

FINAL REPORT

AN ASSESSMENT OF AID'S SHELTER PROGRAM HG 12 & 13 FOR JAMAICA

April 1993

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Prepared for

**Office of Housing and Urban Programs
United States Agency for International Development**

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LIST OF ACRONYMS

CHFC	Caribbean Housing Finance Corporation
CU	Credit Union
EDCO	Estate Developing Company
GOJ	Government of Jamaica
MoC	Ministry of Construction and Housing
MoF	Ministry of Finance
NHT	National Housing Trust
NWC	National Water Commission
UDC	Urban Development Corporation

EXECUTIVE SUMMARY

The purpose of this two week assignment to Jamaica was to assess the project, policy, and institutional development components of HGs 12 and 13. In September 1987, USAID authorized US\$36 million for HG-12 to the CHFC as borrower on behalf of the GOJ. Twelve million dollars of the US\$36 million has been liquidated with eligible expenses, while US\$1.4 million has not been borrowed. Of the remaining US\$22.6 million in HG authorization, US\$15 million is still in an escrow account in the US, US\$3.0 million has been advanced to CHFC for the construction of eligible projects not started as yet, and US\$4.6 million consists of accrued charges from capitalized interest payments. USAID is concerned about the unused balance of these HG funds. HG-13 was authorized in September 1988 and fully disbursed in November 1988 to the Ministry of Finance (MoF) as borrower. USAID's concern here is the long delay in producing eligible expenses. The purpose of both projects is to finance upgrading, sites and services, starter (core) houses, home improvements, and water sub-projects for below median income families.

Eligible expenses to liquidate the HG-13 US\$15 million advance will be available by September 1993 if land costs on the recent Government of Jamaica (GOJ) HG-13 projects and a cost overrun on a GOJ HG-12 project are included, and if the GOJ allocates approximately US\$0.5 million in the next month to complete several projects now under construction. Under the HG-12 program, public and private sector projects that will use the full US\$18 million in escrow and in advances have been designed and ready for implementation. As planned, the projects would be completed by December 1995, which is about 18 months longer than AID is currently prepared to accept.

There are two significant non-project issues which could stop or substantially delay this projected schedule. The first relates to the foreign exchange risk that the MoF is asking the borrower, the Caribbean Housing Finance Institution (CHFC), to accept. A decision on this issue will be put to the GOJ Cabinet immediately. The AID mission plans to inform the GOJ in writing that, unless the exchange risk issue, as well as the allocation of the US\$0.5 million, are resolved immediately, AID will ask for a pre-payment of the HG-12 funds. The second issue is the environmental concerns of two of the public sector projects. Resolving both of these issues could cause at least a one year delay in completing HG-12 and very significant cost increases, if the environmental concerns result in the addition of sewer systems for those two projects. In turn, these cost increases would result in other projects currently planned under HG-12 being eliminated and/or drastically altered. There are no other projects on the drawing boards that could be substituted for those two projects with environmental concerns.

There appear to be four options for USAID to consider:

1. Complete the projects currently under construction, close out HG-13, and then have HG-12 pre-paid. The HG programs could then be shut down this calendar year. The big problem is the political implications of forcing pre-payment, particularly when the GOJ has already run up a US\$4.5 million bill for capitalized interest and yet never been able to use the loan funds. However, the MoF may nevertheless be interested in pre-payment, and AID should explore this possibility informally.
2. Close out HG-13 as stated above and decide immediately to include sewers in the 3000 unit HG-12 public sector project, drop the second project that has environmental problems, and discontinue the private sector projects. Based on roughly estimated sewer costs, all HG-12 funds will be required just to complete this one large project. The advantages of this option are that further delays are avoided and one project will be completed without being subject to any environmental concerns. The disadvantages of this option are that US\$6.6 million in private sector projects will be discontinued and the completion date extended to December 1996.
3. Close out HG-13 as stated above and proceed with only the private sector sub-projects. The two public sector sub-projects of Norwood and Rosemount will be dropped because of excessive time delays and environmental concerns. The private sector projects based on the recommendations presented in this report will require about US\$8 million and can be completed by July 1995. This still leaves US\$10 million to be pre-paid to the lender. The advantage of this option is the shortened time frame and the completion of the well-publicized joint Ministry of Construction and Housing (MoC) and building society project. Further, the RHUDO staff would not be burdened with the management of more difficult and time-consuming public sector activities.
4. Close out HG-13 and implement the HG-12 projects as currently designed, but drop the smaller of the two public sector projects. An environmental assessment was performed that indicated sewers were not required; however, the validity of the study has been questioned, and AID, therefore, is about to contract another more comprehensive assessment. Unless a decision is made now regarding this option, additional delays to an already substantially delayed program will occur. Should the assessment indicate severe potential pollution from the increased population, then environmentally acceptable latrines and/or septic systems could be added to the projects, using the funds earmarked for the second public sector project. The alternative approach assumes the GOJ will add sewers later.

