pre-feasibility study of a housing guaranty program EASTERN CARIBBEAN

prepared for
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF HOUSING
MARCH 1981

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PRE-FEASIBILITY STUDY

OF A

HOUSING GUARANTY PROGRAM

EASTERN CARIBBEAN

Prepared for

Agency for International Development
Office of Housing

Under Contract AID OTR-2-1847
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by

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TABLE OF CONTENTS

ANNEXES

ANNEXES

PREFACE

This report presents the results of a preliminary feasibility study for an AID Housing Guaranty loan for the nations of the Eastern Caribbean Island Countries. Given the problems of distance, travel logistics and the absence of documentary information, it was deemed appropriate to undertake a preliminary assessment before investing the time and resources required for a full feasibility study.

There are two underlying factors behind the decision to review the appropriateness of an AID HG program in the Eastern Caribbean Island Countries. First, as it has been a decade since the first AID housing effort in the region it is self-evident that the time has come for a reassessment. Second, as was revealed in the field work for this study, a number of the countries in the region have separately requested assistance from the United States in housing and community development.

Two AID consultants, Peter Abeles and Donald Stout, conducted the field work and prepared a preliminary draft of the report in January 1981. They were assisted by Alwyn T. Wason, a local independent consultant, and Edward E. Birgells of the AID mission in Barbados.

Three of the six ECIC - Antigua, the Commonwealth of Dominica and St. Lucia - were visited during the field work and officials of public agencies and private citizens were interviewed (these meetings are summarized in the annexes to the report). As a result of these visits the consultants believe that reasonable generalizations can be made concerning housing conditions in all six countries in the region.

In order to make some judgements concerning the Eastern Caribbean Currency Authority (ECCA), Donald Stout made a separate trip to the Eastern Caribbean Currency Authority office on St. Kitts.

It is estimated that the $3.0 US HG loan will yield 3,220 outputs: 1,805 home improvements and home expansions using $1.0 US in HG funds, 690 sites with and without services requiring $.4 million US in HG loans and 725 core housing units entailing $1.6 million US in HG monies.

I. CONCLUSIONS AND RECOMMENDATIONS

A. DEMAND FOR HOUSING GUARANTY FUNDS

There is clearly an effective demand for Housing Guaranty funds in the Eastern Caribbean Islands (ECIC)*. While there is a demand for housing resources throughout the Eastern Caribbean region, conditions on each island warrant individual approaches by USAID. Because of the small size of the population in the ECIC, their physical isolation and limited resources elaborate or complicated housing programs are not appropriate. The ECIC are also constrained by a lack or scarcity of human resources; the talent required to manage housing programs is very restricted. Consequently, the programs for each ECIC have to be tailor-made, consistent with available resources and other limitations.

Although based on this preliminary study it is estimated that a three-year program for the ECIC could use $6.0 to $7.0 million US in HG funds, it is recommended that a program of $3.0 million US be established. There is a strong reason for suggesting a program equivalent to less than half the effective demand. The concessional loan that AID made in 1972 took over four years to be disbursed. In retrospect, many of the difficulties associated with the disbursement of the loan could have been anticipated and avoided. Within AID, the Caribbean Development Bank (CDB) and the various participating countries there is a feeling that the AID program was not as successful as it could have been because of the long disbursement period. If a HG program is implemented in the ECIC and all of the funds are allocated on or ahead of schedule, the program will have a good chance of success. A modest program accounting for less than half of the potential demand has a good chance of being totally committed within two years. An important achievement, considering the results of the 1972 loan,

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* The Eastern Caribbean Island Countries consist of Monserrat, St. Kitts/Nevis, Antigua, St. Vincent, the Commonwealth of Dominica and St. Lucia.

would be if the participating countries requested additional loan assistance after the initial funds are fully committed. As noted later, $3.0 million US for the six ECIC nations is reasonable, given the program objectives, the current costs of funds and other factors.

B. NATURE OF THE HOUSING GUARANTY BORROWER

The HG borrower for the ECIC should be the Eastern Caribbean Currency Authority (ECCA). To varying degrees the capacities of the banking institutions in the ECICs are limited. While local financial institutions are improving their fiscal and administrative capacities, none of them yet has a significant international capacity or authority. As a consequence, virtually all overseas assistance, whether national or international, such as the 1972 AID loan, has come through such institutions as the CDB.

The ECCA is a preferred financial intermediary for the HG loan for several reasons. It appears willing and able to act in the limited capacity of a responsible fiscal intermediary and is eager and able to provide additional services to its client countries. ECCA officials believe that the HG funds can be segregated and made available, consistent with AID's program requirements. All of the ECIC that would participate in the program should be able to provide the ECCA with the assurances regarding repayment that are required by AID. Finally, the ECCA seems the simplest way of dividing a relatively modest amount of HG funding among a fairly wide range of local lenders.

C. FINANCIAL INTERMEDIARIES FOR HOUSING GUARANTY FUNDS

The existing financial institutions can serve as the intermediaries between AID HG activities and local housing programs. No new financial institutions are needed for an AID HG loan. New fiscal institutions will not help regional development programs and will dilute human resources in the ECIC. The ECCA should re-lend to local institutions, such as credit unions (via their national credit union leagues or federations), mortgage finance companies, commercial banks and development finance corporations as well as development banks. It is recommended that with one or two exceptions the public sector housing entities, such as the Central Housing and Planning Authorities (CHAPA) in the ECIC, play only a limited role in implementing a HG program. Their principal contribution should be formulating policy. There are three principal reasons for this recommendation:

1. As the public sector construction companies and the public lending institutions are far behind in their accounting, fiscal activities and paper work, it will compound their already overwhelming burdens if they were called upon to undertake additional tasks at this time.

2. From time to time, some of the ECIC have established new housing and housing development organizations. Because of the scarcity of skilled people these new organizations exist mainly on paper. Not only are the same people who were involved in the new groups, they often continue to do the same work. While a HG program could produce local pressures for new and more effective housing institutions, certainly a laudable goal, the actual result is likely to be additional distractions and burdens upon an already strained work force.

3. Partly because of the small population and the personal relationships between people in government and the public, it is often difficult for government housing agencies to undertake such unpleasant tasks as cost recovery and the equitable distribution of limited resources. On the other hand, a commercial organization such as a bank already fulfills such a role and is widely accepted throughout the region.

In support of the above point, it is particularly important that the local financial intermediaries for HG funds do not appear as public sector institutions. There is a widespread, often historically justified image that public sector financial institutions need not be repaid or repaid on time. A common attitude is that "they use tax money; repayment is irrelevant since it is the borrower's own money". This attitude does not extend to private financial intermediaries; local commercial banking institutions are taken seriously. Local banking institutions by and large have good cost recovery records, delinquencies are rare and arrearages are moderate. In addition to the formal lenders - the commercial banks and trust companies - the traditional and neighborhood lending associations, principally the credit unions and the friendly societies, have reputations throughout the Caribbean for very effective cost recovery. While the success of the credit unions can be explained in part by fiscally conservative lending policies, the social pressures and methods inherent in the CU movement are also responsible for the fiscal responsibility of these private, somewhat informal institutions.

D. PARTICIPATION BY THE CARIBBEAN DEVELOPMENT BANK

The local knowledge, skills and goodwill of the CDB should be enlisted in the HG program. The CDB should be encouraged to be a sympathetic ally, and where possible, contribute "soft-loan" money to the program. As its housing people are very knowledgeable about the area and its shelter conditions, AID should stay in close touch with the CDB. While CDB officials have working relationships with and know regional housing officials and institutions, there may be some incipient problems between the CDB and local housing institutions. A HG program in the eastern Caribbean region will entail a new and different approach to regional housing problems and issues and be quite different from those established by the CDB in the past. Therefore, a program with only modest participation by the CDB may be appropriate in some of the ECIC.

E. INTEREST RATES

There is no insuperable economic problem in charging market interest rates to local lenders for on-lending to target families.

In general, if a lending program charging high interest rates is to be relevant to local needs and stress cost recovery it has to be geared to small loans. Small loans can be effectively made for the following purposes: to purchase a site, to purchase a lot for sites and services, to purchase building materials, to expand and improve an existing dwelling and, occasionally, to construct a modest timber house or core house.

At this phase of the program evaluation process, two important aspects of prevailing economic conditions in the ECIC should be kept in mind. First, with few exceptions, no existing organizations or institutions have money available for the AID target population. Nevertheless, based on a number of indicators, such as the low vacancy rates, overcrowding and the activity in the informal housing sector, there is a significant pent-up economic demand for housing funds among this group. Second, the little capital that is available to lower income families, mainly through credit unions, is being loaned at rates of between 6% and 14% per year. If repayment among the lower income group is anywhere near as good as the credit unions claim, higher interest rates should not be an obstacle.

Insofar as interest rates can be lowered by drawing upon sources that do not impose excessive budgetary burdens on the ECIC, the HG program will be able to reach further down into the target group and also yield more impressive housing solutions.

Since the ECIC are not creditworthy for market rate loans at current rates, some concessionary treatment, if possible, of their beneficiaries is recommended. As a result of the economic conditions in the ECIC there could be foreign exchange problems in repaying the HG loan. While this report concludes that local financial intermediaries can do an effective lending job and that a HG program is possible, problems can appear at the national account level of the ECIC within the ECCA.

F. TECHNICAL ASSISTANCE

If the proposed HG loan is made, a significant technical assistance effort (TA) will be required in the ECIC. TA will be required for program conception, financial management, program design, project preparation and implementation and monitoring. The TA should also address itself to the fact that housing managers and housing technicians who will be involved in the HG program have been professionally isolated from the rest of the world for quite some time. Small TA seminars would offer a forum for conveying the experience of other comparable regions, discussing available housing solutions and exchanging ideas to housing professionals in the eastern Caribbean.

Technical assistance should also be directed at the phenomenon of "squatting", which is growing in St. Lucia, Dominica, Antigua and perhaps elsewhere in the region. If technical attention is not given to problems of land use, subdivision and tenure, a HG shelter program could exacerbate the growing pains of urbanization.

G. REGIONAL BUILDING MATERIALS INDUSTRY

AID should explore the potential for a regional building materials industry. This recommendation is made with the awareness that past efforts, such as a large-scale sawmill operation on Dominica, have not been successful and that other studies are in progress. While there is sufficient reason to presume that it will be difficult to establish a building materials industry the regional economic and social rewards would be significant. When building materials are not produced in the region scarce foreign exchange must be used to pay for imported materials.

If a building materials industry could be stimulated, the employment effect of a HG program could be pronounced. Paid direct employment accounts for perhaps up to forty cents of each dollar spent on housing construction. For an effort such as the HG program, emphasizing informal housing production techniques rather than conventional housing solutions, the share of paid direct employment is likely to be even lower.

For example, if Dominica's wood products were used as a regional construction material each HG dollar used in another ECIC to construct housing with Dominica's materials would yield an additional forty to sixty cents in wages. Equally important, the foreign exchange that is normally spent outside of the region for building materials would remain in the region, freeing scarce resources for other vital purposes.

H. PRIORITY OF SHELTER SECTOR ACTIVITIES

A word of caution should be added regarding exploitation of the large forest reserves in some of the ECIC for building products. Virtually all of the significant forest areas on islands such as Dominica, St. Lucia and Antigua are located on the old volcanic slopes and other steeper parts of the islands. Where steep slopes (over 25%) exist in tandem with high rainfall and soils of volcanic origin, special care has to be exercised to prevent soil erosion, loss of vegetation, stream siltation and other adverse effects of rain forest cutting.

While there are environmental, economic and technical problems related to the expansion and development of a wood products industry, the rewards can be great. For example, half of Dominica's land area (195,000 acres) is in forest. A typical acre should produce between 50,000 to 100,000 board feet of building materials. As a typical core house requires 1,500 to 2,000 board feet of lumber, each acre should yield enough lumber for 30 to 50 dwelling units. Since climatic conditions are ideal for re-forestation, careful harvesting of timber should be possible without permanent environmental damage.

I. INSTITUTIONAL CAPACITY FOR MEETING HOUSING NEEDS

With a few noteworthy exceptions, there is little institutional capacity among the governmental structures of the eastern Caribbean region for meeting the housing needs of lower income families. In part, the problems of the private institutions are caused by a shortage of manpower, a lack of conceptual resources and a lack of funds for programs. In many of the ECIC the governmental organizations responsible for housing are now so burdened by administrative problems that they cannot undertake new activities.

On the other hand, the organizations composing the private or quasi-private sector, especially in the financial area, throughout the eastern Caribbean, appear to have the potential for institutional growth and development. With the ECCA acting as the borrower and overall manager of the HG loan, the credit unions, development finance corporations, so called "special" banks, commercial banks and trust companies, appear to be able to expand into housing and assume responsibility for local lending activities. Moreover, other groups that have not yet been involved in financing possess managerial skills. Among these are cultural associations, which seem willing to become involved in housing if they can obtain capital funds. A regular and dependable source of long-term capital will contribute significantly to the growth of local lending institutions as well as to the local capital market.

II. INTRODUCTION

A. BACKGROUND

In 1972 the AID Office of Housing undertook a $10.3 million US concessional loan in the eastern Caribbean. The loan was implemented through and with the assistance of the Caribbean Development Bank (CDB). An evaluation of the 1972 HG loan conducted by the National Savings and Loan League for the Office of Housing in September 1976 concluded that it had produced mixed results. With the additional hindsight of another five years it appears that the results of the 1972 AID effort were inappropriate rather than "mixed".

The major focus of the 1972 loan program was the production of what was called "Urban Working Class Housing" (UWCH). While this housing was well designed, attractive and highly desirable, its physical standards and cost put it beyond the reach of most families in the region. Toward the end of the 1972 program the per unit cost had risen to about $6,000 US. In today's market the sturdy UWC dwelling and building lot would cost perhaps $16,000 US. In 1972 and at this time such prices are beyond the reach of the population groups served by AID. In fact, to complete the UWHC program most of the participating countries had to provide additional capital subsidies. In retrospect it is evident that the UWCH program did relatively little to meet the shelter needs of the people of the ECIC.

Both housing theory and development practice in the eastern Caribbean region have been greatly influenced by the approach to shelter adopted by the British in the years following World War II. A major tenet of the theoretical framework of that era was that publicly assisted housing should be considered a social component of national development rather than a productive element of the economy. Consequently, many public officials in the ECIC perceive housing as a sector which must be financed with "non-economic" resources. This view has often been shared by the countries which have been called upon to assist the region's development.

