the conveyances will be provided directly to the landlord's attorneys, thus speeding up the legal process. The MOHL expects transfer of plantation tenantry house spots to reach approximately about 3,000 within the next two years and grow slowly thereafter. If a 4 person household is assumed, about 12,000 people or 5% of the population will have been affected.

Not all eligible tenants are expected to purchase plantation tenantry house spots for a number of reasons. Data indicate that pensioners and single women heads-of-household have marginal interest in purchase. Some also cite liability for land tax triggered by purchase as a deterrent. Tenants cite several reasons for deciding to purchase. These include allowing inheritance by family members if the owner dies without a will, making improvements of a more permanent nature such as permanent foundations and suck wells* and facilitating obtaining a loan since the property can be mortgaged as security.

To date the Barbados National Bank (BNB) which manages both the Sugar Levy and the HCF loan funds for tenantry purchase has made 25 loans on plantation tenancies, none of which used HCF funds. A few have been financed by commercial banks. Since the purchase price of plantation tenancies is set by law at a low price

of BDS\$.10 per foot most purchasers have paid cash or purchased on an installment arrangement with the seller. It is estimated that very few people will need loan assistance to purchase plantation tenantry house spots.

Overall, the MOHL appears to be effectively managing the implementation of the Tenancies Freehold Act for plantation tenancies.

In contrast to plantation tenancies, very few non-plantation (mostly urban) tenantry house spots have been purchased by tenants. No specific figures on sales are available. It is estimated that fewer than 100 lots have been sold. The Tenancies Freehold Purchase Act establishes a procedure for title transfer which can operate independently and allows the price to be set by negotiation between landlord and tenant. No MOHL intervention is required in setting the price if the buyer and seller agree on the price. However, the Tenancies Development Act provides for Government intervention in those tenancies which are not adequately serviced with infrastructure.

The Project Paper noted that the Government also intends to provide for the installation of or improvements to infrastructure in selected tenancies under the Tenancies Development Act.

The MOHL is currently developing a strategy for facilitating the purchase of non-plantation tenancies. The areas requiring upgrading will be designated and plans prepared for the required work. After land surveys are completed, upgrading will be undertaken, the cost of which will be recovered in the sales price and indirectly through property taxation. This process will take time and upgrading will be phased. What is important is that the process used in upgrading be efficient and effective.

Exact figures on the number of tenancies and tenantry lots is not yet available. The MOHL estimates that there are roughly 300 non-plantation tenancies each of which has 6 or more house spots and cover about 12.5 million square feet. Based on an estimated average lot size of 2,500 square feet, these non-plantation tenantry lots would number about 5,000. No estimates are available on the number and size of tenancies that have less than six house spots.

Since few sales have occurred, the purchase price of non-plantation tenancies is unknown. What is known is that potential buyers are likely to need loans to be able to purchase land. Furthermore when upgrading costs are included, the need would appear to be even greater. However actual demand to buy is

* A sewage disposal system which discharges into the highly porous coral rock is called a "suck well". To prevent pollution of the underground water supply, this system is strictly controlled to stipulated areas only.

unknown. While surveys of some areas needing upgrading were made several years ago that indicated people had a desire to purchase, whether or not these people can afford to or will want to buy now, cannot be determined without further survey work. Clearly some tenants may wish to continue renting since rents are generally much lower than the mortgage payment would be if the tenant obtained a loan to buy the land. Tenants can basically remain on their house spots indefinitely as long as rents are paid. Purchase also means that property taxes must be paid. In addition, legal fees for conveyances are high. The Bar Association Fee Schedule indicates that legal fees for a conveyance with a mortgage for an amount up to BDS\$10,000 would be at least BDS\$925. Surveying would be in addition. Also the process of negotiation, transfer of title and obtaining a loan is expected to be time consuming. Five to nine months is likely if upgrading is not involved. Thus, for many people a decision not to purchase may be the economically attractive option.

Given the uncertainty about demand, prices and the actual number and size of non-plantation tenancies, the need for HCF funds in the Tenantry Program subproject and the timing of disbursements are difficult to estimate. Given the above, the HCF staff estimate the following gradual disbursement schedule.

	<u>US\$</u>
Jan - June 1985	152,500
July - Dec. 1985	300,000
Jan - June 1986	400,000
July - Dec. 1986	<u>1,000,000</u>
	<u>1,852,500</u>

Mechanisms are now in place for making loans under the program. A loan agreement has recently been signed between the HCF and the BNB to make loans for tenantry house spot purchase and home improvements. The loan agreement provides funds to the BNB at 9% for on-lending at a rate of not more than 12 3/4% (3 3/4% spread). The delay in concluding the loan agreement related primarily to questions about the appropriate lending rate and spread. The BNB is planning an advertising campaign and the MOHL is attempting to obtain public radio spots to publicize the program.

Thus the BNB now appears to be ready to actively participate in the program. BNB has the staff and the capacity to make these tenantry house spot and home improvement loans. The BNB's role in administering the Sugar Levy funds is basically as trustee over which they exert little direct control. Whether they will give loans under the HCF tenantry program adequate priority at this time is unclear.

Several commercial banks have indicated that they have received requests to lend for purchase of tenantry plots. The HCF has decided that commercial banks could also use HCF funds for tenantry loans on the same terms and conditions as for home

improvement loans. It is unclear, however, whether the Tenancies Freehold Purchase Act would need to be amended as it only contemplated BNB as the lender for tenantry house spot purchase. Clearly, having several lenders participate would allow potential purchasers more flexibility in making loan arrangements.

One banker brought up the question of whether the Tenancies Freehold Purchase Act allows a bank to perfect security in the land since the law requires that the land not be resold for a five year period. In the event of default, the rights of the bank to foreclose and dispose of the property easily are not certain. A legal clarification, if not an amendment to the Tenancies Freehold Purchase Act, may be required. In order to secure commercial bank participation these two issues need to be investigated and resolved.

Many tenants who need a loan to purchase land would also like to make home improvements such as adding a permanent foundation and a bathroom. Combining the two loans is possible but the BDS\$8,000 loan limit may be too low for such a combined loan. As tenantry house spot sales occur and land prices are better known, consideration should be given to increasing the loan ceiling when a home improvement loan is also sought.

The price of tenantry land that is sold is also a matter which should be of concern to the MOHL and the GOB. The price for urban tenantry land is determined by market value. Buyers and sellers may have very different views of what is the market value. This could result in very different costs per square foot. The market value of land with a chattel house could be valued at the net present value to the seller of the rental income stream. Given controlled rents this may be as low or lower than BDS\$1.00 per square foot. The market value of developed land without a house may be about BDS\$3.00 per square foot. Given other market alternatives, the value to the buyer may be this high or higher.

Assuming 10 million square feet are sold at BDS\$1.00 per square foot, BDS\$10 million would be transferred. At BDS\$3.00 per square foot, BDS\$30 million would change hands. The actual square footage that could potentially be sold might be much larger than 10 million square feet; thus the money transfers could be even greater. Transfers of this magnitude have economic consequences. For example substantial amounts of financing would be required and more would be needed at higher prices. Higher prices mean fewer people would qualify for a loan to buy. Sellers would have disposable income which could be used for current consumption rather than investment or exported if the landlord resides outside Barbados. Furthermore, if upgrading is needed, the capacity of buyers to pay for upgrading would be reduced if the initial sales price was high.

The MOHL is now turning its attention to non-plantation tenancies and to their needs for upgrading. The upgrading activities must be carefully considered to provide needed services to tenancies in a cost efficient manner, and if interspersed, to

privately owned plots as well. Attention needs to be paid to effective cost recovery in order to conserve scarce resources.

17.2 Policy and Institutional Change

17.2.1. Private Sector Experienced in Producing for Low Income People

17.2.1.1. Financial Institutions

The logical framework specifies a private sector experienced in producing for low income people as a major project output. With respect to financial institutions this requires that the BMFC, trust companies, commercial banks and credit unions have the experience and capacity to lend to the target population in a manner consistent with the objectives of the mortgage, home improvement and tenantry loan program subprojects. The Project Paper notes that if commercial banks (and trust companies) are to participate in the program, they will need to gain exposure to and experience with people in an income level with whom they did not previously deal. The Project Paper also states that institutionally the outputs will center on an "expanded and improved" BMFC and an "increased capacity" for credit unions to make home improvement loans. At least one institution has the ability with adequate staff, policies and procedures to lend to the target group in each of the subprojects. Some financial institutions have the capacity to lend, but the extent of their willingness to meet the needs of the target group is less clear (see the following discussion).

17.2.1.1.1. Commercial Banks

Of the six banks that have participated in the HCF home improvement loan program, (two of which are now very active) all have the capacity to make home improvement loans to the target income group. The two currently active participants have many customers in the target group and have substantial experience lending to them. Those that have not participated or participated only for a short time either do not see this group as a focus of their business or prefer to deploy their staff and loan resources in other areas. The National Bank, BNB, which has a large client base has only participated in the program for one month, December 1984. They do not appear to be experienced in lending to the target group, although with about 20 percent of the national depositor base they can be expected to have many depositors in the target group.

The BNB recently reached agreement with the HCF on lending for tenantry purchase under the Tenancies Freehold Purchase Act and for home improvement loans to those people who buy their tenancies. Concern over receiving an adequate spread appears to have been the major impediment to making an agreement earlier. While BNB does not have direct experience in lending for purchase of tenantry house spots, adequate procedures exist and staff is available. Since very few non-plantation tenantry lots for

which HCF resources would most likely be used have been purchased, the delay in reaching agreement does not seem to have hindered implementation of the lending program.