All the options have risks. However, any delay in selecting one of the options will result in further project delays. Nevertheless, the GOJ still needs to resolve the two outstanding issues on the exchange risk and the environmental issues.

The project goals were to expand services to the poor, particularly those living in squatter areas, shift the role of the GOJ to that of a facilitator of housing, increase the private sector participation in low cost housing, improve the institutional capacity of key GOJ housing related agencies, and quantify the allocation of housing subsidies and focus them more on the poor. USAID has made substantial progress in achieving these goals. The GOJ has increasingly shifted the MoC and the Estate Developing Company (EDCO) to the role of facilitator, receiving funds only to service land for immediate sale or mortgaging by the building societies. The National Water Commission (NWC) is providing services to untitled land occupants and is committed to providing individual connections to all low income families. The private sector has provided, albeit through HG resources, loans for shelter to low income families. Mortgage and water tariff rates have been increased, and GOJ agencies are now more environmentally conscious. Institutional improvements, particularly in regard to financial and planning standards, are well on the way to being achieved. Major issues still remain, in particular, the political will to re-allocate subsidies and to enforce collection from non-paying water users and mortgagors.

An Assessment of AID's Shelter Program HG 12 & 13 for Jamaica

1 INTRODUCTION

The purpose of this consulting assignment was to assess the HG-12 and HG-13 program activities and to propose a detailed plan to AID for resolving the substantial difficulties facing the successful implementation and completion of the projects. This assignment includes an examination of the possibility of ordering a pre-payment of the HG-12 funds held in escrow. Further, a draft proposal for closing out the program by the end of FY-94 is formulated, along with a recommendation of steps to be taken by USAID and the GOJ to assure either the completion or termination of sub-projects by that date. This report provides options with time frames and benchmarks.

The assignment was performed by Fredrik A. Hansen during a two week field visit beginning on February 15, 1993.

2 BACKGROUND

The project agreements for the US\$10 million HG-12b and the US\$20 million HG-12c borrowing were signed with the GOJ in September of 1987. HG-12b was reserved for the private sector, and HG-12c for the public sector. An additional approximately US\$4.6 million was included in the HG-12 borrowing for capitalized interest payments, plus a requirement for J\$18 million in counterpart funds. The project agreement for the US\$15 million HG-13 borrowing was signed in September 1988. The HG-13 borrowing included an additional US\$4.4 million for capitalized interest payments. The borrower for HG-12 is the CHFC, and for HG-13 the MoF.

3 FINDINGS

As of February 1993, US\$15 million of HG-12 is in a US escrow account, US\$3 million is with the CHFC to be disbursed to the participating institutions for eligible expenses and US\$12 million has been liquidated with eligible expenses. For HG-13 approximately US\$5 million has been liquidated with eligible expenses, and US\$10 million of the disbursed funds are still outstanding.

The following project activities are eligible now to liquidate HG-13, for which US\$9.5 million is required.

- Finish current NWC, MoC, and Urban Development Corporation (UDC) projects
- Attribute other completed MoC projects and land

The following activities have been planned and could be used to liquidate the US\$15.3 million in the HG-12 escrow account.