While many public sector housing officials still believe that concessionary loans are required for housing development, this attitude is no longer generally held by quasi-public officials or by the private sector. Even among public officials and institutions who have come to expect concessionary financing for housing there is a growing awareness that the limited availability of concessionary loans and outright grants will do very little to meet the growing need for housing in the ECIC.

The demand for housing throughout the eastern Caribbean is expanding at an accelerating rate. One of the main reasons for this rising demand is that the opportunities for young people and families to migrate to the developed countries have been curtailed; as fewer people are able to leave the demand for housing grows.

Secondly, hurricanes Allen and David in 1979 and 1980 dramatically exacerbated the region's housing problem by destroying or damaging a significant part of the supply. As is often the case with such natural disasters, the urban and rural poor suffered the most. Thirdly, the shortage of long term financing for housing that emerged in the 1960s has reduced the ability of lending institutions to expand the supply. Finally, housing expectations, especially among younger families, have grown during the last two decades.

B. GENERAL DESCRIPTION OF HOUSING

For the use of AID personnel who are not familiar with housing in the ECIC, some of the key characteristics are noted below.

1. LAND

The territorial aspect of housing varies widely in the ECIC. During the project development phase attention will have to be paid to land problems in individual countries.

Land law, land registration and planning vary widely. As a result of the historical origins of some of the ECIC the Napoleonic code governs land ownership. The increased demand for building lots, resulting from rapid family formation, has caused land planning, land registration and subdivision to fall far behind the consumption of lots. In some countries, such as Antigua, obtaining land and cost of land is no problem because of the ready availability of "Crown" lands. In other countries land acquisition for public purposes is difficult because of the shortage of government owned land and the lengthy process of condemnation.

Varying topographical conditions shape housing settlement. The relatively flat areas of northern and central Antigua support extended development of family lots. In Dominica the extreme topography and rainfall compound the usual problems of land development. Where grazing and subsistence farming have replaced organized agriculture (such as sugar and banana plantations), building lots tend to be spread out and relatively large.

While the conditions affecting land differ in each ECIC, a burgeoning common element is the formation of urban and even rural squatter settlements. The squatting problem occurs in all of the ECIC that were visited: in Antigua to some degree and in Dominica and St. Lucia to a significant extent. The actual magnitude of the problem and its anticipated rate of growth are not generally known and solutions have not yet been formulated.

Land planning, the provision of access, water and sanitary services as well as subdivision and land registration are major elements that will have to be considered by a regional housing program.

2. HOUSING

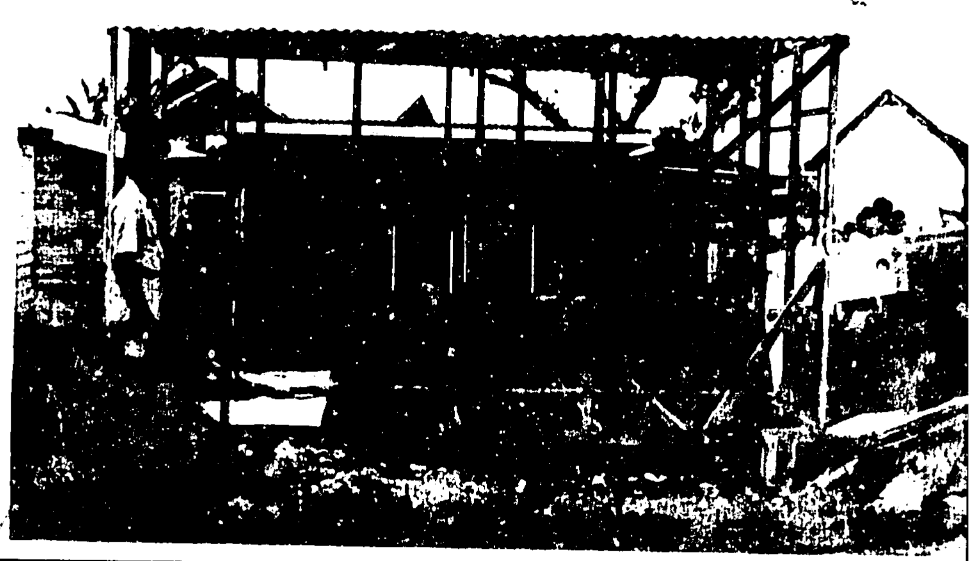
The typical house in the ECIC has 200 to 300 square feet and physically appears to be in poor condition. Residential densities of about 20 dwellings per acre were prevalent in urban neighborhoods of St. Lucia and Dominica; only Antigua appeared to have relatively lower densities. In the squatter communities of Roseau, the capital of Dominica, densities appeared to exceed 20 dwelling units per acre.

In part, the qualitative aspects of housing in the ECIC are determined by the fact that secondhand wooden and metal parts are used extensively. In urban areas people use material from damaged and abandoned wooden structures to build "new" houses.

TRADITIONAL HOME BUILDING

A YOUNG MAN BUILDING A MASONRY HOUSE ON HIS OWN LOT. HE NOW LIVES IN THE HOUSE IN THE BACKGROUND.

PROGRESS ON THE HOUSE SHOWN IN THE ABOVE PHOTOGRAPH. IT HAS TAKEN THE BUILDER SIX MONTHS TO DO THIS MUCH WORK; IF FUNDS WERE AVAILABLE HE COULD COMPLETE IT IN LESS THAN A YEAR.

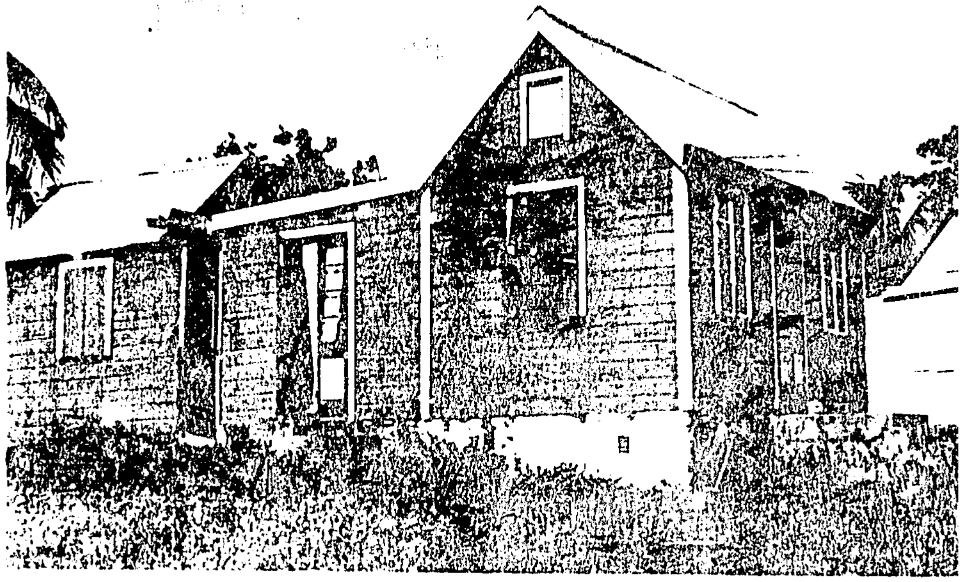


A LOCAL HOUSE BEING BUILT. ONLY THE MAIN STRUCTURAL ELEMENTS ARE NEW; THE REST IS USED MATERIAL.

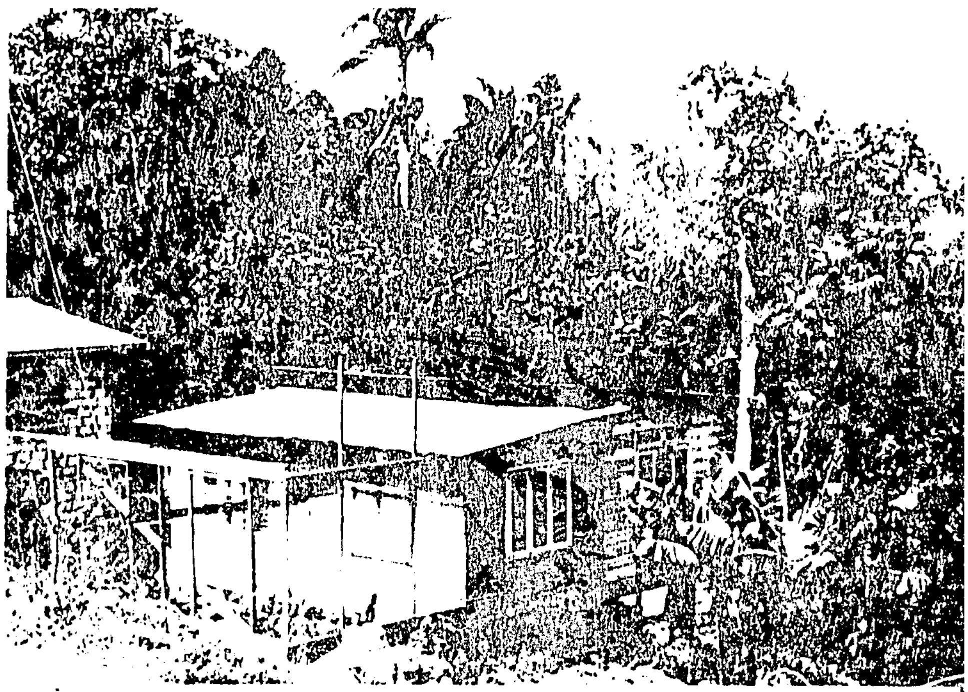
HOUSING BUILT IN THE 19TH CENTURY BY PLANTATION OWNERS FOR THEIR WORKERS. MOST OF THESE DWELLINGS HAVE SINCE BEEN ABANDONED.

HOME IMPROVEMENT AND EXPANSION

A TYPICAL LOCAL HOUSE THAT HAS UNDERGONE THREE STAGES OF EXPANSION AND HAS RECENTLY BEEN REDECORATED.

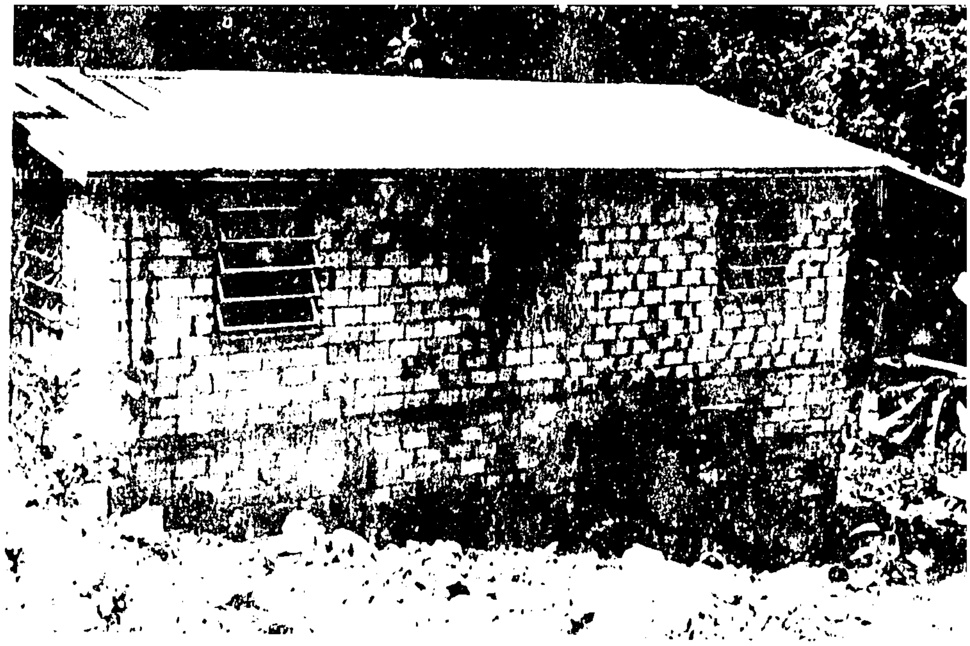


A SMALL HOUSE THAT HAS BEEN THROUGH TWO STAGES OF EXPANSION AND IS NOW IN A THIRD. THE WIDTH OF THE COMPLETED SECTIONS IS ABOUT TEN FEET, ALLOWING EASY MOVEMENT ALONG LOCAL ROADS.

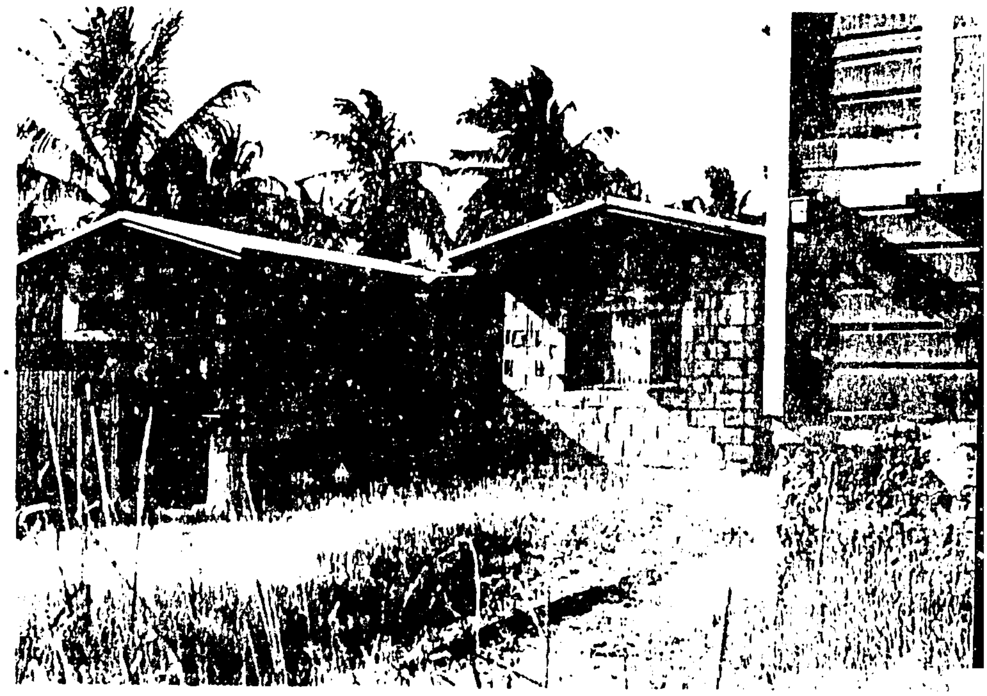


A MASONRY HOUSE BEING EXPANDED.