With respect to mortgage lending as with the other loan programs, financial institutions were expected to lend under their existing policies and procedures. Commercial banks and trust companies, as was noted in the Project Paper, have no experience in lending on timber houses and view them as having a higher element of risk and much shorter life than masonry homes. In order for these institutions to participate, policies would have to be changed. To compensate for this perceived risk and a for developing capable staff to do this type of lending, these institutions stated they would require spreads of 4-5 percent. This situation does not appear to have changed much. However, Caribbean Commercial Trust Company has recently agreed to participate on the basis of a 2.5 percent spread. Also in interviews Royal Trust Company and the BNB expressed interest in the program. The lack of long term funds, particularly from the NIF, may be the cause of this renewed interest in the HCF fund.

17.2.1.1.2. Barbados Mortgage

Finance Company

The Project Paper states that BMFC, as a relatively smaller institution which would be a significant lender under the mortgage program, would be the beneficiary of specialized short term technical assistance. At the conclusion of the program, BMFC would have "increased its overall portfolio, have added additional staff, expanded its experience to a different clientele and improved its operating procedures."

To date the expansion of BMFC's mortgage portfolio has been modest. The HCF has only disbursed BDS\$292,970 to the BMFC covering 13 loans, all in the last six months. BMFC anticipates lending a total of about BDS\$1.5 million by yearend 1985. This gradual increase in portfolio size will not require additional staff and a new computer facility has been ordered which will result in even less need for additional staff as the program progresses.

Clearly BMFC has expanded its experience to a different clientele. All loans made so far have been to households with incomes below BDS\$15,000 and all have been made for timber houses, some of which are on rented land. Over 1,900 people have been interviewed, 1,079 applications handed out and 118 applications completed and submitted to BMFC. Thus, BMFC staff have had substantial experience with potential low income borrowers. BMFC staff have assisted people in completing applications, helped people to estimate costs and helped them to understand the process involved in getting site and plot approvals, though not perhaps to the extent required. BMFC makes progress payments which home buyers need if they are not buying an already completed subdivision house, and BMFC recently agreed to finance legal fees in the loan. Thus, the BMFC has had to develop and

adjust policies and procedures to meet the specific needs of the target group. The complexity of the entire process of obtaining a house and mortgage loan and the target group's lack of experience and resources suggests, however, that more consumer assistance is needed at the BMFC or in some other appropriate organization. Also innovative means to reduce front-end costs, in particular legal fees and mortgage insurance coverage, need to be developed. The requirement of total mortgage insurance coverage is costly and appears to be an overly cautious underwriting procedure. Legal action should be taken to change this procedure which is currently required by the laws governing the BMFC. While the BMFC seems to have made progress in meeting the target group's needs, issues such as mortgage insurance and up front "soft" costs still need to be addressed.

Alternate forms of mortgages such as graduated payment mortgage are currently being studied by BMFC as a means of making home ownership more affordable to the target groups. Such efforts should be continued.

With respect to operating procedures, in addition to items mentioned above, the BMFC operating manuals have been revised and updated through provision of technical assistance under the USAID grant. These revised manuals are being used, although sometimes alongside the old manuals because of staff uncertainty about whether everything is covered in the new manuals. Also in some cases the procedures in the new manuals have not been fully implemented.

Consultant assistance was also provided to investigate means of raising additional funding for mortgage loans, including the possibility of the BMFC becoming a deposit-taking institution. A more detailed study on becoming a depository institution may be undertaken, partially funded by the UNDP. The feasibility of a secondary mortgage market facility is now being studied by the Central Bank. Were such a facility to be implemented, the BMFC might well have access to a vehicle for expanding its lending activities.

Overall progress seems to be occurring in all the areas outlined in the Project Paper, as contributing to the institutional output of an "expanded and improved" BMFC. Expansion will however be much slower than anticipated due to the length of time needed to start the program which can be partially attributed to the cautious stance of management and the need to gain experience with a new target group as well as the problems associated with the cost of obtaining a new house. (see Section 17.1.1.).

17.2.1.1.3. Credit Unions

The Project Paper suggests that only 6-8 of 27 credit unions would participate in the program because of limited size, general capability and interest. The 6-8 credit unions would expand their activities considerably, improve their management and increase their membership.

To date three credit unions, all employment based, have participated in the program and only one is active now. Salary increases that made many members ineligible and the two point spread which is viewed as too low have limited employment-based credit union participation. The recent decision to increase the spread to 4 percent may generate more interest where members meet eligibility requirements.

Community-based credit unions have not participated in the program. Their limited size, capacity and interest have not changed substantially since the program began. While membership in credit unions is growing, so far this is unrelated to the HCF program.

With respect to management improvement, the HCF is working with the Barbados Co-operative Credit Union League to provide training to credit union staff. Using the League as a vehicle for training seems to be the most effective way to provide assistance. The first HCF supported training in the area of loan management will take place in March 1985.

The HCF has encouraged the League to establish a central loan servicing and loan origination facility to enable smaller credit unions to participate in the Program. Also, eventually the League might manage a central deposit function which would facilitate allocation of the credit unions' deposit resources where there is greatest loan demand, increase earnings on unloaned funds through pooling of resources and establish prudent, improved cash management. HCF is working with the League on these projects. These efforts are supported by the evaluation team as an effective way to improve credit union operations in Barbados.

17.2.1.2. Builders

The project design envisioned that private builders, both large and small would respond to the availability of mortgage funds for low income households by developing land and building low cost housing units for qualified purchasers.

Initially builders believed they could not build a solution with the BDS\$35,000 limit. When the limitation was increased to BDS\$50,000, several builders sought to participate in the program offering "wall" (masonry) homes in the range of BDS\$45,000 to BDS\$50,000. In addition, a special program was formulated to more directly stimulate their involvement. This mortgage set-aside program was initiated by the HCF in September, 1984 with a request that builder/developers submit proposals to the HCF. Eight proposals were received and three were selected on the basis of suitability of their proposed units, cost of the units, their access to suitable land which was ready for development, and their prior experience, i.e. the likelihood that they could deliver units within projected budget and schedule. Mortgage funds in the

amount of BDS\$670,000 were set aside as a forward commitment for each of the the three developers selected. The funds were made available in November 1984, and the commitment is good for six months but may be extended. As yet none of these funds have been used, but one builder has completed six units and is currently attempting to market them. He reports problems finding buyers who qualify for the loan, meet the income limits, and also have the required cash for downpayment and up front "soft costs". In retrospect, he concedes that building a BDS\$50,000 house, e.g. the maximum allowed, was not a prudent decision. He now plans to sell these units to a slightly higher income group outside the HCF program and try a lower cost unit for the mortgage set aside program.

In a subsequent discussion with the same builder, he indicated that he will try a semi-detached house scheme on smaller lots to reach a lower cost solution. This will be done on land he already owns. He will also be participating in the NHC subdivision scheme. He anticipates needing more than the BDS\$670,000 presently set aside for him. Another builder has already produced homes for sale under the HCF mortgage set aside but to date no loans have been closed due to a problem with the valuation being set at BDS\$58,000 despite the fact that the sales price set by the builder was BDS\$45,000. This was subsequently resolved by BMFC accepting the lower of value or sales price. The same builder also has built an experimental home with materials commonly used in highrise building in the U.S., but unfamiliar to lenders in Barbados. While the house has a conventional appearance, the unfamiliar materials have led the lender to classify the house in the same category as timber houses for the purpose of setting the term of the mortgages. With a 15 year term the payments on this BDS\$35,000 unit are higher than they would be if the standard 25 year term for masonry houses was used. Thus few people could afford this house.

The Evaluation Team has also met with one of the five builders who submitted proposals but was not selected for the special set aside program. This builder has approached BNB and arranged his own forward commitment in order to build a small prefabricated unit for sale under the program. He has imported 18 prototype units from Puerto Rico as a demonstration and intends to have locally produced units on the market within a few months. While the units he had imported would be too expensive to qualify for the mortgage program, the system is adaptable to smaller units and is in fact quite suitable to an add-on or "expandable home" approach which could serve a very broad segment of the market.

To date the project can show very little quantitative evidence of progress toward the outputs projected in the mortgage component of the project (see section 17.1.2). The total number of mortgages issued to date is 13, all of these to individuals who arranged their own construction. No loans have been made on builder/developer built units but this does not mean that builders have not learned a great deal about what is required to serve the low income housing market. The process has been

frustrating to both the builders and to the MOHL, but considerable progress has been made. The Evaluation Team has focused on an analysis of the process in order to try and identify the source of the frustrations. While builders have not yet successfully built units for the HCF program, they seem to be building much cheaper units than in the past. While not a solution, this is a step in the right direction. Assuming that builders could make an abrupt change from expensive to low income housing where they had no experience was perhaps too optimistic. Some period of transition may have been necessary.

The mortgage limit was raised from BDS\$24,000 to approximately BDS\$42,000 as a result of increasing the allowable house value from BDS\$35,000 to BDS\$50,000. All of the builders were apparently informed of the change in the program criteria. They were told that the mortgageable asset was not to exceed BDS\$50,000. Some interpreted that to mean the cost of the house, others the total sales price, others the price of the house with land being in addition, but all seemed to understand this change in the allowable "ceiling" to be permission if not instructions from the HCF to build larger and more expensive units. More important perhaps than the factual misunderstanding is the perceptual misunderstanding which the builders have. The program is now and apparently has been from the beginning seen by the private sector builders as a government-run program. While there will always be legitimate government functions associated with housing, the GOB must shift the responsibility for determining the appropriate solutions to the private sector if the objectives of the project are to be achieved. The program is still perceived to be a government-run program with decisions being made as to standards, costs and suitability of units by the Government rather than by either the builder/developers or the purchasers. While some progress has been made in changing this perception, additional efforts are needed.