- New GOJ funded NWC projects
- New private sector projects
- Norwood and Rosemount projects without sewers
- Norwood project without sewers
- Norwood project with sewers

3.1 Program Options

1. Complete the current projects, which are about 95 percent complete and which require the GOJ to budget J\$11 million for CHFC. Then liquidate HG-13 and pre-pay HG-12 on the basis of a material breach of the program agreement. The pre-payment could be for the amount in escrow and the US\$2.4 million advanced to CHFC. If the GOJ does not make the funds available to complete the projects, a portion of the advanced funds could be used.
2. Finish the current projects and finance the Norwood upgrading project with sewers.
3. Close out HG-13 as stated above and proceed with only the private sector sub-projects. The public sector sub-projects Norwood and Rosemount will be dropped because of excessive time delays and environmental concerns. The private sector projects based on the recommendations presented in this report will require about US\$8 million and can be completed by July 1995. This leaves US\$10 million to be pre-paid to the lender. The advantages of this option are the shortened time frame and the completion of a well-publicized joint MoC and building society project. Further, the RHUDO staff would not be burdened with the management of more difficult and time-consuming public sector activities.
4. Finish the current projects, add the GOJ funded NWC projects, the private sector projects, and Norwood without sewers.

The advantage of the first option is that the project could be closed in 1993. The disadvantage is that the government would still be obligated to repay with interest the US\$4.5 million capitalized interest amount, although it may not be politically acceptable to both parties to force this option. However, the Ministry of Finance may prefer not to complete the borrowing of these funds, since its policy now is to borrow only for foreign exchange earning activities. The other disadvantage is that expectations have been created with the concerned parties on the sub-project activities. The matter of pre-payment should be discussed informally with the Minister of Finance.

The advantage of option 2 is that a decision is made immediately (thereby saving about a year) to proceed with the Norwood project, that will not be create any environ-

mental concerns. The other advantage is that the RHUDO only will have to monitor one project and one institution. The disadvantage is that the project will not be completed until December 1996, and the plot prices will certainly increase. Further, other (e.g. the private sector) portions of the project will not be funded. Before deciding on this option, AID should wait to review the basic study EDCO agreed to fund on preliminary sewer cost estimates.

The advantage of option 4 is that all planned activities are completed except for the smaller of the two public sector sub-projects. All of the concerned organizations are ready to start and there are no apparent obstacles to the sub-projects being implemented in a timely manner. The disadvantage is that project activities will not be completed until December 1995, and the RHUDO will have to monitor several project and institutional activities. Another potential disadvantage is that AID could be criticized for not being sensitive to environmental concerns. It should be noted that the GOJ officials were all concerned and thought sewers were a good idea, but they would prefer to get the projects constructed as currently designed because they fear further delays may jeopardize the start and completion of the projects. If AID decides to contract the planned, more comprehensive, environmental assessment, and if the study does indicate that the increased population and current design of the project could potentially cause severe pollution, the inclusion of environmentally safe latrines or septic systems could be added using the funds from the dropped sub-project.

All of the options have risks, however, any delay in selecting one of the options will result in further project delays. For example, if it is decided to wait on making any decision until the environmental assessment of Norwood and Rosemount is performed and reviewed by all concerned parties, no decision can be made on proceeding with the joint MoC and building societies sub-project. It should be noted that a not-as-comprehensive environmental impact study was performed, which concluded that sewers would not be required. Some people, however, question the study's comprehensiveness. If sewers are to be included, further delay will be required until the costing of the sewers is done. Depending on the costs, it will then probably be necessary to determine if it is feasible to reduce the size of Norwood and save sufficient project funds to proceed with the joint MoC sub-project. The redesign of the existing Norwood project and the design of the sewer and the treatment plant would be required.

This assignment is, of course, based on the assumption that the GOJ immediately allocates the J\$11 million to complete the current projects and resolves the impasse between CHFC and the MoF within the next two months, and makes a decision on HG-12 regarding the exchange risk. If the GOJ does not take action after being informed by the mission on the necessity of acting in these two matters, pre-payment will be required.

There are no other projects or more suitable land to substitute for those currently planned.