A MASONRY HOUSE WHOSE GROUND FLOOR LEVEL IS BEING ENCLOSED TO CREATE LIVING SPACE. THE HOUSE WILL PROBABLY BE PLASTERED OR STUCCOED WHEN THE FAMILY CAN AFFORD IT.

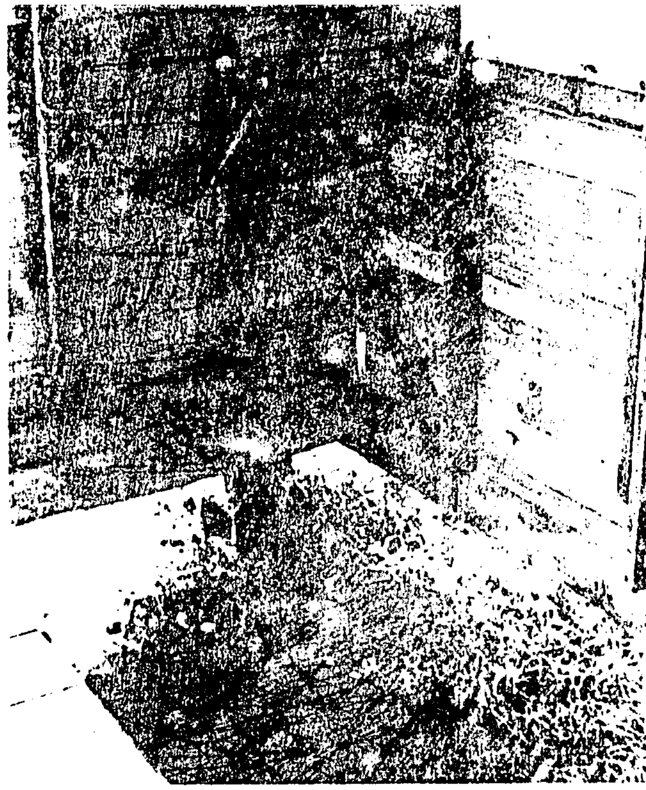


A HOUSE ON WHICH CONSTRUCTION HAS BEEN HALTED FOR SOME TIME. THE OWNER MAY BE OVERSEAS, EARNING MONEY TO CONTINUE THE WORK, OR HAS SIMPLY RUN OUT OF MONEY.

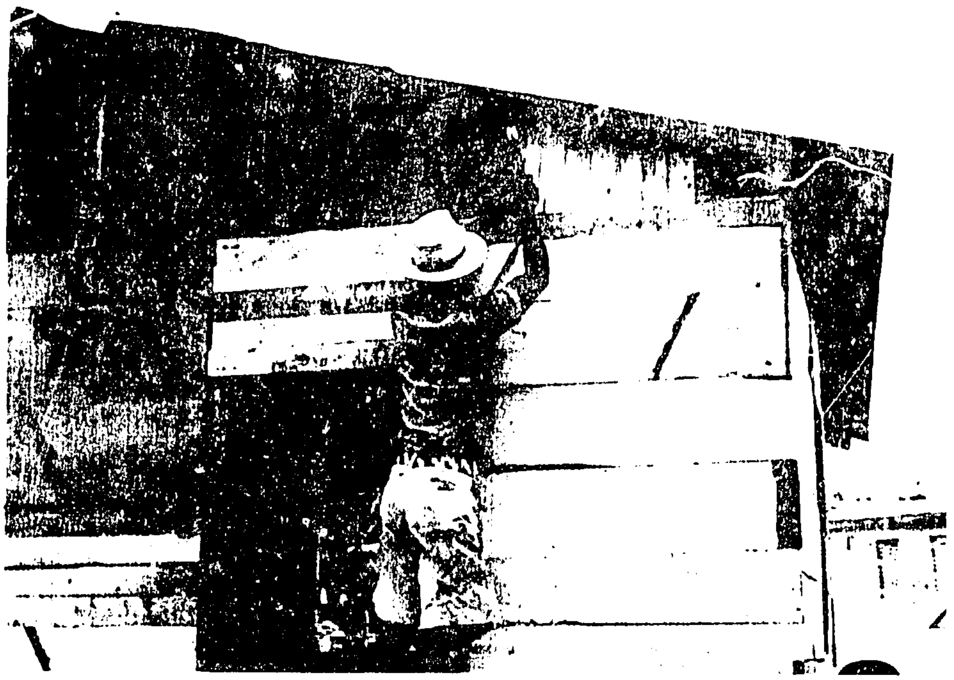


A TIMBER HOUSE THAT HAS BEEN EXPANDED INTO BOTH A MASONRY AND A WOODEN HOUSE.

AN ILLUSTRATION OF THE WORKMANSHIP USED IN LOCAL TIMBER CONSTRUCTION.



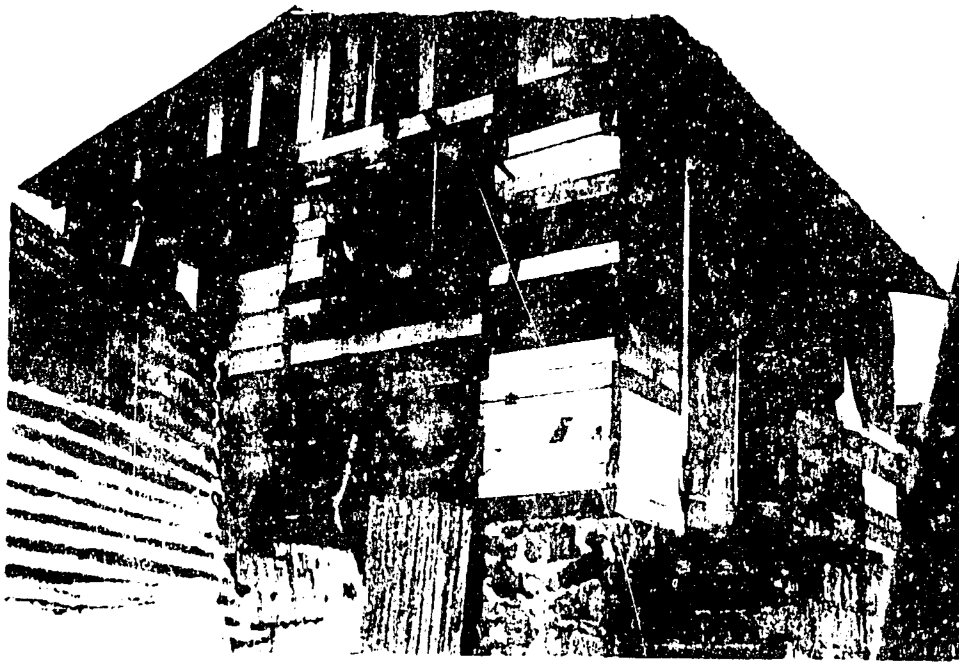
A LOCAL WORKMAN USING SALVAGE MATERIALS AND NEW FRAMING MEMBERS TO BUILD A NEW DWELLING. THE CARPENTER ESTIMATED THAT HIS CHARGE FOR LABOR AND MATERIALS WOULD BE ABOUT $3,000.



A DETAIL OF A CONSTRUCTION TECHNIQUE USED TO MINIMIZE STORM DAMAGE.

HOME BUILDING

MATERIALS



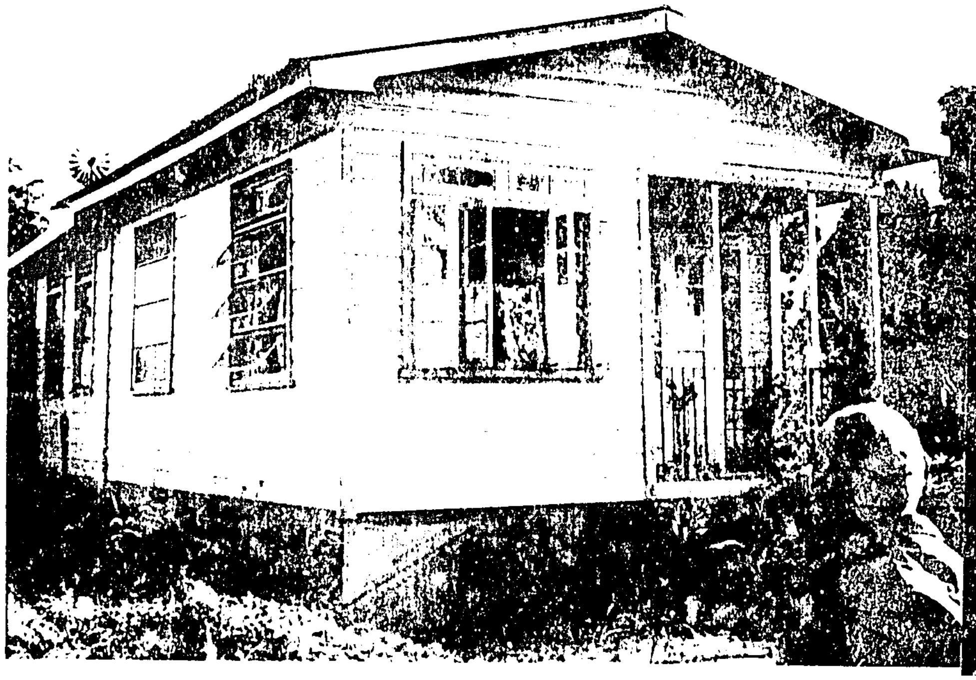
AN EXISTING FOUNDATION AND SCRAP MATERIAL WERE USED TO BUILD THIS 400 SQUARE FOOT DWELLING.

A SAWMILL IN DOMINICA.

NEIGHBORHOOD CONDITIONS

THE FOLLOWING TEN PHOTOGRAPHS SHOW NEIGHBORHOOD CONDITIONS IN THE EASTERN CARIBBEAN.

A WELL-BUILT, MIDDLE-CLASS MASONRY DWELLING IN A NEIGHBORHOOD OF LOWER INCOME FRAME HOUSING.

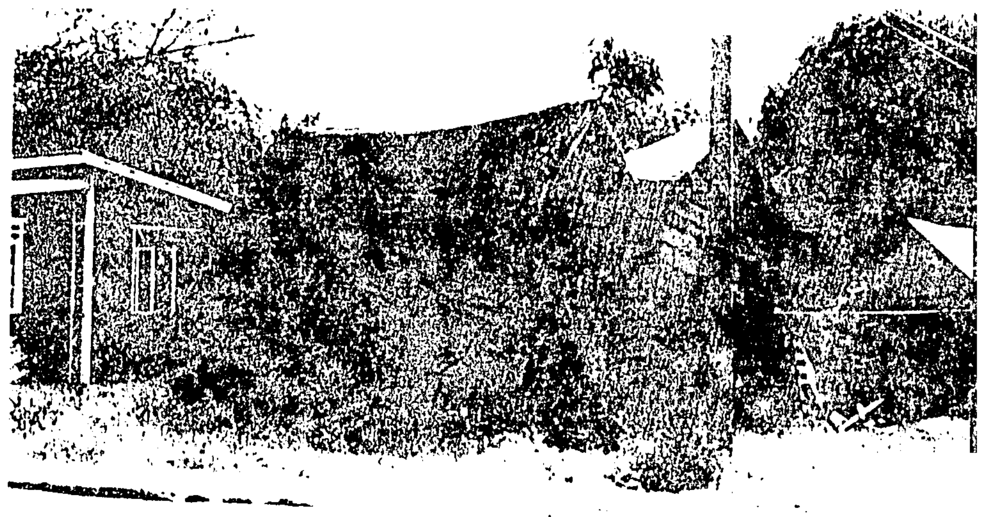


A WELL-MAINTAINED TIMBER HOUSE THAT HAS BEEN EXPANDED AT LEAST ONCE.

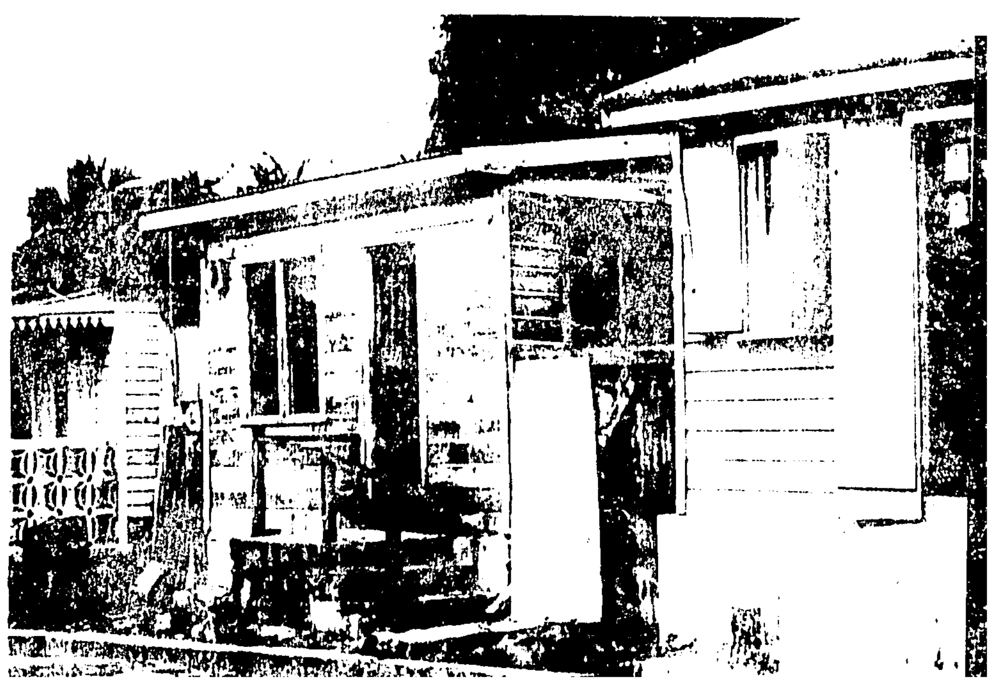
A STORMWATER SYSTEM WITH ILLEGAL CONNECTIONS (THIN PIPES) TO WATER MAINS DOWN THE CENTER OF THE STREET

THIS HOUSE
IS ONLY 8'x10'!

AN ABANDONED BUILDING,
A RARITY IN THE EASTERN
CARIBBEAN.