HCF now proposes to contract through NHC with a private contractor to construct several model "starter home" units using HCF funds for bridge financing during construction. NHC would then sell the units with mortgages being provided by BMFC under the mortgage component of the project. HCF's objective is to demonstrate to the private builder that a market exists for small low-cost units. The evaluation team agrees with one objective of the starter home demonstration but believes that a modified approach to implementing that demonstration could enhance its impact. Private sector builders still see the NHC as a government subsidized builder or land developer, i.e. NHC is part of the problem in building a private sector in Barbados. Builders cannot compete with NHC's BDS\$2.75 per sq. ft. land sale price. A further consequence of NHC pricing is public perception that privately developed land is too expensive. Working through NHC will reinforce the perception of this program as a government-run program and further undermine the potential of true participation by the private sector builders. The evidence suggests that the private builders want to participate in the program and are prepared to do so on terms which are workable for them. The evaluation team recommends that the starter home

demonstration be expanded and combined with the mortgage set-aside program, that the three builders previously selected each be told that they will be provided bridge financing to build three units each as models. The builder should be made responsible for the lot size and the unit design within more reasonable limits set by Town and Country Planning. The HCF should only specify that the units must be affordable under the current limits of the program. The suggestion might be offered that units well below the BDS\$50,000 maximum would have a broader potential market than those at BDS\$50,000 which require a buyer who earns exactly BDS\$16,000, no more and no less, and who has savings of roughly BDS\$8,000. Individual consultations might be organized with Town Planning participation for each of the three builders. An outside consultant might be used to work with the builders to develop a workable solution and a marketing plan. This approach might also be expanded to other builders as well.

17.2.2. National Housing Plan

Development of a National Plan for implementation has been a major objective of AID assistance to the GOB. While the Plan has not been completed substantial progress has been made.

The HPU and the senior housing advisor have played a major role in development and institutionalization of the housing policy preparation process. The institutionalization of the Plan preparation process is in effect a series of policy deliberations, decisions, and implementation procedures that are being put in place. When the Plan is finalized, now estimated to occur by June 1, 1985, the majority of its policy elements will have been carefully researched and discussed by technicians in various Ministries and by the GOB Planning and Priorities Committee which is chaired by the Prime Minister and composed of the members of Cabinet and Government officials with responsibilities for development policy and implementation.

Examples of progress toward policy objectives emerge from a careful assessment of Housing Plan issues included in the Implementation Agreement of HG 002:

17.2.2.1. Rationalization of the interest rate structure to make housing a more attractive prospect for investors: The current interest rate structure exists in a broader national economic context. Central Bank policy attempts to control the level of new construction to protect foreign exchange and prevent overheating of the construction sector. The Central Bank has approached this by restricting the interest rate permissible for home mortgages, and through the overall reserve and portfolio requirements under which the banks must operate. The interest rate, operating climate and general economic conditions have largely terminated mortgage lending by this sector, although some trust companies still make mortgage loans. Whether higher rates would increase the flow of funds to the sector is not clear. Speculation

by some bankers interviewed during the evaluation was that without Central Bank intervention, long-term mortgage rates would rise to 13 or 14%. Interest rates for short term consumer loans are limited by the Central Bank to a lesser extent. Limits are placed on the total consumer loans a bank may include in its portfolio, but home improvement loans under BDS\$5,000 and loans funded by the HCF program are exempt. These policies make home improvement lending very attractive to banks. At present, commercial bank home improvement loans range in effective cost from about 19 to 22%.

Overall, the interest rate structure associated with housing finance is consistent with the priorities set by the Central Bank for growth and direction of the national economy. While rates may not be market rates, particularly in the long-term lending area, they can be considered justified and rational within the broader context. There is little prospect that the Central Bank, and by inference, GOB economic policy will change to permit the free movement of interest rates.

The impacts of this policy on the housing sector vary. Interest rate policy has clearly not eliminated investment in new housing, but it has been reduced. Investment in home improvements is overall quite strong and encouraged by Central Bank policy, and given the nature of the housing stock, important to its long-term maintenance. Some homes are being constructed, using a combination of funds including personal savings, credit from lumber companies, some mortgage financing, and of course, the HG program.

Based on this overall assessment, the National Housing Plan envisions the level of investment in housing as continuing to be subject to national priorities and macro-economic concerns. Incremental, sectoral investments will be made in those areas identified as being of greatest need; however, the Plan will seek ways of improving liquidity to meet new construction needs. In light of economic situations precipitated in other countries by failure to consider individual sector needs in the context of broader economic issues, i.e. foreign exchange and inflation, this approach seems eminently rational.

17.2.2.2. The encouragement of home savings and loans associations including the re-organization of existing organizations to achieve this objective:

A final decision on the practicability and desirability of this concept has not yet been made. At present, there is in existence an adequate home finance infrastructure. The lack of mortgage finance is largely a function of recent Central Bank policies and general economic considerations rather than the absence of the necessary institutional environment. The chartering of savings and loans associations has been permitted by statute in Barbados since 1898. The marketplace has not responded, suggesting that existing institutions meet the savings and investment needs of the population. Finally, there is little evidence that available

savings are not already invested in existing savings institutions, giving rise to speculation that new institutions would merely shift existing deposits. The issue remains under consideration, however, and experts on contract have been included in the National Housing Plan deliberations on the establishment of such institutions. A recommendation to press the issue further may be incorporated in the Plan if evidence can be found that it is financially desirable.

17.2.2.3. The movement toward cost recovery in all housing programs:

Like overall rationalization of interest rates, this issue exists in a broader institutional context. At present, NHC sites and services lots are being sold at BDS\$2.75 - 3.25 per square foot, which recovers some of NHC's costs, but is BDS\$.75 - 1.00 below the market price. In addition, rents charged on NHC units are well below market rents for comparable units, and are not sufficient to recover maintenance costs, much less initial capital investment.

The MOHL is committed, however, to changing this situation. Proposals have been made to divest NHC's rental units, to set prices closer to market level, and to eliminate most residential construction activity. All were recommendations contained in the White Paper on Housing. A broad consensus and substantial staff resources will be needed to actually implement such a policy. The final Plan will reflect the nature of this discussion, and include recommendations on how to move toward implementation.

17.2.2.4. The de-emphasizing of the NHC as a builder of units, particularly as a builder of units for sale to middle income earners:

This has been accomplished. The NHC has terminated its direct construction program for middle income earners. The level of construction of public housing units has been reduced significantly. This policy decision has the firm endorsement of the GOB, and will be reflected in the completed Plan.

17.2.2.5. The emphasizing of the role of the NHC as a technical service unit, and as a manager of sites and services programs. In this revised institution, any building done by the NHC shall be of the prefabricated type essentially for the lower income earner:

As noted above, the NHC has largely ceased its construction activities. Activity of the NHC construction force is limited currently to maintenance of units still owned, finishing existing projects, and the sites and services program. In the latter program joint ventures with the private sector will be encouraged. No construction role is envisioned except occasionally for construction of low cost rental units when capital

allocations are made for this purpose. The Plan will reflect emphasis on NHC's technical services role, and clarify its responsibilities in this area.

17.2.2.6. The reorganization of the BMFC to permit it to attract savings and to make loans much like building societies:

Substantial technical assistance and analysis have been devoted to this issue, partly in the context of the discussions of the overall need for a savings and loan industry. (see 17.2.2.2 above). Such a reorganization would require substantial change in the institutional purposes and operations of BMFC. There are many questions about the practicability and desirability of such a change. Preliminary analysis of the issue has been completed under the Technical Assistance Grant. A detailed feasibility study has been proposed. UNDP has agreed to partially fund such a study. If BMFC agrees to participate, that study will bring the required understanding of the market demands for an altered BMFC, and would lay the groundwork for the internal operating and perceptual changes which would be required were such a decision to be implemented. As previously noted, it is likely that the Plan will include a recommendation for further consideration based on the analysis to date, rather than a firm recommendation either supporting or opposing such action. The Plan will reassess the role of the BMFC within the overall financial system.

17.2.2.7. Greater focus on the maintenance and upgrading of the housing stock shall be provided through appropriate fiscal and monetary matters:

The revised emphasis of the HG project on home improvements reflects the MOHL commitment to this policy. This commitment was further supported by the findings of the Housing Needs Assessment, completed as part of the program of related research, which found that about 2/3rds of the projected needs for housing investment is in the area of home improvements. GOB fiscal policy currently supports investments in upgrading by providing tax benefits for home improvements. The GOB also supports the HG project and exempts home improvement loans of up to BDS\$5,000 at financial institutions from consumer loan limitations. The two programs together have assured the availability of private sector financing for maintenance and upgrading purposes. The Plan will reflect this continuing priority and outline a strategy for continuing support after the HG project is completed.

17.2.2.8. Rationalization of the public and private housing rental market to ensure consistency in the quality of the unit rented on the market, particularly of the low income earner:

If the GOB moves to raise rents closer to market levels in the NHC projects as suggested in the White Paper, and/or to divest those units to the private sector, this policy will

be achieved. As noted above, proposals have been made by the MOHL to adjust rents in NHC projects to reflect the incomes of the residents, and to ultimately move those units into the private housing sector. Both proposals, however, will involve substantial administrative work and require commitment from other units of the GOB, commitment which is not yet forthcoming. An important aspect of the National Housing Plan process is moving toward consensus on this issue. While consensus has not been reached, the process has certainly promoted debate, and resolution is anticipated in the near future.