3.2 Project Benchmarks

- **March** - AID sends letter to GOJ on issues and steps required.
- **March** - AID confirms EDCO has contracted sewer cost study, if not contacted the matter should be raised with the Minister of Construction and Housing.
- **April** - GOJ to allocate J\$11 million to EDCO and UDC.
- **May** - after the election the Cabinet resolves the CHFC-MoF impasse.
- **May** - AID discusses pre-payment with MoF; if receptive, a Cabinet paper will in all probability be required.
- **May** - AID chooses option to proceed with.
- **June** - if the GOJ has not allocated the US\$11 million and resolved the CHFC-MoF impasse AID should give notification to the GOJ on forcing pre-payment.
- **June** - if option 2 or 3 is the preferred approach, then the GOJ must allocate the J\$20 million for the off-site water works on Norwood.
- **June** - if AID decides to wait on selecting an option until the environmental study is sufficiently complete to determine the environmental impact on the project, the government and project participants should be so advised.

3.3 Summary of Eligible Expenses

The following figures are based on an exchange rate of 5 to 1, which was the case at the time of disbursement. Details on the sub-projects are given in the discussion section under the cognizant organization heading. To liquidate the outstanding and disbursed J\$50 million under HG-13, the following expenses could be included:

- From UDC, a total of US\$17 million. This requires the GOJ to give UDC US\$4 million to complete the three projects by the end of the first quarter of their fiscal year (1 July 1993). It should be noted that this US\$17 million includes the completion and a cost overrun on the three projects that were principally financed under an earlier HG-12 project.
- From the NWC, US\$5 million for various water connections.
- From the MoC and EDCO, US\$25.6 million from the prior included eight upgrading and serviced site projects which will be complete, including executed sales agreements, by September 1993; US\$5 million for land on the prior included projects (the value of land is the sales price charged to the home owner, and is determined by the MoC based on fair market value, the income of the area, and other factors); and US\$1.1 million for other Ministry upgrading financed projects.

As can be seen, there is US\$4.1 million more than is needed to liquidate HG-13. The extra amount could be used to liquidate a portion of the HG-12 funds in escrow. However, these millions will not go as far, since the conversion rate on the escrowed funds is likely to be 22 to 1.

3.4 Projected Eligible Expenses and Project Options

The following figures are based on an exchange rate of 22 to 1. The following activities and amounts are recommended for inclusion in the liquidation of HG-12. The NWC is to receive J\$25 million from the Ministry of Finance during the next fiscal year (March 1994) to do water and sewer connections for low income families. (When completed, this amount could be charged against HG-13 instead of some of those expenses listed above.)

The joint MoC and building society project will require approximately J\$110 million and about 2 years to complete. If construction work for the project is not underway within 6 months, this project should be dropped.

The credit unions (CUs) have requested J\$35 million. Based on past performance, it is recommended that a commitment of US\$25 million be given to the CUs. The amount given to each CU as an advance should be half of their assigned allocation, with the proviso that it must be drawn down within 6 months. Assigned allocations are to be based on individual loan applications reviewed and approved by the CU board.

The building society has requested J\$25 million. It is questionable if they will ever use any of the funds; therefore, only US\$10 million should be allocated for building society participation. Again, the allocation should be based on individual prior reviewed and approved loan applications, and only for half the assigned amount advanced. If the funds are not used within six months they should be reallocated to the CUs.

The total of the above is J\$170 million, or at the current exchange rate, US\$7.7 million. The Norwood project as currently designed and costed, including off-site water but no sewers, will require J\$189 million. Subtracting J\$20 million the GOJ has committed to provide for the off-site water, the required funds are US\$7.6 million. US\$7.7 million plus US\$7.6 million is US\$15.2 million, which is the amount available in the escrow account. Assuming the GOJ contributes their US\$20 million and the contracts can be executed by July, the project could be completed by December 1995. If sewers are to be included in Norwood, the J\$145 million for the private sector projects would have to be eliminated and the completion date would likely be a year later. The other option is to do Rosemount instead of Norwood. The cost of the project with the addition of the sewers and all the provisions for the sewers is very roughly estimated to be J\$110 million. The GOJ still has an obligation to allocate US\$20 million; therefore, US\$3.6 million would be required. This US\$3.6 million plus the US\$7.7 million is US\$11.3 million. The remaining US\$3.9 million could be used for additional NWC or private sector projects.

3.5 Assessment of Policy and Institutional Objectives

The policy objectives of HGs 12 and 13 are similar, as are the institutions involved; for these reasons they have been grouped together.