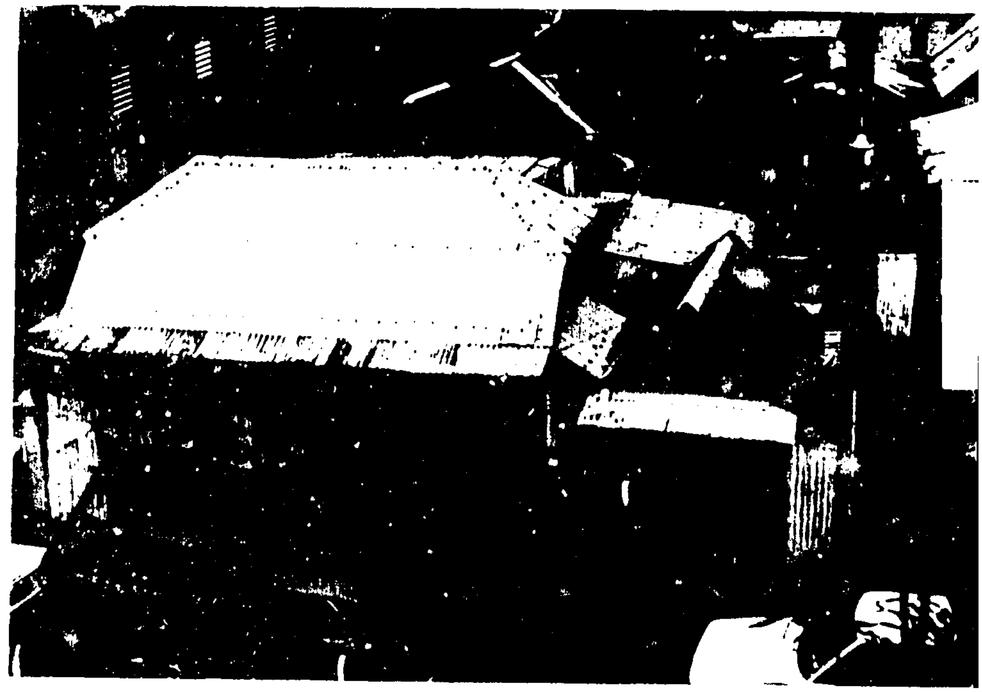
A POORLY MAINTAINED HOUSE.



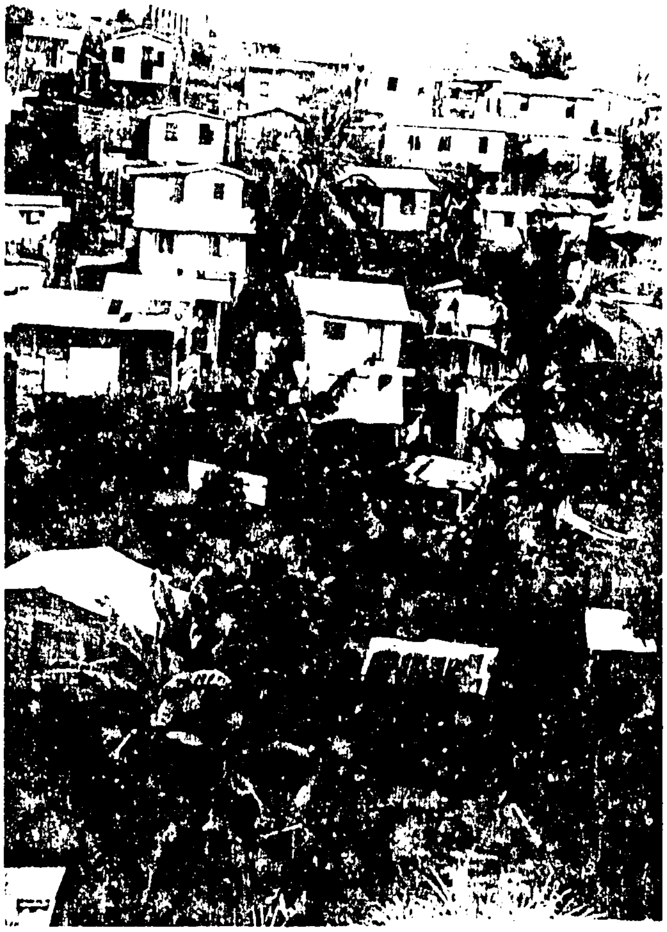
A WELL-MAINTAINED HOUSE ON THE SAME BLOCK AS THE HOUSE SHOWN ON THE PRECEDING PHOTOGRAPH.

THE REMNANTS OF COMMON HOUSING AFFLICTION IN THE EASTERN CARIBBEAN: TERMITES.

URBAN HOUSING



HOUSING CONDITIONS IN DOWNTOWN ROSEAU, DOMINICA.



SQUATTER NEIGHBORHOODS

THESE THREE PHOTOGRAPHS ILLUSTRATE THE CONDITIONS IN SQUATTER NEIGHBORHOODS. NOTE THE ABSENCE OF VEHICULAR ACCESS. THE OPEN SANITARY AND STORM SEWER IS TYPICAL OF THESE AREAS.

K

HURRICANE DAMAGE

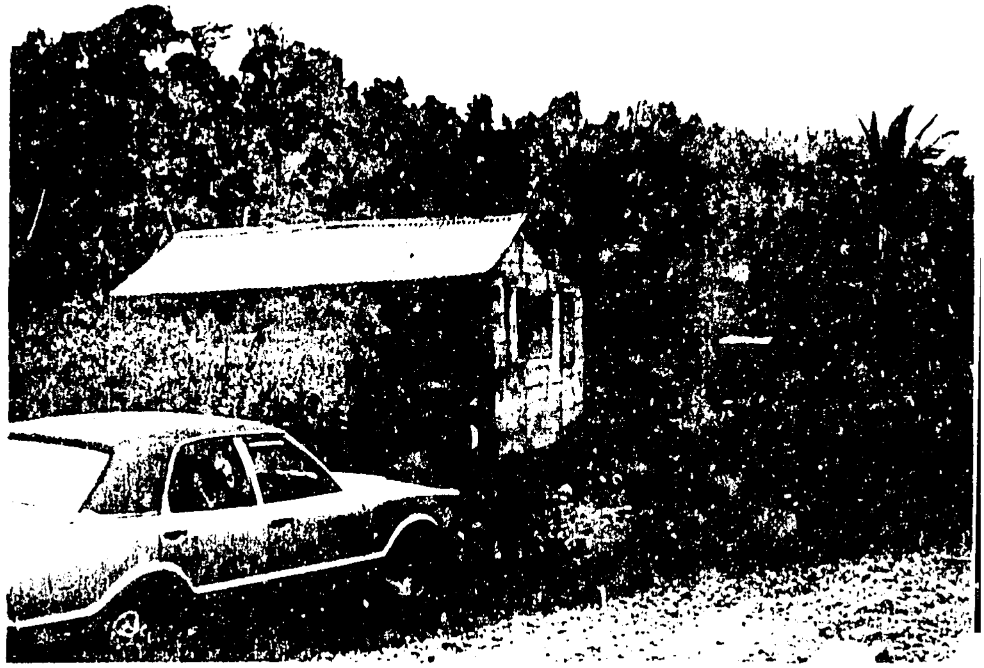
THESE THREE PHOTOGRAPHS SHOW THE DAMAGE CAUSED BY HURRICANES ALLEN AND DAVID.

THIS HOUSE IS BEING RECONSTRUCTED. NOTE HOW THE OWNER STORES BUILDING MATERIALS DURING THE RECONSTRUCTION.

L

RURAL HOUSING CONDITIONS

THESE PHOTOGRAPHS SHOW THE TYPE OF HOUSING TYPICALLY FOUND IN RURAL AREAS. EXCEPT FOR THE DENSITY, URBAN AND SUBURBAN HOUSING IS SIMILAR.



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III. CURRENT SHELTER SECTOR POLICIES AND RECOMMENDED REVISIONS

A. CURRENT SHELTER SECTOR POLICIES

An earlier AID report, Housing Delivery Systems in the Eastern Caribbean and Belize, contains a detailed summary of the shelter sector policies of eight of the Caribbean countries as of 1978. By January 1981, most of the conditions described by Howard Kane and Joseph Perta in this report for the National Savings and Loan League had not significantly changed. The three island nations visited by the AID consultants in January 1981 have fairly similar housing programs and policies. The most significant differences in policy resulted from the hurricanes of 1979 and 1980. In Dominica, and to a lesser extent in St. Lucia, housing resources have been shifted to repair the damage caused by hurricanes David and Allen.

In the past, the three Island countries - Antigua, Dominica and St. Lucia - have carried out permanent "high cost" housing solutions. These solutions, exemplified by the Urban Workers Housing Program, produced physically attractive housing for lower middle and middle income families. While local officials are proud of such visible signs of progress, they know that funds are not available to extend the benefits to other families. Also the Caribbean Development Bank and other lenders have shown little interest in programs costing $25,000 to $30,000 US per dwelling unit.

In all three island countries a variety of programs provide sites and services. Funds for such programs generally come from the CDB as well as external sources. Since 1978 the production of site and services appears to have diminished as a result of the scarcity of international financing and the shortage of internal funds.

During the 1970's an important aspect of government housing policy was to provide mortgage loans for new housing, housing expansion and improvement. The 1981 field visits revealed that the level of lending activity has dwindled to the point where these programs are not making any significant contribution to housing needs. Again, the reason for their decline has been the scarcity of new internal and external capital. As loans made by housing finance agencies and national mortgage banks have had a slow recovery rate, capital supplies have not been replenished.

A common characteristic of housing planning and policy in the ECIC that were visited is the dwindling expectation that international concessionary loans will be available. Although it was apparent that housing programs were receiving significantly less concessionary financing from international development institutions, many local officials still hope that significant new concessionary financing will be forthcoming.

The possibility of using AID HG financing, with its higher interest rates, was not initially recognized as a realistic financing alternative. While there were a number of reasons, both logical and not so logical, for this initial reaction, the principal reason was that local housing officials believed that costly HG funds would not produce conventional housing solutions for lower income families. However, when local housing officials understood that lower cost housing solutions could reduce monthly housing costs to consumers, they realized that AID HG financing could make a valuable contribution to the housing needs of lower income families.

An important missing element of shelter sector policy throughout the ECIC is a comprehensive approach to urban squatting. Although data on the location and magnitude of urban squatting were not available, it was particularly evident in St. Lucia and to some degree in Dominica and Antigua. Local officials appeared to perceive squatting as a limited problem rather than a phenomenon which will worsen if the government does not intervene. During the feasibility stage and, if appropriate, during implementation, this growing problem should be scrutinized.

B. APPROPRIATE REVISIONS TO SHELTER SECTOR POLICIES

In assessing revisions to local shelter sector policy, financial accountability and management resources must be considered. In order for an AID HG program in the ECIC to be effective its program policies should be fiscally simple; employ established, accountable institutions and efficiently apply management resources.

The costs of the proposed program outputs vary widely. For example, the cost of home improvement and expansion will range from a low of $150 US (for a minimum home expansion). The appropriate solution for a specific family will result from the needs and judgement of the family as well as the local lender responsible for the HG program.

The rationale for the presumed success of such an approach is that the people of the Eastern Caribbean Island Countries are, for the most part, fiscally conservative. The communities in which lending for housing occurs are small and, in many instances, borrower and lender know each other personally. Based on the experience of the credit unions in Barbados it would seem that the most logical and effective program lending guidelines are those which are worked out and accepted by both borrower and lender, the two participants who know what each family can afford. This should be a more effective method for determining the loan amount than the traditional approach of basing loans on reported income. Many lower income families have reportable incomes that render them ineligible for housing solutions they need and, in fact, can afford.

Among the formal guidelines which should be included in the HG program is a limitation on the cost of various solutions and a required minimum level of equity. By limiting the cost of the housing solutions, measured by the cost or size of the unit or the improvement, the program can be directed at lower income families. By requiring equity participation by the borrower, the HG loan will be viewed as a commercial obligation requiring repayment. Without an equity requirement the HG funded housing programs, regardless of the lender, will be perceived as "government" housing, entailing no strong repayment obligation.

IV. SHELTER SECTOR DELIVERY SYSTEMS: FINANCIAL INSTITUTIONS, PROGRAMS AND MECHANISMS

A. THE HOUSING MARKET

In the three ECIC countries that were visited it appears that the Office of the Prime Minister is directly involved in major housing decisions and policies. The role of the Housing Minister is more one of implementing political decisions originating in the Prime Minister's office rather than making independent decisions. A common characteristic of the "housing" ministries in the smaller Eastern Caribbean Island Countries is that they are primarily political organizations. The Minister and his personal staff are the instruments used by the political parties to influence and control housing policy. Since these ministries have little or no technical staff their role in housing policy, planning and programming is limited.

B. THE HOUSING DEVELOPMENT COMPANIES

In Antigua, the government development company, the Central Housing and Planning Authority (CHAPA) is run by a Board of Directors responsible to the government through the Housing Ministry. In the past, when funds were available, CHAPA has produced ample, high quality masonry housing. Most of this housing was produced in the early 1970's under the Urban Workers Housing Program (UWHP) funded by AID. Presently, CHAPA is producing a few dwellings from the income that it receives from UWHP rents as well as from sale and lease-back arrangements. In addition to housing production, CHAPA is also providing housing loans to some lower income families and selling house lots. The income from the lots, which use government land, is a major source of CHAPA's income.

In addition to its role in production, CHAPA is also responsible for collecting rents for all governemnt housing. CHAPA officials estimate that they are now collecting approximately 75% of the potential rent roll. However, based upon CHAPA's staff and the condition of their office and equipment it is conceivable that the actual rent collection is less.

For all intents and purposes, CHAPA does not have any capital to expand its inventory of rental houses or finance new sales housing. CHAPA recently applied, through the Government of Antigua, to the Caribbean Development Bank for a four-year concessionary loan of $2.3 million US to finance new housing. However, the CDB intends to make some of those funds available to Antigua through the Antigua and Barbuda Development Bank, rather than through CHAPA, because of their greater ability to manage such loans.

CHAPA's future role in meeting Antigua's housing needs will be constrained by the same problems it has had in the past. Organizationally, it is limited by a shortage of professional and technical personnel. Rather than organize resources for housing solutions, it is now attempting to act as a housing producer. Unless new external capital is available, CHAPA will not be able to make a significant contribution to the nation's housing needs.

In the Commonwealth of Dominica the equivalent government sponsored development arm is the Housing Development Corporation. Because of the problems created by the two recent hurricanes the Corporation is using its limited resources to repair existing housing.