17.2.2.9. Continued focus on the land tenure market to ensure that conditions conducive to the establishment of more permanent dwelling units shall be provided:

The tenancies program is among the highest priorities in the MOHL work program, and will be so reflected in the Plan. As noted in earlier sections of this evaluation, legal and survey work has been completed to permit the transfer of plantation tenancies, and over 900 have been transferred. Sugar Levy Funds have been reserved to assist the lowest income residents in purchase of their lots.

The non-plantation tenancies program has emerged as a more complex problem, largely because negotiated land values are expected to exceed by a large amount those in plantation tenancies where the price was fixed at a low level and because many urban tenancies lack some basic infrastructure and services. The MOHL is presently considering appropriate approaches to facilitate the upgrading of these areas.

The MOHL is proceeding with both aspects of this program. The Plan will reflect this commitment, and will include policy and action agenda items designed to facilitate a successful completion of this important GOB commitment to low and moderate income families.

17.2.3. MOHL/HCF Staff Capacity

Technical assistance funds and HG reflows have been invested in developing MOHL capacity to implement the HG program and to create institutional capability to deal with low income shelter needs. Evidence suggests that this effort has been extremely successful, and that the HCF staff hired and trained is capable, committed, and efficient. The project, while behind original schedule, reflects thoughtful planning and careful implementation. Records are complete and appropriately annotated. Program management reflects on-going analysis of problems, and the formulation and implementation of solutions.

The HCF staff has developed as a well integrated but independent unit of the Housing Planning Unit of MOHL. While the Senior Housing Advisor is readily available for consultation, HG project operations are quite separate from those being carried out

under the Technical Assistance grant, and clear professional management capacity for the HG and related projects has been achieved.

The HCF unit does appear to be functioning at capacity, however, and should additional programmatic or policy responsibilities be assigned to it, commensurate staff increases should be made. For example, the initiation of the revolving fund and/or the core housing demonstration may well require the addition of staff. Training and professional development funds should continue to be budgeted to provide regular access to programs dealing with low income shelter issues, such as community organization, alternate physical solutions, and upgrading or redevelopment. Finally, the unit functions at a very high level of responsibility. Care should be taken to assure that civil service grades and resultant salaries reflect the sophisticated nature of the HCF unit's job, and proper compensation for the service is required.

As the housing planning effort matures, particularly with the completion of the National Housing Plan, consideration should also be given to adding staff to the Housing Plan Unit to enable it to deal in some depth with the implications and implementation requirements of the Plan. Management linkages to the NHC will be required as well as technical skills in, for example housing finance, managing upgrading projects and secondary mortgage market activities.

18. Purpose

18.1. HG Loan

The purposes of the HG Loan, as stated in the Project Paper, are (1) to facilitate the ability of the private sector, both institutions and individuals, to provide new homes and home improvements for low income families by providing financing to do this which will, at the same time, assist government in reducing its role, and (2) to provide the financing for implementation of the Tenancies Freehold Purchase Act to purchase house plots and make improvements. According to the Logical Framework, the end of project status would include private banks and public financing entities experienced and willing to continue producing housing for low income people in a significant way.

Significant progress has been made in fulfilling the purposes of the project, although specific achievements vary from component to component. The home improvements element has made the most easily measurable progress, and the participation to date of private banks indicates that that sector is clearly both experienced and capable of providing home improvements financing to low income families. Their experience has been extremely positive, and for example, because the default rate on program loans has been so low, preconceived notions about the reliability of low income borrowers have been counteracted. It is reasonable to expect this kind of financing to continue to be available after the HG project is completed.

The mortgage program has promoted substantial awareness in the BMFC of the requirements of low income borrowers. The ability of BMFC to actually make mortgages to the target group has been facilitated both by the availability of funds for this purpose, and by the technical assistance which has accompanied it. (See section 18.2) To a large extent, the small number of mortgages made to date reflects the overall difficulties in individual house construction and the absence of developer-provided moderate cost homes, rather than the lack of ability of BMFC to make loans. The program is currently being expanded to include other private financing institutions, notably Caribbean Commercial Trust, which will create additional capacity. This is an extremely positive step and is applauded by the evaluation team.

The GOB has reduced its role in the direct provision of housing. The NHC has largely eliminated its home construction activities, and efforts are being made to promote private sector alternatives to those units.

Progress toward implementation of the Tenancies Freehold Act has been extremely slow, reflecting the administrative work which was needed before transfers could begin. At present, the purposes of the program are being reached to some degree without direct use of the HG funds. Internal inputs in the form of Sugar Levy Funds have been expended for surveying; the surveying itself has enabled the transfer of over 900 plantation tenantry plots, the vast majority of which could be purchased without loans. It appears that the transfer of urban tenancies (which will be much more expensive) will require much more intensive use of the HG funds. While the purposes of the grant are clearly being met in the plantation tenancies arena, there is simply not enough evidence on the transfer of urban tenancies to know whether the HG loan's purposes will be met. Steps are being taken to nurture this project element, however, and the team is convinced that should the purposes of this element not be fully met, it will be more a matter of economics rather than the absence of financing and financial institutions willing to lend.

18.2. Technical Assistance Grant

The purpose of the grant is to provide financing for technical assistance required in support of the "Barbados Private Initiatives in Housing" Housing Guaranty Project. Specifically, the technical assistance is to be devoted to project management and administration as well as for the development of a comprehensive National Housing Plan. A senior housing advisor was to be provided for two years to assist in establishing policies, plans and procedures for implementation, to coordinate AID-financed technical assistance, to expedite effective management and communications, and to provide specific technical assistance to credit unions and the BMFC.

Significant progress has been made toward all purposes. The HG project is in place, and appropriate policies and procedures have been developed and implemented. Basic policy has been established

and elements of the National Housing Plan have been completed. The formal Plan is expected to be finished and under review by June 1, 1985. Contracts have been let for various studies in support of the Plan and other housing issues, and careful monitoring of those contracts has been carried out.

Specific technical assistance to the BMFC and to a lesser extent credit unions has been provided. The overall quantity of technical assistance to BMFC has reflected the view that additional assistance in the absence of revisions to the institution's overall operating assumptions such as becoming a deposit taking institution is not currently necessary.

Similarly, the focus of technical assistance to credit unions has been shifted, after preliminary efforts consistent with the project description. Experience dictates that assistance to individual credit unions would not effectively address the absence of institutional capacity and commitment to the HG program. Revisions now being made to the program provide for some additional assistance through the League reflect the consensus of what additional assistance is appropriate. It is quite possible that while the purposes of the technical assistance grant will be fulfilled, the ultimate institutional outcomes (in terms of the credit unions and BMFC) will not be reached. This is not the failure of the grant to achieve its purposes, but rather a function of philosophical and operating differences not readily resolved by technical assistance. More complex institutional, management, administrative, attitudinal and cultural issues exist than were anticipated when the technical assistance program was designed. However, with limited resources the HPU/HCF leadership and the senior technical advisor have made serious efforts to deal with these issues and reprogrammed and reprioritized technical assistance efforts. Their success can be considered exceptional given the range of institutional problems and available resources.

19. Goals/Subgoals

19.1. HG Loan

According to the Project Paper, the goal of this Housing Guaranty Loan is to help alleviate the overall shortage of housing units in Barbados; to significantly improve the existing housing stock, particularly deteriorating timber houses; to shift the initiative for this effort towards the private sector; and to broaden the ownership basis of housing in Barbados.

Significant progress has been made toward achieving the goals of the project. At present, a small number of new housing units has been financed, but a good understanding of the obstacles to such building has been gained, and steps are being taken to promote private sector solutions. If those solutions are successful, the goal will be met. The home improvement loans subproject has provided financing for improvements to over 1,500 homes, and the private sector institutional response indicates that this program

will easily reach its goal. The majority of units being upgraded are timber units. This reflects continuing needs to maintain these units to adequate levels. Also improvements to some extent reflect the replacement of certain timber elements with masonry. This will insure long term upgrading of the housing stock. Finally, the private sector has participated in the financing scheme: private banks and credit unions are the financing entities for home improvements and the BMFC is the provider of mortgages.

Participation of private sector builders and developers has been disappointing to date, but efforts are being made to promote that participation. While participation has not yet occurred, the HG has occasioned considerable discussion within the GOB about what is necessary to promote such participation, and there is commitment to make some changes in both the institutional and financial arrangements. The NHC's direct role has been reduced, facilitating development of a private sector low income housing industry.

The ownership base has been broadened to some extent, through the provision of mortgages, but the majority of progress in this area is associated with the tenancies program. Over 900 plantation tenancies have been transferred, over 20% percent of those eligible for transfer at the outset of the program. While HG funds have not been required, project internal inputs facilitated this transfer. The extent of increased ownerships which would occur if the non-plantation tenancies program is successful is not yet certain. However, if the project does not meet this goal entirely, it will be a function of the economics of those purchases. The availability of funds may be inadequate incentive to overcome resistance to incurring the higher costs associated with outright purchase and paying taxes as an owner. It is premature to make this finding, however.

Overall, the project is expected to meet the majority of its goals, although the elapsed time period will be longer than originally thought. This time frame is a result both of limitations of the original project design and implementation difficulties. At present there is excellent linkage between project activities and the goals set for it.

19.2. Technical Assistance Grant

The goals of both the HG loan and the Technical Assistance Grant were to help alleviate the overall shortage of housing units in Barbados, to significantly improve the existing housing stock, particularly deteriorating timber houses; to shift the initiative for this effort towards the private sector; and to broaden the ownership basis of housing in Barbados. The technical assistance grant supports these goals by building the institutional capacity required to achieve them and by supporting development of the National Housing Plan which develops the implementation plans for the GOB's policy commitment to these goals. The Grant has nurtured the growth in confidence and expertise of the HPU which is steadily exercising more direction and influence over implementation and policy decisions.