Policy Objectives

1. Expand water and sewer service to low income families and to upgraded settlements.
2. Quantify and rationalize the use of housing subsidies.
3. Shift the government's role to that of a facilitator of housing, primarily by alleviating regulatory constraints, planning land use, expediting land legalization, and providing land and infrastructure to and for high density residential areas.
4. Target governmental resources (institutional, financial, and land) to assist the poor.
5. Increase the private sector production and financing of housing for low income families.
6. Improve the capacity and performance of government institutions; e.g., MoC, NWC, CHFC, EDCO, and UDC.

AID has led the way in initiating and pursuing a series of policy and institutional developments that have changed the way the Jamaicans perceive and implement their housing and infrastructure programs. Full success has not been achieved, but progress has been made, and unquestionably the Jamaicans understand the critical issues and are committed to the concept of sustainability. Unfortunately, political considerations inhibit the progress from time to time and could ultimately prevent the attainment of some of the goals. AID's assistance with the GOJ has been, and continues to be, augmented with technical assistance from other donors.

Policy Achievements

1. The GOJ has established and published a good national housing policy.
2. The MoC has shifted its role more to that of a facilitator than a provider; e.g., it no longer finances housing, and it utilizes its funds on a revolving basis for construction financing of infrastructure.
3. NWC has provided water connections to houses in untitled low income upgrading settlements and has built a demonstration communal water store in lieu of communal stand pipes to test the concept.
4. MoC, UDC, EDCO, and CHFC have upgraded neighborhoods and provided serviced plots, core houses, and home improvement loans for lower income families.
5. Credit unions have provided loans to lower income families mostly for home improvements, but also some for land and mortgages.
6. The GOJ has deregulated credit union lending practices.
7. MoC, CHFC, and the building societies have agreed that the building societies will service future low cost housing mortgages produced by the MoC and EDCO.

8. MoC and the building societies have agreed to implement a pilot project where the building societies will do all the construction and service the mortgages on land as well as houses in a mixed-use 1200-unit project that uses MoC land.
9. Public housing mortgage rates have been doubled.
10. NWC has more than doubled its water tariff rates.
11. The shelter related institutions are now environmentally conscious.

Further Potential Achievements

1. The director of the NWC has stated that he will implement the changes recommended by several studies that were performed on (for example) management, organizational structure, and the billing system. Further, when a user survey and cost study is completed, the director plans to use the results to justify a request for a realistic tariff increase. A privatization study of the organization is also to be made, which could result in other improvements.
2. NWC has obtained and used the equipment to detect leaks, and has made progress in mapping them. It should complete the mapping and initiate the repair of the leaks.
3. A study is underway to revise and substantially improve the land use planning and processing procedures of the Town Planning Department.
4. The Town Planning Department has issued a draft set of standards for low cost housing, which, if adopted, could facilitate the construction of low cost housing by the private sector and its approval by the authorities.
5. MoC has studied its organization and the feasibility of privatizing some of its rental housing stock and has initiated action on both.
6. Financial management studies have been performed on several of the institutions, and some improvements have been initiated

All of these potential achievements are important, and their development and the institutions involved should be monitored and assisted by AID. As already stated, AID has played the lead role in this institutional development and, even though other donors are now engaged with some of the institutions, AID should continue to meet and urge the improvements with them as well as with the coordinating committee. Further, the improvements should be part of AID's policy dialogue and negotiations with the government in order to assure as much as possible that senior members of the government support the institutional changes called for.

Unmet Goals

Important policy goals that should and still need to be achieved:

1. All housing subsidies should be quantified and rationalized by the government; e.g., interest rates are still far below the market.

2. Collections on a very large percentage of non-paying water users and public housing mortgagees must be enforced, and the method of enforcement should be changed radically from that of past attempts.
3. A larger portion of the National Housing Trust (NHT) funds should be required to be used for core housing, and a portion should be required to be used for lower cost solution mortgages.
4. A portion of reflows and governmental budgetary support to the NWC should be required to be used to upgrade high density and established squatter settlements.
5. All of the MoC housing fund resources should be used for land and infrastructure for the below median income level group.
6. A portion of the land holdings by the MoC, the UDC, and the National Housing Corporation should be required to be used and reserved for the low income group.