The Housing Development Corporation obtains funds from two sources: outside concessionary loans, such as the 1972 AID concessional loan, and more recently, for example, a concessionary housing loan from Trinidad and Tobago. Trinidad and Tobago are making $2.7 million US available to the Dominican Housing Development Corporation to build 800 dwelling units costing about $13,500 US per unit. The terms of the loan are 4% interest for 25 years with a five year grace period. The core house to be built with the proceeds of the loan will have four walls and roof and contain two bedrooms.

In addition to concessionary financing, the Housing Development Corporation has an annual income of approximately $380,000 US from housing rents and the sale of government owned land and vested property.

C. MORTGAGE FINANCE ACTIVITIES

In the smaller ECIC the mortgage finance function is discharged by the Central Housing and Planning Authority (CHAPA) or its equivalent. Historically, the CHAPA in Antigua has acted as a mortgage finance company. However, because of the lack of capital funds and inadequate administrative and managerial resources, it has only a limited ability to make loans.

In Dominica the ability to provide housing credit to lower income families through a government entity is limited. Until recently, the Housing Development Corporation provided housing loans. However, the Agricultural and Industrial Development Bank, owned by the Commonwealth of Dominica, is now seeking to become involved in housing. As is common throughout the region, this new institution simply does not have the capital resources required to help develop housing. However, based upon site visits to the Bank and a number of meetings with its chief operating officer, it appears to have the administrative and managerial capacity to undertake a housing loan program meeting AID HG requirements.

D. CREDIT UNIONS

In the Commonwealth of Dominica there are 21 credit unions covering 25,000 households, or approximately 30% of the country's households. Credit unions vary in size; the smallest has 100 members and the largest 12,000 members. The credit unions are organized on community lines. The present share capital of the Credit Union League of Dominica is just under $3.8 million US and approximately $3.0 million US in capital resources is now outstanding in loans to members. The typical loan is relatively small, ranging from $20 to $200 US. Interest rates on loans are about one percent a month and members receive five to seven percent interest on their deposits. Since the credit unions are organized on community lines the legal obligation to repay the loan is reinforced by social pressures, and, hence, repayment rates are high.

Local credit union officials stated that Dominica's credit union movement could expand appreciably if it could obtain additional financing to make loans to its members. If such financing were available they were confident that they could significantly increase their lending activity without unduly straining their managerial and administrative capacities.

V. POTENTIAL PROJECTS, PROGRAMS AND PRIORITY DEVELOPMENT

A. HOUSING PRODUCTION PROGRAMS

Perhaps the single most important action that should be undertaken in the ECIC is to establish viable and appropriate lending institutions to meet the housing needs of lower income families. As noted earlier, the housing needs of lower income families can be divided into three categories: loans for home improvements, loans for housing expansion and loans for constructing new dwellings. A fourth category, which could be either viewed separately or combined with new construction, is loans for acquiring and developing home sites.

While distinct classifications can be established for each of the different types of loans, it is recommended that he feasibility study consider the housing needs of lower income families throughout the eastern Caribbean as a continuum, ranging from improvements to existing housing to new housing. For a HG program to be as effective and uncomplicated as possible it should enable eligible families to obtain capital for any housing solution along the continuum. The only distinction that might be made by local lending institutions is the period of repayment as a function of the type of loan.

The eastern Caribbean region has a series of institutions which provide housing loans in an effective and businesslike manner. Were it not for the scarcity of local long-term capital they would be more heavily involved in housing finance.

Throughout the ECIC local development banks or government mortgage companies loan funds to lower income families for housing. In many instances these agencies have depleted their capital and have a limited ability to make additional housing loans.

Two types of institutions function as local development banks. The first are groups, such as CHAPA in Antigua and St. Lucia, which are planning agencies as well as lenders for housing rehabilitation and construction. The field work for this study revealed that these institutions have severe administrative problems and cannot readily undertake significant new commitments. Hence, the HG program should not depend upon them. Since lending for housing has to be undertaken by institutions which expect to be repaid the HG program should rely upon institutions which are already involved in lending and banking.

The second type of institution - local, quasi-independent development banks - such as the Antigua and Barbuda Development Bank - is organized to handle a significant amount of lending. Insofar as possible, it is important to the AID program that HG monies be lent by institutions with a strong commercial background and tradition.

At the present time the commercial banks in the eastern Caribbean do not have any capital to lend to lower income families. Their limited loans are made to middle and upper income families on a short-term basis. In countries without a suitable independent development bank it may be appropriate to permit commercial banks to establish special "windows" to lend HG monies to lower income families under government direction. If capital were available the commercial lenders in the eastern Caribbean region have the experience, the capacity and the motivation to lend to lower income people.

Another important resource in a number of the ECIC, especially Dominica, is the federation of local credit unions. Credit unions have a long and established history in the eastern Caribbean, often extending over a 25-year period. For many lower income families credit unions are the only source of credit. Their administrative structures are simple, their staffs small but sufficient and their operating costs low. Considering the extremely small loans that they normally make, their management techniques and repayment procedures are reasonable and businesslike. Arrears and defaults on credit union loans are exceedingly low and the family will usually repay the loan if a member defaults on a loan. In addition, the loan includes a provision for default insurance.

The most important reason for incorporating the credit unions into a HG program is that the people who operate them are very familiar with the needs of the people and can make realistic judgements on the ability of borrowers to assume and repay loans. Most major governmental or commercial lenders are located only in the chief city or town of each country. In contrast, as the credit unions are dispersed throughout the country they are accessible to lower income people, especially in villages and rural communities.

Another institutional resource which is likely to be available in some of the ECIC are the industrial or agricultural marketing organizations and the labor unions. Agricultural marketing organizations and industrial groups could also be used to lend funds to lower income people. As a case point, the Coconut Growers Association of Dominica has been asking AID Barbados for two years how it could obtain funds to lend to its members for home improvements and new construction.

B. SITES AND SERVICES

There is an increasing need for sites and services throughout the region. As the demand for housing grows in response to changes in family structure, population growth and restricted opportunities for emigration, additional housing sites will be needed. The problem of providing additional housing sites is compounded in the major towns. In Castries, the capital of St. Lucia, there is a serious squatting problem in the surrounding hills and valleys. In Dominica, the same phenomena is besetting the capital city of Roseau.

The availability of government owned land for housing sites varies from country to country. In countries such as Antigua and St. Lucia, where there is Government-owned land near or adjacent to the major city, the problem can be solved by a program of sites and services. However, in Dominica there is no government owned land. Thus, the provision of sites and services, as a precondition to meeting housing demand, requires individual local solutions attuned to land ownership, legal and administrative constraints and land costs.

In the past, throughout the eastern Caribbean the extended family lived in a single structure or in a number of structures on one lot. Changes in the extended family are affecting housing demand; the newly married couple now wants its own home on its own lot.

Provision of sites and services will be an essential component in any significant, long term housing effort in the ECIC. In order to provide new housing in areas where people want to live (and where the jobs are) it will be necessary to ensure an adequate supply of house lots. Without a sufficient number of lots the price of land will rise and the capital resources available for housing will diminish. In addition, the extent to which existing lots are improved by extending infrastructure and changing tenure from rental to ownership will strongly affect the success of a program for housing enlargements and improvements.

A critical defect in the housing situation of many lower income families is the lack of road access as well as water and sanitary services. In many countries in the eastern Caribbean, such as Antigua and Dominica, most housing sites, whether individually owned or occupied by squatters, lack access and water and, in almost all cases, sanitary services. While providing access, water and sanitary services does not have the visibility of new housing, they are often the most important improvements in the housing conditions of lower income families.

C. LOANS FOR BUILDING MATERIALS

One of the particular problems of the eastern Caribbean region is the large expenditures for imported products necessitated by the lack of local building materials. Hence, in most of the ECIC increased housing production can adversely influence the balance of payments. The region does offer some solutions to the problem of excessive expenditures for imported building materials. In Dominica, for example, there are two small saw mills that can produce from a half million to one million board feet per year, without threatening the nation's forests. Although there is an adequate supply of forest products to keep these small mills operating, building materials are still imported with a resulting negative effect on national currency accounts. On Antigua, a masonry block factory is probably running at only a fraction of its capacity because the shortage of housing finance has restricted construction.

D. INFLATION AND FOREIGN EXCHANGE

All the programs that are suggested for HG financing are designed to be self-sustaining. It is presumed that loans for home improvements and sites and services as well as new dwelling units will be fully repaid through the local lending institutions. If the housing solutions financed by the HG loan require families to pay a larger share of their income for shelter than they are now spending the overall effect of these programs will be to reduce relatively non-essential consumption expenditures.

If, as suggested in the chapter on the output of the HG program, all of the programs require a 20% equity participation the HG program will help lessen inflationary pressures. With long term funds for investment in housing unavailable, families now have a limited incentive to save. However, if families are required to save in order to participate in the various HG housing programs the AID funds will exert a deflationary effect.

Finally, a HG program could have a significant impact on savings. Virtually no intermediate or long term funds are now available to lower and middle income families for housing. As these families are unable to borrow funds for housing their discretionary spending, instead of going into shelter, is spent on goods that do not require loans or which can be financed by short-term consumer borrowing.

The HG program should help overcome the foreign exchange problem. All HG loans for housing improvements will involve a significant local labor component. Therefore, only a portion of the investment in housing will be used to purchase imported building materials. If the funds were not spent on housing they would be spent on other types of goods. Following food and shelter the most common form of expenditure is consumer goods, almost all of which are imported.

The region's building materials industry is in an embryonic state. Paint, concrete blocks, some wood products and a few other items are manufactured locally. Since the industry appears to lack a stable market for its output it has little opportunity to expand its products and sales volume. A regional building materials industry will lower the costs of products to the consumer, reduce the pressure on foreign exchange and provide additional jobs. A $3.0 million US HG program will generate about $1.3 million to $1.7 million US in expenditures for building products. A multi-year program will offer an even and significant stimulant to the local building materials industry. If the industry can be strengthened and helped become competitive the use of foreign exchange to purchase building materials will diminish.

E. OTHER RECOMMENDATIONS

A major concern of local public officials and private parties is the ability of lower income families in the ECIC to use AID HG financing, regardless of the device used to retail the funds. Resolution of that concern will be partly a function of the size of individual loans and the resulting monthly payments. However, the general problem of limited repayment ability deserves scrutiny. It is suggested that in the course of developing a HG program for the eastern Caribbean region local governments be consulted to determine the financial contributions that they could make to a HG program. A key area for local government involvement would be to reduce the cost of HG loans during the early years. Although the actual cost of this measure to local government will not be great, the effect can be substantial. Local officials should recognize that the most difficult period for repaying new housing loans, especially for younger families, is the first three to six years. During this critical period interest payments should not be onerous. After this period, as a result of continued inflation and increasing earning power, the HG loan repayment will consume a smaller share of the family's budget and not impose an economic burden. Later in the cycle it may be possible to recapture some or all of the Government's initial subsidy.

A second area that should be reviewed with local Government officials is using "Crown" or Government owned land to assist an AID HG program. This approach is obviously suitable only in ECIC where Crown lands are available at locations where families want to live. By shifting land payments to the future and allowing some cash reserves from land sales to go into house payments, the local Government may be able to assist a low income family appreciably during the early stages of a HG loan.

VI. PROJECTED OUTPUTS OF THE HOUSING GUARANTY PROGRAM

Based on the study's conclusions that a $3.0 million US HG program should be undertaken in the ECIC, this chapter offers a preliminary estimate of the outputs of the loan and outlines how they would be distributed to the various organizations and institutions involved in the program.

A. ESTIMATED COST OF THE VARIOUS HOUSING SOLUTIONS

Three types of housing solutions appear to be appropriate for a HG program in the ECIC.

Production of housing sites
Home improvements and home expansions
Core housing

The cost of each type of solution is examined below and the magnitude of the ensuing loan is estimated. The limits of this study permitted only two working days to be spent in three of the Eastern Caribbean Island Countries. As much of the time was devoted to meeting with local government officials there was little time to obtain cost data on housing solutions.

The study team was unable to find any organized data on the price of land, completed dwellings and building materials in the ECIC. During the course of the field work every appropriate opportunity was used to inquire about various building industry costs. It was noted that labor costs vary widely according to the sector of the economy. For example, the skilled labor costs for a house being built by an owner will often be one-half of the labor costs of a conventional project.

Based on conversations with government officials and others familiar with the building industry, estimates were made of the costs of land, home improvements and expansions and new construction used in this chapter. As specific projects are formulated, more formal building cost data should be obtained.

1. PRODUCTION OF HOUSING SITES

The land tenure situation varies greatly among the various Island Countries. In some countries, such as Antigua, where a significant amount of land is owned by the national government, the price of land is determined by government policy rather than market conditions. For example, in Antigua the value of the land for lot sales has been established by the government at fifty cents per square foot. In other countries, such as St. Lucia, government owned land is entrapped in subdivision problems and may not be readily available at any price. Before firm conclusions can be reached concerning outputs, additional information will have to be obtained on land tenure, costs and subdivision conditions in each nation. However, for the purposes of this pre-feasibility study some estimates can be made of land values and the factors affecting them.

Within the various Island Countries there are two distinct classes of housing sites. The first type is an unserviced rural site outside of the capital city or other urban center, consisting of land, a well and an on-site sewage system. The second type is the metropolitan site with all or some services. In some cases housing sites located in a village or a cluster of rural housing lots may also provide services. Casual observation reveals that some non-metropolitan settings have public water systems but do not have public sewage systems. Housing sites outside of metropolitan areas range in size from 2,000 to 3,000 square feet with the average lot approximately 2,500 square feet. In Antigua, government owned land is sold for about 37 cents (US) per square foot. No data could be obtained on the value of private land. However, since most housing costs in the Island Countries are about 70% of the costs in Barbados it is assumed that private land sells for about 90 cents per square foot. The value of public services is estimated at $750 US to $1,000 US per lot. Housing lots appeared to be larger, at least in St. Lucia and Antigua, as a consequence of low rural populaton densities, the abandonment of some plantation agriculture and the opening up of land by roads. However, as this condition may not exist in all the Island Countries lot sizes and costs must be considered tentative.