In provision of technical assistance to the BMFC in its role as primary mortgage lender to individuals purchasing new homes, the grant has contributed to the goal of alleviating the overall shortage of housing units in Barbados. While the number of units actually purchased to date is small, the institutional capacity to provide mortgage finance to low income households now exists, and is expected to produce closer to the number of units envisioned in the original output measures. Among the aspects of institution-building completed to date is the revision of procedures and manuals, the expected addition of computer and related technical capacity, and the efforts by the HCF to improve the BMFC's ability to deal with lower income borrowers.

Some assistance has been given to credit unions to help them to participate in the home improvement loan scheme, an important element of reaching the goal of improving the existing housing stock. These institutions require the additional assistance, now envisioned in the form of servicing provided by the Barbados Co-operative Credit Union League, and supported by the Technical Assistance Grant.

Perhaps the most significant aspect of institution-building has been the assistance provided to the MOHL. Support has been provided in the form of training for both policy-makers and technocrats, and the senior housing advisor has provided consultation and technical advice in the formulation of housing policy. Two items are of particular note: the White Paper on Housing and the National Housing Plan. The White Paper described the basic elements of the nation's housing issues and created an opportunity for discussion of the significant policy issues. The White Paper, as adopted, is a commitment by the GOB to specific policies which are consistent with the HG and technical assistance project goals.

The adoption of a National Housing Plan will be the culmination of this process. As noted in earlier sections, the GOB has begun instituting changes at the same time as they are being elaborated in the Plan. This progress contributes substantially to reaching the goals of the HG/TA projects, in that it reflects important institutional change required to meet project objectives. For example, one aspect of shifting the initiative for alleviating the shortage of housing units in Barbados to the private sector was the removal of the NHC as the primary provider of new units for low and moderate income families. The White Paper proposed that action, it has now been adopted as policy by the GOB, and the National Housing Plan will specify ways in which the private sector is to replace the NHC. As a policy-implementation continuum, the White Paper-National Housing Plan preparation and the Technical Assistance Grant efforts which have facilitated it represent considerable progress toward the goals of HG/TA projects. This progress can be attributed to the achieving of the purposes of the grant and the technical capacity created therein.

20. Beneficiaries

20.1. HG Loan Beneficiaries

As of mid-February 1985, a total of 1,546 households had received home improvement loans and 13 households had built new units with mortgage loan funds. Based on an average household size of 3.3 persons, the combined total direct beneficiaries has reached the level of approximately 5,150 persons. These benefits relate directly to the project purposes of helping alleviate the shortage of housing for low income people and significantly improving the existing housing stock. Beneficiaries have the advantage of improved shelter.

Those benefitting indirectly are more difficult to quantify. They include workers employed on the construction and the neighbors of direct beneficiaries. Most of the construction activity under the program has been in home improvements which are labor intensive and use less skilled workers generally. Assuming that about 35% of costs are for labor, it is estimated that this project has provided so far over 20,000 days of work to persons who mainly come from this project's target income group. The neighbors of beneficiaries benefit indirectly from the appreciation to their property and from the improved overall environment.

20.2. Technical Assistance Grant Beneficiaries

The direct beneficiaries of the Technical Assistance Grant are the institutions which have benefitted from resources and technical knowledge made available by the Grant. The primary beneficiary to date has been the MOHL generally, and the Housing Planning Unit (including the HCF) specifically. The major output of the grant program has been the increase in the MOHL's capacity to address low income shelter needs generically and to administer the HG program. In addition it has encouraged the MOHL to consider the future role of HCF in an overall system of housing finance and to consider Government's macro-economic policies in defining housing policies. The indirect beneficiaries of this effort are the low income families who have and will benefit from the HG program directly, and the nation's low income population who will benefit from new housing initiatives such as those included in the White Paper on Housing and the National Housing Plan.

The National Housing Plan will formalize the GOB's commitment to the shelter needs of the low income population and establish an action agenda for addressing those needs. In this way, the nation's low income families are broadly served by the grant and are its indirect beneficiaries. Other direct beneficiaries are the BMFC and local credit unions.

The improvement in BMFC functioning, both in terms of its overall mortgage lending function, and in terms of particular servicing needs of low income families, results in direct benefit to

those families. Similarly, improvement of the functioning of credit unions expands the access of low income families to home improvement loans and results in direct housing upgrading for such families.

21. Unplanned Effects

21.1. Evolution of the HCF Concept to Creation of a Revolving Fund for Housing Finance

When the HG program was designed it was not envisioned that the HG funds would establish a revolving fund for housing. The policy decision was made in January 1985 to make the HCF a revolving fund to provide a continuing source of housing finance. Over the past 18 months there has been a growing recognition of the potential importance of the HCF as a provider of financing for low and moderate income families and as an integral part of the overall financial system in Barbados. This has led HCF staff to begin to define the long term objectives and strategies of the fund and to establish a policy dialogue with the key public institutions responsible for financing - the Ministry of Finance and Planning, the Central Bank and the BMFC. The National Housing Plan will suggest how HCF lending policies and practices should be tied to national macro-economic planning, GOB budget allocations to the housing sector, the Central Bank sponsored secondary facility that is being considered, and the financial system that provides financing to the housing sector. Technical assistance could be useful in efforts to institutionalize the expanded role for the HCF in the housing finance system in Barbados (see Section 22.2 Follow on Assistance).

21.2. Shift by NHC from Complete Dwelling Units to Sites and Services

As a result of a GOB policy decision, the NHC has largely ceased to build complete dwelling units leaving that market aspect mainly to the private sector. Instead, the NHC is concentrating on managing its inventory of rental units and the development of serviced sites. Most of the land which NHC uses for serviced sites comes from the GOB at very low costs which bear little relationship to the market. The NHC sales price reflects the resulting subsidy which they estimate is about BDS\$.75 per square foot. This may have acted as a disincentive to private developers who might otherwise have developed serviced sites for sale to low and moderate income households. One such company has in the past produced most of the plots for this market. Should NHC actually produce 1,000 lots in the next year and continue to develop large numbers afterward at lower than market prices, the private land development for the low and moderate income market could contract even further. The Government's joint venture with builders on sites and services programs should limit this disincentive to a certain extent. In the new program, NHC is proposing to offer a substantial number of serviced sites to developers who will build homes under a joint venture where NHC invests the land and infrastructure costs while the developer builds and markets the houses, paying for the land only as each house is sold.

22. Lessons Learned

22.1. Development Strategy

The "Barbados Private Initiatives in Housing" Housing Guaranty project had as its underlying assumption the belief that the availability of funds would be sufficient to draw private institutions - banks, credit unions, developers and builders - into providing house, home improvement, and land ownership opportunities for low income people. The project to date has demonstrated that while financing is certainly necessary to that activity, it is not necessarily sufficient.

In the instance where existing financial institutions are experienced in dealing with a program element, in this case, home improvement loans, there is a good likelihood that the infusion of additional funds will result in the hoped for outcome, although considerable effort will be required to market the program. Obviously, if the funds are only available under conditions which are unacceptable to the institutions (as was sometimes the case with Barbados credit unions), the institutions will not participate. Familiarity with local lending priorities is essential to determining effective ways of dealing with them.

When a project element requires substantial realignment of traditional relationships and functions, infusion of funds is quite obviously insufficient to achieve program goals. For this reason project planners included substantial technical assistance. In the home mortgage element of this project, the availability of mortgage money was sufficient to promote the purchase of new homes by a small group of relatively skilled low income persons. It was not sufficient to encourage the private development community to alter the kinds of housing it was delivering to the market, nor to force the planning and regulatory community to address its role in inhibiting the emergence of alternative, affordable solutions. Housing provision is a process which includes many participants. Its successful provision requires understanding on all parts of the goal that is being sought and an agreement by each of the participants that the goal was a worthy undertaking.

In this project, this latter understanding is now emerging, but it has taken many months. Had project planning and early implementation addressed the consensus building process as a whole, it may have been further along at this point.

Finally, when a project represents a substantial departure from the status quo it is necessary to examine the legal and structural relationships which underpin the original arrangement. In the case of the tenancies purchase aspect of the project, the mechanics of transferring title for the plantation tenancies, required a massive legal and surveying task. While this is now almost complete and transfers are taking place, the program has taken considerably longer than originally envisioned. Had the underlying administrative issues been understood more clearly at the outset,

the project schedule would have reflected the front-end work required and proposed a different kind of schedule. This is certainly not a fatal flaw in the program, but it has caused frustration and disappointment that could have been avoided had unrealistic expectations not been established.

22.2. Follow-On Assistance in Barbados

Significant progress has been made in terms of national policies affecting the housing sector. Assistance will be required in several key areas to institutionalize those changes, an essential step to assure implementation of policy. To date the two most significant housing policy changes relate to creation of the HCF and establishing it as a revolving fund, and the changing role of the NHC in the housing sector.

By making the HCF a revolving fund the GOB has made a policy commitment to the continuing availability of a pool of long term funds for the housing sector. The future role of the HCF now needs to be clarified and institutionalized as a part of the housing policy and plan development process. This would include determination of the specific uses of the revolving fund to carry out policy objectives and of the HCF's relationship to GOB and private sector financial intermediaries, including the HCF's relationship to the development of a secondary market now being proposed. Technical assistance grant funds could appropriately be used to assist the GOB with the institutionalization of an expanded role for the HCF to assure the consistent availability of resources to this sector.