These goals should be continually pursued with the GOJ at all levels. Progress has been made, but if the GOJ hopes to entirely resolve the squatting situation, it can only do so if these goals are attained.

3.6 Proposed Additional TA Activities

There are two other technical assistance areas that should be initiated. First, AID and the government should survey and determine the environmental impact of squatter settlements on the tourism industry and the country's resources and economy. AID's Office of Housing has an approach and methodology that can be used for such an assessment. Understanding and quantifying the impact would greatly assist the government in making progress on the above mentioned goals. Second, an analysis of property values and taxes, and their potential use for addressing the environmental degradation caused by formal and informal construction on or next to the property should be considered. In the final analysis, the GOJ will have to find additional and more equitable means of raising funds and taxes linked to land related construction, and taxes on improvements are an excellent means.

3.7 Discussion

Institutional meetings and potential allocation of remaining HG funds:

UDC: UDC has almost completed its three projects under the HG program. It needs approximately an additional J\$4.5 million from the CHFC to complete the projects. The funds are required to complete drainage ditches, road paving, and foot paths. Assuming the contractor can return immediately to the site when the funds are made available, the works can be completed in a few weeks. Because of inflation, mostly associated with the devaluation of the Jamaican dollar, UDC has spent about J\$13 million more than was allocated and liquidated (J\$10.3 million) on its three projects. Assuming the J\$13 million is justifiable to CHFC, it could be submitted as eligible expenses, as could the additional J\$4.5 million, to complete the projects. The UDC representatives said that UDC's focus

was now elsewhere, and it would not be doing any more housing projects. During the same period of development of the three HG projects, it also completed a 460-unit middle income project. UDC has extensive land holdings.

NWC: The Managing Director Mr. Steward and his principal associate Mr. Hunter have made promising statements in regard to re-organization of the NWC, cost recovery, environmental issues, and servicing a clientele they used to consider illegal and outside their domain. However, it is said that the organization suffers from poorly qualified middle management staff and that the actual performance and institutional commitment has not met expectations. Under the HG program the NWC has completed about J\$29 million in water works, mostly for hook-ups in squatter areas. J\$5 million of this amount is in the process of being certified as eligible expenses. The NWC would like to receive J\$66 million for next year's activities, but only expects to get J\$25 million from the government for providing service to squatter and other low income areas. They could not provide the figures for their other water and sewer investments for next year. They envisage the US\$25 million as being the government's contribution for HG-13 and presume the figure will also cover the off-site water works for Norwood. They are not sure what is going to happen with the US\$20 million promised this fiscal year (until 30 March) for the off-site water works on Norwood. The NWC considers communal stand pipes to be a big money and water loser and they want to go to individual hook-ups wherever possible. The NWC and the MoC have to get together and resolve the stand pipe issue on two of the Ministry's projects.

NWC is ready to proceed immediately with the off-site construction of the water supply system for the Norwood project. Costs could be 10 percent higher than the currently budgeted J\$54 million (US\$2.5 million) and the works would take about two years to complete. If a sewer is to be added to the site it would be the responsibility of EDCO, although eventually it would be connected to the sewer system NWC is about to develop in Montego Bay. NWC indicated that the construction of a sewer in Norwood would be very expensive because of the terrain and the rocky soil characteristics at the site. While expressing the desirability of sewers they also stated that, with the installation of the new sewer system for Montego Bay, 90 percent of the pollution problem would be solved, and that with conventional soak away systems the pollution from the run-off from Norwood by the time it reaches the bay would be insignificant.

MoC and EDCO: EDCO is the construction arm of the Ministry. The Ministry no longer provides mortgage financing. Instead, it uses the financing it does receive for site infrastructure construction. It prefers to co-finance the construction of projects, e.g., with NHT, and when the units are sold and the mortgages provided by the NHT, they are repaid for the land and the infrastructure. The Ministry can then move on to another project; e.g., an upgrading project where it puts in the roads and water and provides land title. When a project is completed, it submits the project cost, including the value it has placed on the land, to the CHFC (in AID's project) for reimbursement, and then a building society, which will hold the title, will service the mortgage for CHFC for a fee.