For the purpose of estimating program outputs the average price of an unserviced non-metropolitan site on government owned land is set at $400 US and the price of the same privately owned lot is assumed to be $1,000 US. The study was too brief to obtain information on how individual building lots are purchased. Therefore, it is assumed that individual lots are either purchased for cash or on short term loans with down payments of 20%. The following per lot amounts, in US dollars, are used to determine the loan amounts for each type of housing site:

Government owned site without services	$ 320
Privately owned site without services	800
Privately owned site with services	1,600

2. HOME IMPROVEMENTS AND HOME EXPANSIONS

a. Home Improvements

Two levels of home improvements are recommended: a minimum and a maximum level. The minimum home improvement loan will provide sufficient funds for repairing or improving one significant item in a typical ECIC dwelling.

Examples of such items are a new roof, painting the exterior, installing an indoor water system or installing an interior electrical system. It is estimated that each of these improvements will cost from $150 US to $350 US.

The maximum home improvement loan includes two or more of the same items noted for the minimum loan. The distinguishing feature of a maximum improvement loan, compared to a home expansion loan, is that the configuration or size of the unit will not be materially changed. It is estimated that this solution, based on two or more improvements, will cost from $300 US to $1,000 US per solution.

If home improvement loans are made through the credit union system there will be more requests for the minimum than the maximum loan. If half of the loans are of the maximum type, each home improvement solution will cost $420 US, with the range from $150 US to $1,000 US.

Current credit union lending policy requires some equity participation by the borrower. For estimating purposes it is assumed that the credit unions in the ECIC will require 20% equity. Assuming that the typical improvement will cost $420 US and the loan is equal to 80% of the improvement the average loan will be for $340 US.

b. Home Expansions

Home expansion loans will also be of two types, minimum and maximum. The minimum home expansion program involves adding one "normal" size room to an existing dwelling unit. It is presumed that one of the four walls required for the expansion will be a wall of the existing dwelling unit. As the total improvement costs for a "normal" room of about 60 square feet are estimated at $11 US per square foot, the typical minimum home improvement will cost an estimated $660 US.

The maximum home expansion to be financed under a HG program should not be larger than a basic core unit, or approximately 160 square feet. The price of the maximum improvement program, assuming a total construction cost of $11 US per square foot, is estimated at $1,800 US.

It is assumed that the greatest demand will be for the smaller home expansion program and that there will be two minimum home expansions for each maximum expansion. Therefore, the average expansion will cost, for the purpose of determining output, $1,200 US. For a home expansion the typical ratio of equity to loan will be 1:4 and if the typical home expansion costs $1,200 US the average loan will be for $950 US (rounded).

3. THE MINIMUM NEW HOUSING SOLUTION: THE CORE HOUSE

Costs for the core housing solution are estimated for houses built with both new and used building materials and for a site and services.

a. <u>The Core House Built with New Building Materials</u>

It is estimated that a core house of 160 square feet built with new materials will cost approximately $11 US to $15 US per square foot, or between $1,760 US and $2,400 US for the entire house.

b. <u>The Core House Built with Used Building Materials</u>

It is an accepted practice in the Eastern Caribbean Island Countries to employ used building materials, mainly lumber and certain timber elements, to build a new house. It is estimated, for the purpose of this analysis, that the maximum value of used materials that can efficiently be recycled in a new core house will be equivalent to 40% of the total cost of the materials. Under these conditions, the house would cost $7 US to $11 US per square foot. Thus, a core house of 160 square feet, employing used building materials, will cost from $1,200 US to $1,800 US.

c. <u>The Core House Plus Site</u>

When a serviced site and a core house are combined the cost range of the housing solution is as follows: a core house constructed on a serviced site with new building materials will cost $2,000 US to $4,000 US, and a core house built with used materials will cost $1,600 US to $3,400 US.

Assuming 20% equity loans for core housing will range from $1,600 US for a non-serviced site sold by the government to $3,200 US for a core house built with new materials on a serviced site sold by private owners. For a core house employing used materials the loan amount will range from $1,300 US to $2,750 US.

B. SUMMARY OF PROGRAM COSTS AND OUTPUTS

Based upon the cost of each housing solution this section summarizes the costs of each program and the anticipated outputs of the recommended $3.0 million US HG loan. It should be stressed that the actual costs and the amount of the loan for each solution may vary appreciably in actual practice from the estimates.

1. AVERAGE COST OF OUTPUTS

Based on the previous calculations the estimated average cost of the output for each program type is:

Program Type	Estimated Average Cost of Output (US dollars)
Government owned site without public services	$ 320
Privately-owned site without public services	800
Privately-owned site with public services	1,600
Home improvement loan	340
Home expansion loan	950
Core house on serviced site (new materials)	2,400
Core house on serviced site (used materials)	2,000

2. OUTPUTS BY INSTITUTIONAL PARTICIPANTS

It is recommended that the HG program involve the following institutions and loan amounts (in US dollars):

National Credit Unions and Industrial Groups	$1,000,000
Housing Authorities, CHAPAs, etc.	1,000,000
Development Banks, Mortgage Companies and similar institutions	1,000,000
Total HG Program	$3,000,000

a. The Credit Union Program and Industrial Groups

Given their historical background and experience, lending practices and activities and their organizational structure, the credit unions should be the major institution for implementing the home improvement and the home expansion programs. This recommendation should not be construed as excluding other institutions from these programs. Likewise, it may also be appropriate for credit unions to make larger loans for sites and dwelling units. A suggested allocation among the types of program of the $1 million US recommended for the credit unions is noted below. Industrial organizations and agricultural groups are also likely to participate in these programs as well as in core housing production.

Home Improvements

Total cost of program	$400,000 US
Average loan	$ 340 US
Number of outputs	1,175

Home Expansions

Total cost of program	$600,000 US
Average loan	$ 950 US
Number of outputs	630

b. The Housing Companies, CHAPAs, etc.

It is suggested that these institutions focus on the somewhat larger loans. Their main activity should be financing lots and core housing, with more emphasis given to producing housing than providing lots. Based on the field investigation, a sufficient number of lots are already owned or can readily be rented by people in need of housing.

Government Owned Site Without Public Services

Total cost of program	$150,000 US
Average loan	$ 320 US
Number of outputs	470

Privately Owned Site Without Public Services

Total cost of program	$100,000 US
Average loan	$ 800 US
Number of outputs	125

Privately Owned Site With Public Services

Total cost of program	$150,000 US
Average loan	$ 1,600 US
Number of outputs	95

Core House on Serviced Site (New Materials)

Total cost of program	$300,000 US
Average loan	$ 2,400 US
Number of outputs	125

Core House on Serviced Site (Used Materials)

Total cost of program	$300,000 US
Average loan	$ 2,000 US
Number of outputs	150

c. Banks and Similar Institutions

Because of their business practices, the established development banks, mortgage insurance companies and similar lenders should concentrate on housing solutions involving mortgageable property. Thus, it is suggested that such lenders focus on core housing with sites. A suggested allocation of the $1.0 million US recommended for these institutions is as follows:

Core House On Serviced Site (New Materials)

Total cost of program	$600,000 US
Average loan	$ 2,400 US
Number of outputs	250

Core House On Serviced Site (Used Materials)

Total cost of program	$400,000 US
Average loan	$ 2,000 US
Number of outputs	200

3. SUMMARY OF OUTPUTS

The outputs of the HG program recommended for the Eastern Caribbean Island Countries are as follows:

a. Home Improvements and Home Expansions

These two programs combined will require $1.0 million US in HG funds and yield approximately 1,805 outputs.

b. Sites With and Without Services

The three possible combinations, ranging from government owned sites without services to privately owned sites with services, will require $400,000 US of the total HG program and yield approximately 690 outputs.

c. Housing

The housing component will require approximately $1.6 million US of the proposed $3.0 million US loan. These funds, allocated to the various institutions, will yield an estimated 725 housing outputs.

d. Total Outputs

When all of the outputs are combined, the proposed $3.0 million US HG program will produce approximately 3,220 outputs.

It must be emphasized that the cost of the outputs, the proposed program mix, the method of implementation and other program factors will be significantly influenced by consultations with host country officials. Thus, the overall conclusion that the $3.0 million US HG program can produce 3,200 outputs has to be viewed as a tentative figure. Preliminary as it may be, this figure does highlight the fact that a modest HG program in the ECIC - divided among home improvements, home enlargements, sites and services and core housing - can provide significant assistance to lower income families who need housing.

At this time it is difficult to determine how the $3.0 million US HG program would be distributed among the ECIC. However, in order to gain some impression of how such a program can be implemented, it is worthwhile to consider that if implemented over three years it would yield about 180 solutions in each country per year. In light of past activity in countries such as Dominica and St. Lucia such a level of activity seems reasonable.

VII. ECONOMIC CONSIDERATIONS

A. THE ECONOMIC SETTING

There are common structural characteristics among the economies of the ECIC which will determine their prognosis for long-term evolution. These include:

- Small, nearly stable, underemployed populations
- Migration of skilled people and entrepreneurs, at least in the past, to the more developed countries
- Concentration on the production of a few agricultural commodities for export
- Sharply defined dualism between the traditional and the modern sectors
- Current account import balances which are offset by external capital
- A high propensity to consume rather than to save from current income
- Vulnerability to natural catastrophies: hurricanes, earthquakes and occasional volcanic eruptions
- An initial total dependency on outside sources of energy
- Very difficult local transportation in some of the ECIC.

Together, these characteristics delineate the limited development potential of the local economies. These traits, rather than short-term fluctuations in statistical indicators, must be examined in making judgements about creditworthiness, absorptive capacity and the effective demand for shelter services.

1. SMALL AND NEARLY STATIONARY POPULATIONS

Annex 1 contains some statistical economic indicators. It shows, for example, that the population of the six small island economies ranges from 13,000 (Montserrat) to 123,000 (St. Lucia). Four of the six have less than 100,000 people.

Until recently natural increases in population have been offset by the substantial out migration of people looking for work. Annual population growth rates range from 0.9% (St. Kitts) to 2.3% (St. Lucia and St. Vincent) and average about 1.3% for the other islands. Opportunities for emigrating to larger and more developed economies have been progressively restricted in recent years. This trend, which is likely to continue, suggests that the population will increase more rapidly in the future.

2. EMIGRATION OF SKILLED PEOPLE

The more capable and better trained young people have continued to emigrate. This movement threatens to intensify the already pronounced scarcity of human resources and the lack of entrepreneurial talent and managerial skills. If these trends continue they will add to the unemployment and underemployment problem already burdening the region.

3. AGRICULTURAL PRODUCTION FOR EXPORT

Historically, the ECIC economies have enjoyed an advantage in producing a few agricultural products for export: sugar, bananas and cotton. Sugar and bananas still dominate, but the export of cotton is fading. Agricultural products receive special, negotiated access to bilateral markets (England, Canada, the U.S.) and to some extent are sold on world markets. The significance of this is that the island economies have limited control over their income from agricultural exports. The ECIC are price takers, producing relatively small percentages of the world output, and do not influence prices. Income fluctuates sharply with changes in world prices. Perhaps more ominous than their lack of control over prices is the fact that the ECIC have become relatively high-cost producers and, in the case of bananas, their quality is inferior.

4. ECONOMIC DUALISM

Alongside the traditional agricultural exports some light manufacturing has developed, particularly in St. Lucia. Important to the modern sector has been the growth of tourism, where wages are significantly higher than in the traditional sector. The two economic sectors are non-competitive and isolated from each other. In the modern sector, manufacturing, trade and service industries are restricted by the absolutely small size of the domestic market. Tourism, in turn, is dependent on economic activity in the more developed countries. In addition to the dependence on distant economies, tourist expenditures generate a large demand for additional imported consumer goods to service tourists, thereby reducing net foreign exchange receipts.

5. BALANCE OF PAYMENTS

In view of the above factors, it is not surprising to find that the trade balances of the ECIC are in chronic deficit. Annex 1 shows that in 1977, for example, imports ranged from 66% to 103% of GDP. The trade balance for each of the six ECIC was negative and public sector savings were negative on balance for all the ECIC. During the colonial period, the UK contributed to current Government expenditures and (together with private direct external investments) financed all public sector capital expenditures. For the most part, the eastern Caribbean economies continue to be dependent on concessional external financing; they have not been creditworthy for conventional lending.

The HG program should not have a significant economic effect on the foreign exchange problems of ECIC. A sum of $3.0 million US spread over three years among six participating nations reduces the amount allocated in any fiscal year in a country to an almost inconsequential level.

Moreover, even if there is a measurable effect, two factors will in all likelihood balance any adverse foreign exchange impact of a HG program on the ECIC. First, all borrowing by the ECIC will be through the ECCA. The Authority earns far more for each member country than will be required to repay any anticipated HG loan. The foreign exchange funds to repay HG loans could still be repaid by the ECCA out of profits.

However, the most important reason for suggesting a HG program for these weak economics, taking into account the perpetual problems of foreign exchange, has to do with domestic consumption. Capital borrowing and repayment for improved housing among lower income families will come from their discretionary funds. If long term capital funds are not available for housing these discretionary funds will be used for other forms of consumption. Almost all consumer goods that come into the ECIC represent expenditures for foreign exchange. Shifting expenditures from other consumption items to housing will not appreciably effect the foreign exchange position of the participating country. Moreover, since a significant component of housing production expenditures are for local labor and land, a HG program might actually diminish the foreign exchange problems of the ECIC.

The ECIC are considered to be creditworthy in respect to providing guarantees to the Eastern Caribbean Currency Authority for a HG loan. Creditworthiness depends upon willingness and ability to repay loans. The conventional measure most often used for creditworthiness is the ratio of debt service charges to a nation's exports. As the eastern Caribbean countries are open economies dependent on foreign trade, and since most of their foreign borrowing has been on concessional terms, this traditional ratio means very little in their case. Precisely because the ECIC have borrowed very little money at conventional market terms, current debt service ratios are extremely modest, one to five percent of exports.

The willingness to repay a HG loan involves an economic and political prognosis of how the ECIC will develop in the coming years. A case can be made that these countries, because of their small size and other factors, are not economically viable over the long run. However, conventional economic wisdom must also be diluted by the financial strength of one of the participants in the loan agreement, the Eastern Caribbean Currency Authority. While the ECCA is not a central bank in the conventional meaning of the word, it does in effect make money. The ECCA distributes more from its operating profits to the member ECIC than is required to service the level of the HG loan proposed in this pre-feasibility report. Since the programs suggested in this study should be cost recoverable the various participating countries should suffer no drain on their national budgets.