NHC's role has changed dramatically in a short time from that of provider of public housing for low and moderate income families to a somewhat ambiguous role as the Government implementing agent for programs intended to stimulate private development of housing for low income families. Several specific tasks have been defined for NHC in this new role. One is the provision of serviced sites for sale to low and moderate income families and to builders who provide housing units for those target groups. A second task is to restructure public rental housing program rationalizing its management and operations in order to improve the condition of the units and bring rental levels more in line with the costs associated with the program. These are major tasks which will require NHC to institute significant operational changes. Assistance should be made available in order to facilitate these changes. It would also be desirable that the costs of NHC operations be internalized and to the extent possible recovered as a part of the price of units and/or plots sold or rents charged. While not specifically stated in this manner the newly adopted White Paper on Housing does suggest this objective.

The relationship between the Housing Planning Unit of the MOHL and the NHC is also an area where roles are evolving. In principal the MOHL develops policies, defines programs and prepares guidelines while the NHC implements programs either directly or manages and coordinates the work of private contractors. The division of

responsibility is not so clear cut in practice. This approach may work well in the sites and services program but it is not yet clear how it would work in a tenancies upgrading program.

Neither the MOHL nor the NHC has any prior experience with managing upgrading projects. Within the MOHL planning unit a core staff exists who have been conducting surveys and preparing plans for upgrading tenancies. There is a clear need however to expand this program of upgrading to encompass non-tenancy lands as well. In other words, community-wide upgrading is needed in many parts of the urban area. Implementing such a program requires more direct government involvement than sites and services or house construction which can be done by private developers. Assistance to the MOHL and the NHC in formulating an economically and socially sound approach to urban upgrading would be a logical follow-up to the present AID activity in this sector.

22.3. Evaluation Methodology

The essence of the methodology was to draw information from a broad representative base, analyze this information, then test the validity of analyses in consultations with key opinion sources. Feedback from those with the most knowledge and experience with the housing sector was an important aspect of the methodology and it was used successfully. However, in some cases feedback would have been better focused if issues had been presented to sources in concise written form and they had been allowed 24 hours reflection time. The team understands that this approach is seldom practical due to time constraints but it should be attempted.

23. Special Comments

23.1. Significant Policy Issues

In a nation like Barbados which does not have a significant population in need of basic shelter, home improvements as a major project element has several useful side effects. First, the existing housing stock can be upgraded at considerably lower cost than providing replacement housing for the same population. In addition, home improvements are more labor intensive and provide an important source of skills training which can be transferred to the new construction sector, whether commercial or residential. The home improvements industry can also provide important counter-cyclical benefits to the construction industry as a whole. In most small economies, large construction projects such as airport terminals, ports or major commercial facilities cause fluctuations in the demand for construction labor. In the absence of such projects, that labor force is often unemployed. Home improvements and related upgrading programs can be used to reduce unemployment in this sector, and to even out the demand for such workers. The growth of this industry under the stimulus of the HG program, if continued after the project is completed, could have extremely beneficial effects both in terms of employment and overall improvements to the housing stock.

The current HG has had a second important policy outcome in its initial success at building institutional awareness of what is required to stimulate private industry solutions. By starting to remove the NHC as the major producer of housing and in recognizing that it is hindering the development of the private sector sub-divisions by not recovering costs on serviced sites and on rental properties, the GOB has taken an important first step in providing an environment where private industry can function efficiently. In the coming months, it is extremely important that this initial effort be sustained. Maturing of the industry to serve low income households will take some time, but it will never occur if the industry perceives Government as likely to undercut its position. What is needed is open communication about the solutions sought by Government and provision of limited resources in support of those solutions. The ingenuity of private industry quite often exceeds the imagination of planners and policy makers. Industry must be given the opportunity to demonstrate that ingenuity without fear that its competitive position will be artificially altered. This requires sustained understanding of the importance of private sector solutions, continued targeting of mortgage funds to the sector and policy support for their developmental efforts.

The GOB is taking steps to improve cost recovery in its rental housing program. These efforts need to continue to ensure that Government resources are targeted to those in need of assistance and so that the drain on GOB budget resources is lessened.

23.2. Tenantry Law

An aim of the 1980 tenancies law is to promote home ownership by the low income population who live under that type of tenancy. It establishes the right of those occupying land on a rental basis to purchase that land. While this does advance the desirable objective of ownership, it also has the unplanned effect of virtually precluding any addition to the number of house spots available for rent. Owners who have suitable property available are unlikely to allow it to be used in this way if they wish to keep the title because of fear that the law provides them no choice but to sell if the renter decided to buy. There is a need to be aware of this situation taking the intended and unintended effects into account as part of the process of formulating the National Housing Plan, but for the present there is no need to alter the project design or execution.

23.3. Lower Cost Alternate Designs

The affordability factor, always important, is becoming more critical as increasing housing costs widen the gap between what the market offers and what amount families can afford. To a great degree, costs (and therefore affordability) are established by the unit design.

The traditional timber house, the type prevalent in Barbados, offers several advantages. The technology is well known and does not require highly skilled labor. The timber house can be easily

expanded or even relocated; it resists hurricanes and earthquakes relatively well; and it is an attractive solution harmonious with the culture. Today it is virtually the only housing solution affordable to low and moderate income people in Barbados. It has the disadvantages of cramped interior space, high maintenance cost, and susceptibility to fire, termites and the elements. These houses are sometimes located in close proximity on very small lots which exacerbates the hazards of fire. Most new houses are basically of two types: the preassembled timber houses sold by the lumber companies and the concrete block houses built in several variations by builders. Neither of these solutions are particularly suited to the needs of the low income market today. The lumber company house, while traditionally an inexpensive solution, has steadily risen in cost and thus losing most of its appeal. The standard 2 or 3 bedroom masonry house is simply not affordable to the target group. Reducing the cost of a masonry house to a level affordable to low income families may require new designs and large departures from standard practices, not just a reduction in the size of the house or size of the lot.

New designs are needed which improve utility, durability and appearance but which can be affordable to the target groups. The following might be considered in the design process:

- o All spaces simple in shape with room layouts to accommodate
- o Roofs designed for economy and comfort
- o Provide adequate cross ventilation
- o Consider terrace (semi-detached or townhouse) type designs. Consider two storey units either detached or in rows to save on land and construction costs (see also Section 23.7 below)
- o Consider prefabricated sanitary core units which can be used for home improvements or as a core for new units
- o Design in capacity to expand (starter home, shells etc)
- o Consider systems building but carefully compare costs with traditional construction.

Qualified architects will take the foregoing and other appropriate factors into account in the design process. For the many households who cannot afford this level of professional services a variety of different plans might be provided.

23.4. Lot Sizes and other Planning Standards

On first examination the 3,000 square feet or larger lots thought acceptable by planning practice and regulatory authorities appears to be larger than necessary. Anecdotal evidence suggests that the private sector producers of housing and housing finance as well as public sector housing officials believe Barbadians will not accept smaller lots. In actual practice many urban lots are not as large as 3,000 sq.ft. The cost of the large lots limits the number of people who can afford to buy a house. The conclusion is that lot size may be too large and planning standards too high, especially for low income households.

For example, lots of 2,000 sq.ft. or smaller could adequately provide for all the requirements of Barbadian lifestyles if houses are appropriately planned and sited. For example, terraced (attached) solutions, perhaps of two stories could be used. Terraced units are economical in land use. Using a zero lot line concept, starter homes could be located on the lot boundary at one side, leaving 14ft to 16ft between the house and the other side boundary. However, Town and Country Planning would have to relax its 6ft minimum side lot standard for this to be applied.

There is a clear need for a restudy of planning standards, including consideration of special standards appropriate for low income communities. Other alternatives deserving examination are minimum and maximum distances of side lots and also planned unit development to maximize common open spaces.

23.5. List of Annexes

Annex A - List of institutions and persons contacted

Annex B - List of documents and sources used

Annex C - Logical Framework from Project Paper for 538-HG-002

Annex D - Photographs illustrating housing conditions and shelter activities.

ANNEX A

LIST OF INSTITUTIONS AND PERSONS CONTACTED

Financial Institutions

Barbados Mortgage Finance Company Limited

Harcourt Niles - Manager
Dennis Clarke - Deputy Manager

Royal Bank Trust Company (Barbados) Limited

Evan McCollin

Barbados National Bank

Noel Symmonds - Managing Director (Acting)
Edmund King - Manager, Trust Division

Royal Bank of Canada

T.W. Jack Robinson - Manager, Retail Credit
Leroy Harris - Assistant Manager, Consumer Loans

Scotia Bank

George Hume - Deputy Manager
Rodney Phillips - Loans Manager
Hazel Griffith - Senior Loans Officer

Barbados Co-operative Credit Union League Limited

Oriel F. Doyle - Credit Union Development Officer

Purity Credit Union

Leon Greenidge

Shamrock Credit Union

Gloria Selby

Government Ministries and Agencies

Central Bank of Barbados

Marion Williams - Deputy Manager, Currency and Banking

Ministry of Housing and Lands

Lloyd B. Braithwaite, Minister
Grey Forde, Permanent Secretary
Allan Jones, Chief Housing Planner
Robert Dubinsky, Senior Housing Advisor
Mark Wilson, Deputy Chief Housing Planner
Ronald Fitt, Administrative Officer 1, Housing Credit Fund
Vibert Best, Senior Accountant, Housing Credit Fund
Michael Hoyte, Administrative Officer 2, Housing Credit Fund

Ministry of Finance and Planning

Erskine Griffith, Permanent Secretary, Finance
Ralph Carvallo, Manager, Public Investment Unit
Esther Bentham, Chief Economist

Town and Country Planning, Ministry of Finance and Planning

Lionel Nurse, Chief Town Planner

National Housing Corporation

Rudolph Spenser, Manager
Clement Hanes, Deputy Manager
Ivan Gibson, Chief Policy Planner
Dennis Hanes, Chief Legal Officer
Etertan Goddard, Controller
Levy Jordan, Chief Architect
Herman Moseley, Quantity Surveyor
Mr. Jordan, Chief Inspector

Private Sector

Builders/ Developers/Lumber Companies

Albert Joseph, Realty Sales and Service
Lionel Barrow and Bruce Barrow, Property Developments, Ltd.
Elias Haloute and Luther Miller, Bartrin Construction Ltd.
Amory Phillips, Barbados Lumber Company

Barbados Bar Association

Christopher Blackman, President
Mary Mahabir, Secretary

Beneficiary

Judy Brathwaite

United States Agency for International Development

RHUDO/CAR, Jamaica

Sara Frankel
William Mann

RDO/C, Barbados

Jim Holtaway, Mission Director
Terrence J. Brown, Deputy Director
Peter Orr, Chief Capital Development Officer
James 'Spike' Stephenson, Deputy Capital Development Officer
R. Carey Coulter, Program Officer
Joanne Connolly, HG Program Officer

A memorandum of conversation was prepared for each consultation.
A complete file of these reports is available for review.