In all these cases EDCO does the design and construction management. The Ministry also wants to get the building societies to co-finance the development of projects. The building societies are not particularly interested in providing construction for large projects, e.g., more than 10 to 20 units, because of the potential risks and delays associated with them. In addition, it is much more lucrative for them to invest their funds in non-housing ventures where the returns are three times greater than mortgage financing. However, the building societies have agreed, after coaxing by the Ministry, to co-finance jointly under the auspices of their trade association, a 1200-unit mixed-use project where the Ministry owns the land. Six hundred of the units will be for the below median income families, and the building societies will provide the mortgage but no interim financing for the 600 developed plots. The Ministry will be reimbursed for the land value and the minor amount of road work at the site, and the construction contractor (not EDCO) will be reimbursed for its work. The HG money through CHFC will provide the construction financing for the 600 unit portion of the project, and CHFC will be repaid by the building societies over the mortgage period. Should the low income family qualify for an additional mortgage to finance the construction of a house on the plot, such financing will be provided by the building societies. The building societies expect the Parliament to pass a law that allows NHT to provide mortgage insurance for up to 90 percent of the land and house value.¹ The building societies have sufficient capital to provide all the project's financing needs, but with the use of the HG funds, low income families should benefit. If this project is successful, it should be repeated utilizing the Ministry's land and the building societies' financing. There has been a lot of publicity on this project, and it would be difficult, but not impossible, not to proceed with it. The project is ready to go and should take a little less than two years to complete. Approximately J\$110 million or US\$5 million will be required from the HG resources.

In addition to the building society project, the Ministry requires about J\$7 million to complete its ongoing projects. As soon as the financing is provided by CHFC, these projects can be completed in about three to six months, including the selling and legalization of the plots. It is anticipated that the Ministry will then be able to present eligible expenses for plots mortgaged in the projects for an amount of J\$26 million in about the same period.

Two new projects are programmed for financing under the HG project. They are Rosemount and Norwood, and combined they include 4200 plots, at a total cost (not including the off-site water) of J\$175 million or US\$8 million. The construction of these projects is expected to take 30 months after financing is made available and the construction contracts are signed. The cost of Norwood alone is US\$5.8 million. An environmental concern with this project is that the typical and planned use of pit latrines and soak-away septic systems will add to the pollution of Montego Bay. With 3000 plots, the number of persons living on the site could easily be 15,000. AID wants to do an environ-

¹If this law is not passed, the project should be monitored to see which income group is benefiting from the project.

mental assessment of the project which would delay start-up of the project by six to nine months. The design, costing, and necessary approvals of a sewer system, if that is the outcome of the study, would require an additional six months. If it is concluded that sewers are required for the project, project costs could easily double because of the rough site conditions and the need to install a temporary sewer treatment plant. The Ministry is not concerned with the resulting increase in plot sales price and it believes that the addition of sewers would be a good result. However, it is concerned with the potential time delays and the possibility that the project might never get completed. The Minister's and his special assistant's beliefs are also similar to those of the NWC, and they are in fact ambivalent on the whole matter. The director of EDCO believes that the additional sewer costs would make the plots unaffordable as well as ineligible for HG financing. If the study is carried out and sewers are to be included, it is possible that the project will not be completed until July 1997. The same considerations apply to the Rosemount project; however, instead of installing a treatment plant, a temporary plant planned for an NHT project could be expanded and this project hooked up to it. However, the existing non-functioning lines in the old part of Rosemount may have to be enlarged as well as cleaned out. It is possible that by July 1997 the new treatment system for all of Montego Bay will be functioning and the temporary plants for both projects could be eliminated. If both sites are to include sewers, the total cost could be US\$16 million. Since this is beyond the funding available under the HG funds in escrow, and since the government is unlikely to have the additional funds, it seems evident that only one of the two projects can be completed if sewers are to be included.

Because of the issue of affordability, it was decided that EDCO would finance and contract with a local engineer to do a quick cost analysis on sewers for both projects.