6. HIGH PROPENSITY TO CONSUME

One effect of the structural characteristics is that consumption ranged from 88% to 127% of GDP in 1977 for the six ECIC. Domestic savings are low partly because incomes are low and unevenly distributed; but the low propensity to save also is a rational response to negative real interest rates on savings. There is little incentive to save in such a situation.

The poor save primarily to cover burial expenses and to acquire shelter. The rich put their savings in more hospitable foreign markets at higher interest rates and domestically invest in consumer durables (which they buy on time payments at positive real interest rates of 20% to 22%).

Currently, annual inflation throughout the eastern Caribbean region is running at 15% to 20%. This inflation is fueled by a high propensity to consume, the worldwide inflation as well as the region's dependence upon foreign energy. However, it is unlikely that any HG program will have a significant inflationary effect. First, any HG program will create a demand for labor and building materials, resources which are now under utilized. More important, perhaps, the total demand created by a HG loan of the magnitude suggested in this study will be minute in terms of local GDP.

In fact, it is possible that the availability of financing will have an anti-inflationary effect. Because of the virtual absence of long term financing it is impractical or impossible for families who have savings to use them in any meaningful way for housing production. Very often savings are used to purchase imported automobiles or other high cost imported consumer products. However, if the HG program enables savings to be converted into equity in housing it will have an anti-inflationary effect.

Over the longer term any significant improvement in housing throughout the eastern Caribbean will have a favorable effect upon the basic structure of the economy. Existing housing conditions undoubtedly result in a substantial amount of lost time from work because of illness and time spent on travel. Overcrowding and unsanitary conditions contribute to the same decrease in efficiency. To the extent that the HG loan produces acceptable housing for economically active families it will be anti-inflationary.

7. DEPENDENCE ON IMPORTED SOURCES OF ENERGY

As no significant discoveries of oil or gas have been found in the ECIC importing and paying for energy will become an increasingly severe problem. To a limited extent, a HG program which emphasizes constructing "timber houses", improvements and enlargements will reduce energy consumption. The alternative, a masonry dwelling, involves a higher level of energy consumption, both in manufacturing the building materials and in producing the dwelling unit.

During the field visit attention was paid to the use of solar energy for residential buildings. Throughout the entire region there was no indication that solar energy was being used to any significant degree for residential purposes. The absence of such simple solar energy applications suggests two possibilities. First, limited housing resources are being used for more important elements, such as housing improvements or expansion. Secondly, there is no viable local industry which can offer small-scale solar energy applications for existing types of housing.

8. DIFFICULTIES IN ROAD TRANSPORTATION

In addition to the difficulties noted above, there is another one which is endemic to some of the islands, such as Dominica and St. Lucia. These islands, which are volcanic in nature, have a combination of extreme variations in topography, soil conditions and rainfall. These three elements combine to make local road transportation systems expensive to install and maintain. Hence, national housing policies should be designed to reduce travel to work as well as to education, recreation and important public services.

B. THE FINANCIAL ENVIRONMENT

Financial institutions have emerged in response to the economic structures of the island economies. Because of the relatively greater need to finance exports, imports and domestic commerce, commercial banking - heavily foreign-owned - is even more dominant in the region than in the other developing countries. Institutions providing long-term credit are still embryonic.

Historically, solicitors have arranged some long-term investment financing for higher-income clients, as well as smaller loans for middle income families. DFCs and mortgage finance companies now operate on a small scale in the region and credit unions are increasingly active. However, the chief source of credit for low-income borrowers, and this is almost exclusively short-term credit, continues to be the informal market; friends, family, local money-lenders.

The Eastern Caribbean Currency Authority (ECCA) is financially conservative. It is required by its statutes to maintain a 60% reserve against the money supply in the form of external currencies and SDRs.

It is common in the ECIC for the monetary authorities to keep nominal interest rates artifically low. Interest rates have been negative in real terms in recent years (see Annex 3). The rationale seems to be threefold:

(1) To reduce the cost of capital in order to stimulate domestic productive investment;

(2) To provide concessionary interest rates for consumption and shelter on the grounds of compassion, political considerations; and

(3) Because the intermediation costs of concessional money permit negative real interest rates to be profitable.

One effect of this has already been alluded to, a low domestic savings and a high propensity to consume. A second effect has been to dampen any potential development of capital markets.

The first two effects can be largely justified because credit has to be rationed by using measures other than interest rates on the demand side, while the quantity of domestic savings is reduced on the supply side. However, as long as real interest rates charged (say approximately 10%) are higher than real interest rates paid on deposits (say a nominal 6%), financial intermediaries can still cover their operating costs and make a profit. Since they are uncertain about future inflation they concentrate on short term loans, such as for consumer goods and cars, rather than on long term loans for shelter and basic investment.

These artificial costs for money, both on the supply and demand sides, have led to some unusual economic situations in the eastern Caribbean region. For example, the National Commercial Bank of St. Lucia reported that total domestic savings from all sources throughout the entire island nation was only 90 million Eastern Caribbean dollars. While total savings are very low, one of the impressive sights on St. Lucia was the number of new cars.

The whole issue of the cost of money is one of the blind sides in the thinking of local economists, lenders and government officials. The importance of low cost funds for lending is constantly argued and set forth as an important requirement. However, in the same discussion, the same people will also stress the total absence of capital for intermediate and long term lending. The connection between these two aspects of the economy, the cost of money to the lender and the cost of the same funds to the borrower, is almost never made. Any HG program with realistic market rates will help establish the connection between the supply and the demand side of the money market for local officials.

C. INCOME AND INCOME DISTRIBUTION

As in many of the lesser developed countries current information on income distribution is scanty. However, what data is available clearly shows that:

(1) The income of those in the lower half of the income distribution curve is low indeed. All the ECIC would, most likely, qualify for concessional IDA financing by the World Bank.

(2) Incomes are quite unevenly distributed, a consequence of the economic dualism which leaves a large share of the population in the ECIC effectively outside of a normal market economy. The local economies are unable to provide meaningful cash employment to a substantial percentage of the population.

(3) The lack of cash employment, however, also means that the economic resources of the lower one-third of the population without assets and income do not show up in the traditional measures of income. The practical aspect of this undereva1uation of non-cash income is that more funds are available among the economically poorer groups of the population.

Annex 5 contains estimates of the median household income for each of the six ECIC. The estimates vary from US $13 per month in St. Vincent to US $93 per month in St. Lucia. Casual observations in the ECIC which were visited for this study makes the low family income unbelievable. Underreporting, the failure to include "in kind" income and the exclusion of implicit income (for example, for owner-occupied shelter) undoubtedly account for the inordinately low figures.*

Although the absolute income figures are not credible, the income distribution which the statistics record is more trustworthy. To some extent, the underreporting of lower incomes may be offset by income concealment at higher income levels. In any event, the picture in Annex 5 would bear the same message even if "true" incomes below the medium were twice those reported; viz., incomes are quite unevenly distributed. The effective demand of the target group limits HG programs to relatively modest solutions.

Perhaps the top 10% to 15% of the target group in the ECIC could, under present HG program terms, afford to acquire traditional timber housing. Enlarging the percentage will depend upon the price of land under a sites and services program. Depending upon the country, it is likely that the output of a HG program will be mostly home improvements, enlargements, the expansion of existing homes and infrastructure additions and improvements.

A PID team should begin to collect data on the wages and fringe benefits of typical lower and middle-class occupations: maids, unskilled construction workers, policemen, hotel employees. The fragmentary data collected during the preparation of this report dictates the need to do this in order to establish maximum income eligibility criteria.

VIII. THE INTEREST RATE QUESTION

A. THE STRUCTURE OF INTEREST RATES

Annex 3 summarizes current interest rates on loans and bank deposits in the ECIC. When discounts, insurance and commissions are included, commercial bank lending rates of 10% rise to an effective 12% to 14% per year. Consumer loans for cars and appliances are at an annual rate of 16% to 20% and the maximum term is usually three years. Credit unions typically charge 1% per month on the unpaid balance, an effective 12.7% annual rate. Money lenders and building materials suppliers informally charge substantially more, whatever the traffic will bear.

B. HOUSING GUARANTY FUNDS

The viability of HG financing should be looked at from the viewpoints of the balance of payments as well as the beneficiary.

The short term impact of a HG loan on the external debt profile of the borrowers would be favorable by decreasing the weighted average interest cost of external borrowing and spreading out debt servicing over a longer period. The Managing Director of ECCA quickly perceived this favorable effect.

Inflation decreases the effective interest charge to the monetary authorities. The EC dollar is in effect tied to the US dollar. Consequently, there is no foreign exchange risk (see Annex 4) to the borrower. For example, an 8% annual inflation rate reduces a nominal 14% interest rate on a HG loan to a real rate of 5.6% per year, an attractive rate. Finally, a 10-year grace period, during which the borrower can roll over the funds more than once, further reduces the effective interest cost to the borrower. The uniform reaction of knowledgeable bankers and economists was, "How much can we get?". HG money is an attractive alternative to higher cost, shorter term borrowing, for example, in the Eurodollar market or from commercial banks in general.

From the viewpoint of the beneficiary, the effective interest rate is less than the nominal interest rate because of inflation and grace periods. The borrowing decisions of beneficiaries should be based on a comparison of their access to credit and what the terms would be with and without a HG program. Without HG financing a beneficiary has limited access to credit or perhaps will not be able to obtain any credit.

Credit unions, mortgage companies and commercial banks charge more or less the same interest rates as HG financing. In addition, of course, the luck of the lottery occasionally provides a few people in the target group with token amounts of heavily subsidized public money. However, such reallocation programs can make no pretense of "solving" the shelter problems of the poor. Finally, without significant assistance central government budgets simply cannot afford the subsidies which would be required for a meaningful program.

C. RECOMMENDED LENDING TERMS

It is quite clear that there is an effective demand for sizeable amounts of HG funds at market rates of interest. This effective demand is exerted by the monetary authorities, the Eastern Caribbean Currency Authority, as well as the intended beneficiaries. There are persuasive arguments, nevertheless, for making the funds available to the target group at concessional terms without prejudice to the financial integrity of (no subsidies by) the borrower.

It is recommended that USAID agree to some concessional subsidy of the interest rate charged to the target group beneficiaries.

Although past concessional lending for shelter created inequities of unrequited demand and meagre supply, this need not be the case. There are several mechanisms which could be used to prevent this from recurring. For example, the borrower could pass on the local currency equivalent of HG funds to the financial intermediaries, without charging any spread, at the computed effective cost of the money to the borrower. A cash flow analysis probably would show that the borrower could pass on the money at 3% to 4% less than the nominal HG rate without financial prejudice to the borrower. The government could also blend lower cost (or "zero" marginal cost tax money) funds with HG resources. With the technical assistance and financial discipline which accompany a HG loan, such financing would be put to more effective use than the funds now dissipated by government supported shelter activity.*

Also, virtually all of the ECIC have some funds from national budgets for assisted housing. Using these limited funds in concert with HG funds will yield far more impressive results than the occasional solutions that are now produced.

Insofar as HG funds can reach the urban and rural poor at lower tnan market rates, affordability can be increased greatly and the program can reach more of the target group.

A closing caveat is in order. It is imperative to keep delinquencies to a minimum, discourage and monitor arrearages and seek full cost recovery. Maintaining these goals will not only help to replicate the program but is important in financing local currency expenditures with foreign exchange. If cost recovery is deficient, repayment of the HG in foreign exchange can be a very real burden to the borrower.

This does not imply that HG funds would substitute for present monies. Strong assurances were received from the Ministry of Housing in Barbados that HG funds will be additive rather than substitutes.

ANNEXES

ANNEX 1

SELECTED ECONOMIC INDICATIORS

Indicator	St. Lucia	Antigua	Monserrat	Dominica	St. Kitts	St. Vincent
Population (thousands, mid 1981 estimate)	123	74	13	79	51	108
Per capita GNP (1978, US$ per month)	53	78	77	37	55	32
Population growth (% per year)	2.3	1.3	1.0	1.6	0.9	2.3
Consumption as % of GDP (1977)	88.8	100.0	101.6	99.6	108.8	127.5
Imports an % of GDP (1977)	95.5	70.5	76.6	65.5	80.8	102.5
Trade balance (1977, US$ millions)	-35.9	-35.6	-5.7	-7.0	-11.9	-20.4
Government current savings (1977, US$ millions)	0.8	-3.6	-0.4	-11.0	0.4	1.3
Value added (1978, %) of which	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture (%)	14.5	4.3		38.0	18.9	19.8
Industry (including tourism) (%)	23.5	14.8		10.6	21.3	12.3
Services (%)	62.0	80.9		51.3	-	67.9
Other (%)	-	-		-	59.8	-

a/ 1977

Source: World Bank, Economic Memoranda.

ANNEX 2

SELECTED FINANCIAL STATISTICS
END OF YEAR, 1976-1980
(US$ millions equivalent)

Leeward Islands: Commercial Banks					
Assets	99.2	94.7	114.6	135.3	147.6 b/
Loan Portfolio, of which	48.9	55.6	62.7	72.0	79.5 b/
Building and Construction	3.3	4.0	5.1	5.6	5.1 b/
Windward Islands: Commercial Banks					
Assets	147.7	149.0	173.5	217.4	226.7 b/
Loan Portfolio, of which	73.1	90.7	109.2	128.6	137.7 b/
Building and Construction	6.9	6.2	7.4	7.0	8.0 b/

a/ June 1980

Source: Eastern Caribbean Currency Authority

ANNEX 3

THE STRUCTURE OF INTEREST RATES
(Per cent per Annum, End of Year)

	1976	1977	1978	1979	1980[a/]
Leeward Islands Comm. Banks					
Savings	3.1	2.8	2.8	2.6	3.0[a/]
Prime Lending	9.0	8.6	9.0	8.6	8.6[a/]
Windward Islands Comm. Banks					
Savings	2.9	2.7	2.8	2.6	2.8[a/]
Prime Lending	8.9	8.6	8.8	8.7	8.8[a/]

a/ June

Source: East Caribbean Currency Authority, Economic and Financial Review, June, 1980.

ANNEX 4a

EAST CARIBBEAN CURRENCY AUTHORITY (ECCA)

DESCRIPTION

1. The ECCA, successor to the British Caribbean Currency Board, began operations in 1965. Barbados subsequently withdrew when it established its own central bank; and Grenada joined the ECCA in 1968. The present members are Antigua, Dominica, Monserrat, St. Kitts/Nevis, St. Lucia, St. Vincent and Grenada.