ANNEX B

LIST OF RESOURCE DOCUMENTS

Official Documents

"Implementation Agreement between the United States of America and Barbados for Private Initiatives in Housing." A.I.D. Project Number 538-HG-002, September 29, 1982.

"Project Grant Agreement between the Government of Barbados and the United States of America for Barbados Private Initiatives in Housing Project." A.I.D. Project Number 538-0081. September 29, 1982.

"Final Master Delivery Plan in accordance with Section 5.03 of Implementation Agreement Number 538-HG-002 of September 29, 1982." August 1983.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

LIFE OF PROJECT
FROM FY 82 TO FY 85
TOTAL U.S. FUNDING: \$10,000,000
DATE PREPARED: 09/11/82

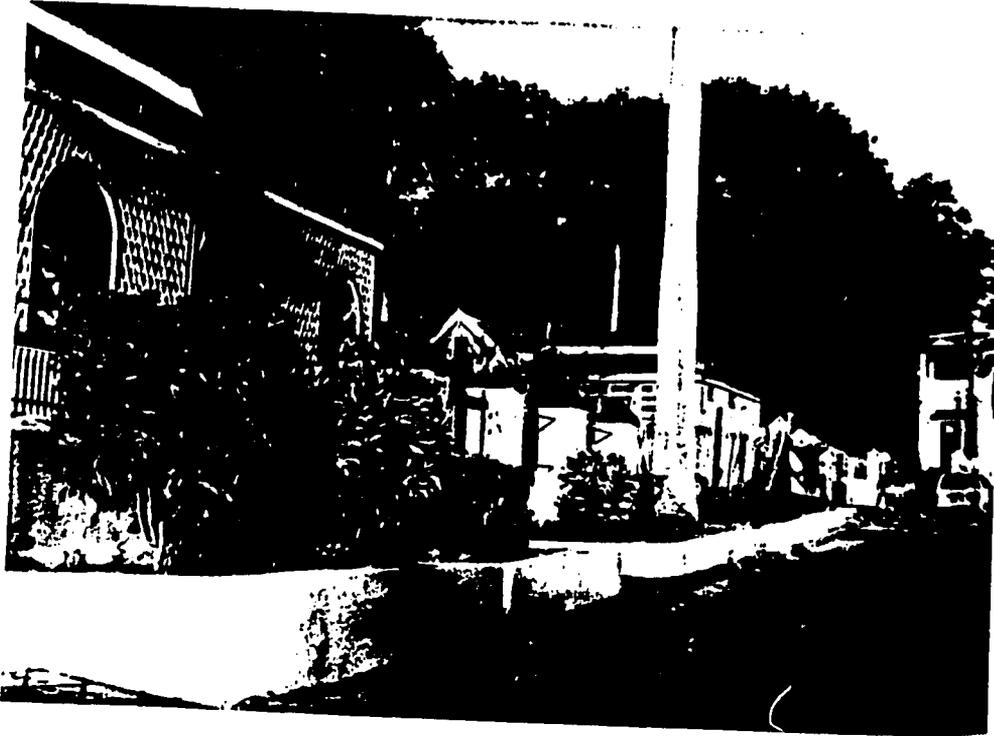
PROJECT TITLE & NUMBER: HAWAIIAN PRIVATE INITIATIVES IN HOUSING (53B-HG-002)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>GENERAL OR SOCIAL GOAL: The broader objective to which this project contributes: help alleviate the overall shortage of housing for low-income people; to significantly improve the existing housing stock, particularly deteriorating timber houses; and the initiative for production to private sector.</p>	<p>Measures of Goal Achievement: Increased numbers and percentage of low-income households in improved shelter; with ownership with new homes.</p>	<p>Project monitoring by RIIUDO and borrowers. Periodic report from participating agencies.</p>	<p>Assumptions for achieving goal targets: Banks and developers will respond and experience will be positive.</p>
<p>Project Purpose: Help private individuals and business and financial institutions provide new homes and improvement loans to low-income families; to the direct production role of government; provide a means to carry out the City Freehold Purchase Act.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-project status. Private banks and public financing entities are experienced and willing to continue producing housing for low-income people in a significant way.</p>	<p>Periodic reports from BNB, MOHL, credit unions and commercial banks and BMFC. RIIUDO monitoring and evaluation.</p>	<p>Assumptions for achieving purpose: Government will encourage the private sector to the view that it will facilitate its efforts over the longer term. Government intends to reduce its production function. A major effort is intended to implement the TPPP</p>
<p>Project Outputs: Owner occupied modest homes in improved condition of the homes of a significant number of families in private sector experienced in producing housing for low-income people; tenantry plots improved and ownership obtained</p>	<p>Magnitude of Outputs: 1. 500 + new homes 2. 2000 home improvement loans 3. 1000 Tenantry plots purchased 16240 individuals affected</p>	<p>1. Production records of BMFC 2. Production and loan records of banks and credit unions 3. Records of BNB</p>	<p>Assumptions for achieving outputs: BMFC will staff up to handle this volume Banks and BNB will earmark the effort as priority Top level attention of MOHL and Ministry of Finance & Planning</p>
<p>Project Inputs: Funds from Sugar Levy Trust Fund Government payments Housing guaranty loan MOHL budget inputs Technical assistance and training to MOHL, BMFC and credit unions</p>	<p>Implementation Target (Type and quality) 1. US\$ 630,000 2. US\$ 1,430,000 3. US\$10,000,000 4. US\$ 1,245,000 5. US\$ 420,000</p>	<p>1. BNB records 2. BMFC and bank records 3. RIIUDO and Central Bank (& BNB) disbursement 4. MOHL records 5. RIIUDO and Mission records</p>	<p>Assumption for providing inputs: 1. MOHL direction 2. People want homes 3. U.S. investor responds 4. GOB budgets for MOHL 5. U.S. technicians available</p>

ANNEX D

Housing Conditions and Upgrading Activities
in Bridgetown

1



2



1-2 An upper middle class, older residential neighborhood.

3



4



3 A busy commercial street in the New Orleans area.

4 A middle class neighborhood of traditional timber houses.

5



6



- 5 A delapidated, traditional, gabled roof timber house.
- 6 A well maintained gable house built in stages in the traditional manner.

7



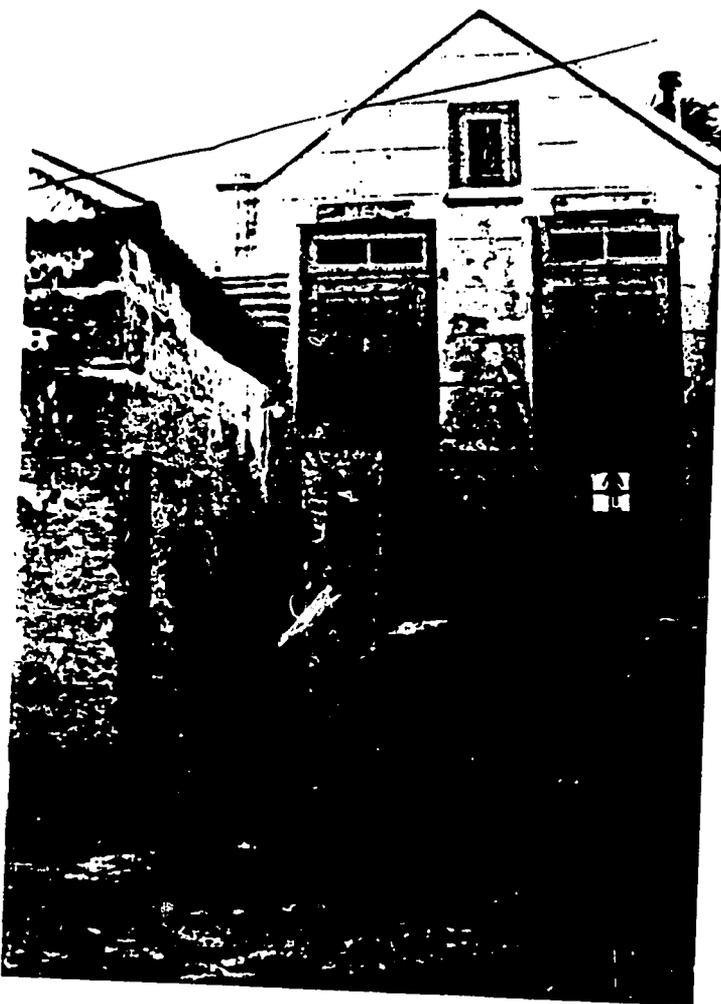
8



- 7 Timber houses with masonry fronts to reflect the owner's increased affluency.
- 8 Urban tenancies.