From the meetings with EDCO and the Ministry, other potential eligible expenses were identified. These included land costs on the projects already included, and other small Ministry funded upgrading and sites and service projects. The Minister stated that he would pursue the proposed presentation of a Cabinet paper in regard to the CHFC and Ministry of Finance conflict on the foreign exchange risks and the inclusion of the private sector in the program, and assured us that there would be a favorable response.

Credit Unions:

- The Jamaica Credit Union League has off-site works and 83 member CUs, and they have produced about J\$5 million in eligible loans, mostly in rural areas, for home improvements, land purchase, and in some cases house construction. They have J\$1.5 million pending and are requesting J\$12 million more for similar borrowing during the next 12 months.
- The Jamaica Teachers Association Credit Union has produced J\$4.3 million in eligible loans and has J\$0.3 million more pending. For the next year they have requested J\$16 million to finance loans for home improvements, land purchase, and house construction, as well as for financing two projects of 90 units.

- The City of Kingston CU has produced J\$5.3 million in eligible expenses. It has requested J\$5 million for the next year.
- Neither the Jamaica Citizens Building Society nor any other building society has produced any eligible mortgages; however, they have requested J\$25 million for next year.

The Jamaican Shelter Strategy Coordinating Committee: Two meetings were convened with this committee to resolve the major issues between CHFC and the Ministry of Finance related to the foreign exchange component of the borrowing. Since not all the senior level officials needed to resolve the problems were present at the meetings, it was concluded that the government (CHFC) would prepare a paper on the issues for Cabinet consideration, and AID would send a letter to clarify AID's position on the issues. The following paragraph taken from the letter explains the substance of the issues.

Unlike other USAID housing loan programs where the Government of Jamaica has been the borrower, under HG-012, CHFC is the borrower of the funds from the US investor. Under the Program Agreements between the Government of Jamaica, CHFC and USAID, GOJ was to service all US dollar payment obligations under the Loan Agreement and assume all risks of foreign exchange fluctuations involved in such dollar payment obligations. However, those agreements were modified by the Ministry of Finance in a letter to CHFC dated 5 December 1987. Pursuant to this letter, CHFC remains responsible to service all US dollar payment responsibilities, but the Ministry of Finance has committed to reimburse CHFC for any losses it incurs from foreign exchange losses and interest rate. The Ministry also agreed to reimburse CHFC for any losses it incurs through failure of MoC/EDCO and UDC to repay the funds they borrowed from CHFC. It did not agree to reimburse CHFC for the failure of credit unions and building societies to repay their borrowings from CHFC. We understand that the CHFC board does not wish to continue with the HG-012 programs under the current arrangement. Further, this is not in keeping with the intent of the Program or Loan Agreement. The loan was in large part approved by AID because it was to significantly increase the participation of the private sector in low cost shelter. As currently structured, the achievement of this goal is compromised; consequently, the government's position on this matter must be clarified. As already stated, CHFC must make payments directly to the lender in US\$. CHFC is to be reimbursed for the losses incurred in making the payments, but the reimbursements have been delayed. This situation must be rectified if CHFC is going to continue to be the administrative agent for the project. Finally the government has to clarify that CHFC does not have any financial responsibility to make payments associated with the approximate US\$4.5 million added to the principal of the loan for the capitalized interest.

On the last day of the consultancy the Minister of State, who was recently named chairman of the committee, convened a short meeting. The other committee members were not called. He stated his support for CHFC's position, adding that he concurs with their objective to be a solvent commercial operation and that he would support that position when the Cabinet paper is submitted. He confirmed that the GOJ was prepared to make available the J\$20 million for the Norwood off-site works and additional money (in Jamaican dollars) for the NWC. Further, he re-confirmed the GOJ commitment to the program.

3.8 Counterpart Funds

The counterpart funds still must be tabulated, but it appears that there are a large number of expenditures that will qualify and satisfy the amounts needed. Examples of eligible expenditures include the land costs on all the HG-12 projects already liquidated; the legal and administrative costs on providing sales agreements and the land titles; the administrative costs for meeting with the upgrading communities and explaining, promoting, and gaining acceptance for the improvements; construction management for all the projects; and downpayments on the credit union borrowings. The RHUDO should request each cognizant organization to prepare certified costs on their activities.