12

9



10

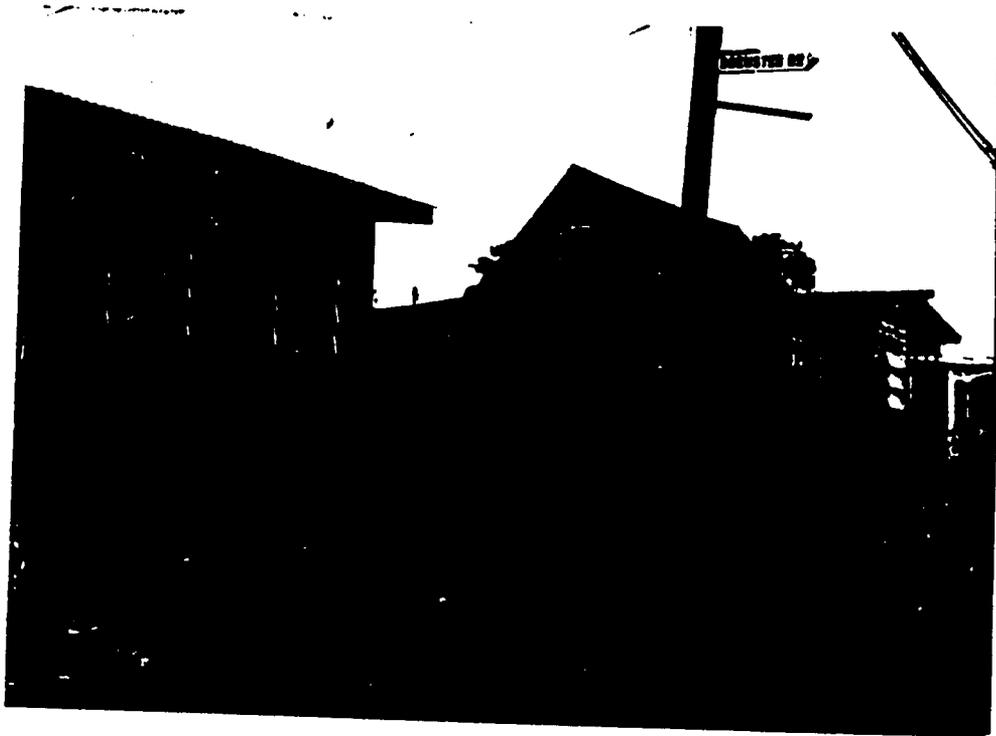


9 Communal toilets and bath house in a dense urban area.

10 An urban neighborhood of mixed land ownership.

13

11



12



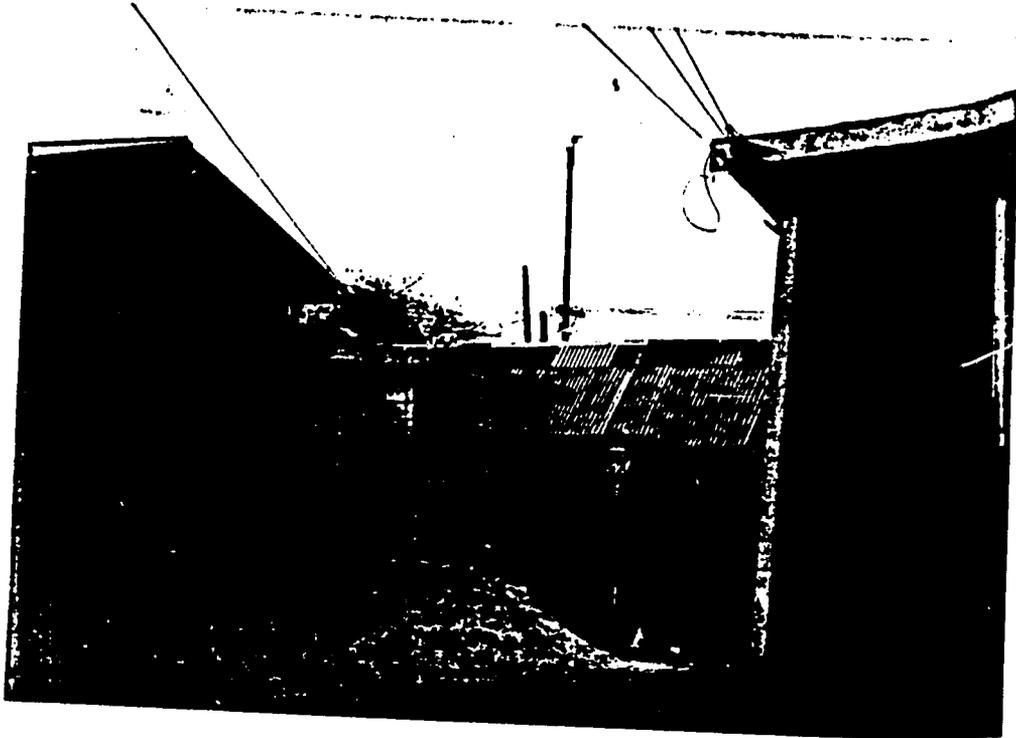
11 New "lumber company" prefabricated houses in an older neighborhood.

12 Typical timber "chattel" houses on loose rock foundations.

13



14



13 Well maintained timber house.

14 New addition to a timber house.

75

15



16



15 New addition to a timber house.

16 Masonry wall addition at rear of a timber house.

17



18



17 Expanding and older masonry wall house.

18 An urban tenantry - in need of infrastructure upgrading.

19



20



19 A nearby "well serviced" street.

20 NHC built rental housing units.

78

21



22

- 21 A subdivision built by a private contractor for NHC (At Wildey).
- 22 Pre-assembled concrete units built by private contractor for government.
- 11

23 **YES, WE ARE STILL PROVIDING YOU WITH YOUR CONVENTIONAL CONCRETE BLOCK HOUSE**

**CHOOSE NOW AT
PLUM GROVE PHASE 2 SITE**
Lodge Road, Ch. Ch



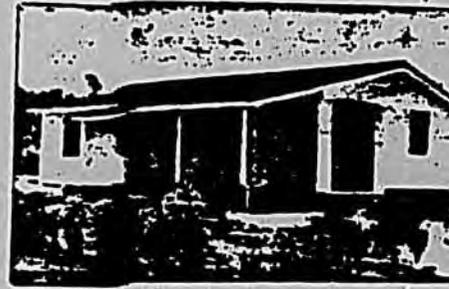
MODEL - 1060

3 Bedrooms, 2 bathrooms including masters bedroom with bathroom, bath with tiled showers, built-in wardrobes & dressers, living & dining room, kitchen with range of kitchen cabinets including breakfast bar.
HOUSE and 4500 sq. ft. of land - \$97 823.00 with expanded beam ceiling or \$99 433.00 with conventional ceiling.



MODEL - 1308

3 Bedrooms, 2 toilets & bath with tiled shower, masters bedroom with bathroom (tub included), built-in wardrobe & dressers separate living room, kitchen with full range of kitchen cabinets including breakfast bar, laundry, carport, patio, awning windows and decramastic tiled roof.
HOUSE and 6 250 sq. ft of land - \$130 903.00



MODEL - 1309

3 Bedrooms, 2 toilets and baths with tiled showers, master bedroom with bathroom (tub included), built-in wardrobe and dressers living & dining room, kitchen with full range of kitchen cabinets including breakfast bar, laundry, carport & patio, awning windows and decramastic tiled roof.
HOUSE and 6 900 sq. ft of land - \$115 706.00



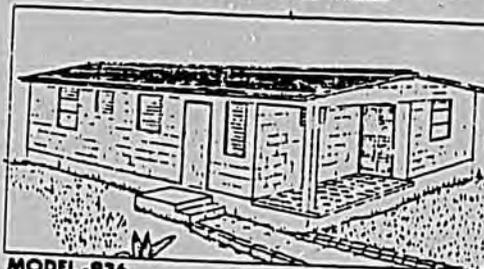
MODEL - 895

3 Bedrooms, 2 toilets & baths with tiled showers, including masters bedroom with bathroom built-in wardrobes and dressers living & dining room, kitchen with full range of kitchen cabinets, awning windows and decramastic tiled roof.
HOUSE and 3 600 sq. ft of land - \$88 417.00



MODEL - 497

2 Bedrooms with built-in wardrobes & dressers, toilet and bath with tiled shower, living-dining room, kitchen with kitchen cabinets, patio, awning windows and decramastic tiled roof.
HOUSE and 3 600 sq. ft of land - \$65 715.00



MODEL - 936

3 Bedrooms with built-in wardrobes & dressers toilet & bath with tiled shower, living room, kitchen & dining room with kitchen cabinets patio, awning windows and decramastic tiled roof.
HOUSE and 3 600 sq. ft. of land - \$88 601.00



MODEL - 800

3 Bedrooms with built-in wardrobes & dressers toilet & bath with tiled shower, living room, dining room, kitchen with full range of kitchen cabinets patio, awning windows and decramastic tiled roof.
HOUSE and 3 600 sq. ft of land - \$82 184.00

LOT SIZES RANGE FROM 3,600 SQ. FT, to 7,500 sq. ft. at \$3.75 per sq. ft.
PRICES SUBJECT TO CHANGE WITHOUT NOTICE



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23 New model houses being offered by a private subdivision developer.

80