2. The ECCA has rather broad statutory powers but, until recently, has performed largely the passive function of handling the foreign exchange accounts of its members. In addition, however, it did inaugurate a regional clearing system in 1970 and does purchase domestic securities from its members. Of potential major significance is the member governments in 1970 that the ECCA should be transformed into a central bank. The IMF has provided TA to draft a central bank agreement, which was circulated to the governments in 1977 and is under active consideration.

3. The ECCA already acts as financial agent for its member governments in handling World Bank, CDB, and IMF funds. It is able and willing to be the Borrower for HG loan and has the statutory authority to do so. Each participating member government would extend a full-faith-and-credit guaranty for that portion of the loan which it uses.

4. Attached is a condensed balance sheet of the ECCA as of 31 March 1980. It should be noted that the ECCA regularly makes a profit in its current operations. The profits are used to increase reserves and for distribution to member governments. (Distribution of US$4.3 million equivalent is scheduled for 1980.)

5. The ECCA must be backed by at least 70% reserves in external assets (foreign exchange assets). The ECCA regularly maintains excess external reserves. The 70% external reserve requirement determines the ability of member governments to vary the money supply. A loss of foreign exchange (beyond the 70% requirement) through balance-of-payments transactions translates immediately into a construction of the money supply, decreased demand for goods and

services, decreased incomes, and increased unemployment.

6. The external asset backing of the money supply implies that there is negligible foreign exchange loss risk for the ECCA as Borrower of a HG loan so long as the systems has not changed and the ECCA is pegged, in effect, to the US$. Because of the smallness and openess of the SIN economies, the consequences of abandoning a hard-money policy would be immediately disastrous. For this reason, the ECCA is considered creditworthy for a US$3.0 million HG loan.

ANNEX 4b

EAST CARIBBEAN CURRENCY AUTHORITY
CONDENSED BALANCE SHEET
31 March 1980
(US$ millions equivalent)

Assets	1980	1979
External assets	82.9	72.8
Securities	25.3	28.2
Fixed deposits and money at call	55.6	42.7
Other	1.9	1.9
Internal assets	14.1	11.8
Participating government securities	13.1	10.9
Other	1.0	0.9
Other assets	3.5	1.5
Total Assets	100.5	86.1
Liabilities		
Demand liabilities	45.6	36.9
Profits to be distributed to governments	4.3	3.2
Bankers' deposits	30.8	26.9
Reserves	5.1	4.3
Other liabilities	14.7	14.8
Total Liabilities	100.5	86.1

Source: Audited accounts, ECCA Annual Report, 1980.

ANNEX 5

EASTERN CARIBBEAN ISLAND COUNTRIES
MONTHLY HOUSEHOLD INCOME
(March 1981 US$ Equivalents)

The 1970 Census included a sampling of household income for the small island economies. The results yield the following median monthly incomes (US$ equivalents):

US$ 93	St. Lucia
74	Antigua
21	Montserrat
17	Dominica
14	St. Kitts
13	St. Vincent

These findings are not credible for 2 reasons:

a. Casual observation in 4 of the 6 countries, including St. Kitts and St. Lucia, cannot support a 7-fold difference in incomes. Common sense supports the observation of much greater likeness of incomes between islands. The historical ease of migration among the islands would tend to even out household median incomes among the islands.

b. The incomes are unbelievably low absolutely. It is quite clear than underreporting was substantial. Income in kind and imputed incomes evidently were not taken into account adequately.

For these reasons, it appears better to use an estimate of income distribution for St. Lucia for 1973 which was presented in a UNDP study, "Housing Programmes and Policies in St. Lucia, 1970-1980;" and to adopt the CDB convention of using the St. Lucia data as representative of all the Small Island Economies.

Monthly Household Income, 1973
(US$ Equivalents)

Income	Percentage of Households
Less than $62	30
$62 - $92	20
Median Household Monthly Income	US $92

ANNEX 6

POTENTIAL AFFORDABLE HOUSING DEMAND

An estimate of inflation in the CPI and the extent of underreporting suggest that the income figures should be multiplied by 3.1 to derive an estimate of March 1981 median income: US $285 per month.[1] This compares with the median household income estimate of US $513 for Barbados and exaggerates the "true" difference between Barbados and the Small Islands. This approach to the ECCA nations would imply approximately the following affordability criteria if the Barbados income distribution is used for the Small Islands (US$ equivalent):

Decile	Affordable Loan
1	$ 1,011
2	2,229
3	3,849
4	5,538
5	7,088

1. Potential Effective Demand (1981)

Country	No. of Households
Barbados	64,200
Antigua	17,900
Dominica	17,300
Monserrat	3,700
St. Kitts/Nevis	12,500
St. Lucia	27,500
St. Vincent	21,600

2. Target Group Potential Affordable Demand

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1 The CPI reported by the World Bank was 388.7 in April 1979, 201.7 in December 1973. The ECCA estimated that the CPI for St. Lucia increased by 18.4% between April 1979 and March 1980. It is estimated that inflation was 15% in the year ending March 1981 and a 25% underreporting is assumed.

Small Islands: $\left(\frac{hh}{10}\right)$ (1,011 + 2 229 + 3,849 + 5,538 + 7,088)

=US$198 million equivalent

ANNEX 7

ANNUAL HOUSING "NEEDS"

Country	New Household Formations	Replacement of Existing Stock	Total Units
Antigua	750	141	891
Dominica	720	206	926
St. Kitts/Nevis	200	86	286
St. Lucia	1,000	250	1,250
Montserrat	100	35	135
St. Vincent	900	150	1,050
TOTAL	3,670	868	4,538

Source: CDB, Housing Policy Paper, August 1978

ANNEX 8

RECOMMENDATION RELATED TO LOGISTICS AND WORKING CONDITIONS IN THE EASTERN CARIBBEAN FOR FUTURE AID HOUSING PERSONNEL

For any AID program the logistics and conditions of the Eastern Caribbean pose a number of significant problems A few of the more important problems are noted below.

Substantial attention has to be given to travel arrangements. Local air carriers are not on a computer system and reservations take a long time to make. Overbooking is an accepted practice. Personnel have to be advised to take all necessary steps to insure that they are able to get the flight on which they are booked.

Although the distances between countries are not great, the time spent in travel from hotel to hotel, can be substantial. Therefore, in any trip more time than might normally be expected mus be allowed for travel.

It is strongly recommended that, in addition to using cables to set up appointments in advance the cables should be followed up by person-to-person telephone calls. It was amazing how often seemingly straight forward cable instructions could be misunderstood by recipients.

Arrangements concerning secretarial assistance should be made well in advance. Currently, the mission in Barbados is busy and little if any secretarial assistance is available. Throughout the island there may be two or three secretarial services and quality varies appreciably from person to person. Well in advance of actual need, it is recommended that the team director make firm arrangements for secretarial services.

Per diem and other costs throughout the Eastern Caribbean are quite high. One way for team personnel to stay within the *per diem* rates is to make arrangements directly with the hotels. It is accepted practice when direct arrangements are made without the use of a travel agent, for local hotels give discounts of 10% to 20% for business travelers.

Finally there is the matter of security. There is virtually little if any reporting concerning acts of violence against tourist or visitors in the Eastern Caribbean. Obviously, it would harm the important tourist industry or international press. However, both mission personnel and knowledgeable people throughout the area suggested significant caution to the AID team who were on Barbados, Antigua and St. Lucia. Caution is therefore advised.

ANNEX 9

CURRENT CURRENCY EXCHANGE RATES

One US dollars equals .38 to .36 cents Eastern Caribbean currency.

Two dollars and sixty cents Eastern Caribbean currency equals one US dollar.

Throughout this report, unless specifically noted all monetary sums are set forth in US dollars.

ANNEX 10

NOTES ON INTERVIEWS CONDUCTED FOR THE STUDY

MR. KENNETH A. ISAACS
Chairman, Central Housing and Planning Authority

MR. REUBEN DEUBERY
Project Manager, Central Housing and Planning Authority
St. Mary's Street, St. John's Antigua, West Indies

MR. HENRY KING
Permanant Secretary, Ministry of Housing

Mr. King described his frustration with negotiations for a housing loan from the CDB. A six million EC dollar loan has been in the approval process for two years. The purpose of the loan was to provide the Central Housing and Planning Authority (CHAPA) with additional housing resources for lower and middle income families. After two years the loan has not been approved for CHAPA, but rather is being made to the Antigua and Barbuda Development Bank.

Mr. Deubery noted the private mortgage situation. Commercial mortgages are available in Antigua for terms of 3 to 10 years and rates vary from 10% to 15%. The Nova Scotia Bank and the Antigua Commercial Bank as well as Barclay's provide mortgage financing. CHAPA tries to provide financing for families who have an income of less than $40 US per week. CHAPA's lending term is 5 to 15 years at an interest rate of 6%. During 1980 they made 30 loans. CHAPA also tries to help middle income families, defined as those earning over $3,000 US per year. A major problem facing CHAPA is the repayment on loans; collections are now running at about 75% of potential.

CHAPA is also a producer of housing. Last year it sold two homes and it has an inventory of about 400 to 500 dwellings, much of it rental housing produced by the AID program in the middle 1970's. Rents for the AID housing are based upon the original cost of construction. Rental income is a major source of income for CHAPA, as is the sale of government owned land.

Last year CHAPA sold 300 lots, averaging 7,200 square feet, at $.20 per square foot. As CHAPA's price is probably one half to two-thirds of market value, sale of these lots is very important to residents. Mr. Isaacs stated that selling land to lower income families at below market prices is a policy of the government. Lots now being developed are provided with water by the public utility authority.

Obtaining funds for home improvements is a major problem. Presently, there is a backlog of 1,000 applications. The average request for a loan is $300 to $500 US and the interest rate, if money is available, is 6%. There is an undefined charge for insurance. Current collections on these loans runs about 75% of potential. When CHAPA does make home improvement loans the building materials are ordered by CHAPA, delivered to the house site and paid for by CHAPA.

Housing prices are quite similar to Barbados. (In fact they are about 80% of prices in Barbados). A so-called timber house costs $6,000 US in Antigua. CHAPA officials indicated that they would like to have funds for 400 timber dwellings.

The problem of urban squatting is a new and growing problem in Antigua. Between 5% and 10% of the housing in and around St. John's is now squatter housing. While CHAPA does produce a substantial number of housing lots, there is a demand for traditional suburban lots, especially among squatters. The terms for a house lot are one-third down and three years to pay the balance. Providing water systems is an increasing problem.

The Honorable ADOLPHUS FREELAND
Minister of Housing
Government of Antigua

Mr. Freeland recognizes that there is a major problem in regard to CHAPA and the Antigua and Barbuda Development bank. He is aware that the Caribbean Development Bank has decided to provide financing to Antigua via the Antigua and Barbuda Development Bank. Although the Government of Antigua is not pleased with the solution and the decision of the CDB, if a final decision is made to provide financing to Antigua and to place it with the Development Bank (or a similar institution), the decision will be respected. However, decisions on specific solutions and eligibility for housing assistance should rest with either the Minister of Housing or CHAPA.

According to the Minister, Antigua has a number of housing needs. First, local housing officials require substantial technical assistance. Secondly, the greatest need as he sees it is for "middle" income housing. Middle income families are not eligible for the very restricted government housing programs, and cannot avail themselves of the limited amount of commercial lending which is available for private housing. (The Minister's definition of middle income is quite likely lower middle income but still below the median). Currently the government has 1,200 applications on file for new housing. The Minister estimated that each new housing solution costs $13,500 US. Another problem that CHAPA needs to resolve is the arrears in all the government housing programs which he estimates at about 4 million EC dollars ($1.5 million US).

ALICK D. LAZARE
The Financial Secretary
Ministry of Finance
Government Headquarters
Roseau, Commonwealth of Dominica
West Indies

Telephone 2401 or 4097

Mr. Lazare pointed out that a problem that the Commonwealth of Dominica has with the CDB is that their approach to the region is uniform. In his judgement, each country needs its own set of housing solutions. Currently, Dominica's repayment rate for CDB loans is high. In his view Dominica requires a mixture of "hard" and "soft" loans with an interest rate of less than 10%. Mr. Lazare is not confident if housing solutions can be developed for Dominica when the interest rate is 11% or more. However, he is keenly interested in exploring the possibilities of using AID HG funding for both additional foreign currency as well as for housing solutions.

MR. VANCE LABLANC
Managing Director
Agricultural and Industrial Development Bank (AID)
Rouseau, Dominica

Mr. Lablanc's experience with the Caribbean Development Bank has been excellent. They have provided very useful and high quality technical assistance.

The AID bank's equity is approximately $160,000 US dollars. Mr. Lablanc has asked CDB to provide additional equity for the bank. In terms of housing loans he estimates that the cost would require a spread of 2% to 2.5%.

He felt very strongly that people of Dominica, even the very poor, would be excellent credit risks. He also indicated that an institution, such as the AID Bank, be quite willing to enforce repayment of all loans.

Mr. Lablanc felt that even though the interest rate for AID HG financing is high, a substantial number of loans could be made to working class families for home improvements, enlargements and new construction. He estimated that new construction loans, including a site, will probably run from $6,000 to $7,500 US per dwelling unit.

The Honorable BRIAN ALLEYNE
Minister of Labor and Housing
The Commonwealth of Dominica

MS. JUDIANA THERESA HENDERSON
Of The Ministry of Home Affairs

ARLINGTON J. RIVIERE
Permanant Secretary to Minister of Home Affairs

The Minister mentioned that the Commonwealth of Dominica shortly expects to receive final approval (a letter has been signed) for a loan from the Government of Trinidad and Tobago that will provide 800 new dwelling units. The loan will be at a rate of 4% for 25 years with a five year grace period. It is assumed that it will take 2 or 3 years to produce these units at a cost of $3,500 US dollars per dwelling. At this price they anticipate providing a core house with approximately 400 square feet containing 2 bedrooms.

The Minister described the general housing problems of Dominica as follows. First the problems of the capitol, Roseau and its growth. Second, the need for housing for working class families in and around the outskirts of Roseau, a situation that he believes is extreme. Third, in the rural areas the main problem is to upgrade the existing housing.

An application is currently before the Caribbean Development Bank for another loan for home repairs. There have been discussions with the Government of West Germany on funds for mortgage financing. These funds have been put forth at a rate of 10%, which the Government finds quite high. Other assistance has come from Canada through the Royal Bank of Canada, which provided $1.0 US million in a seven year loan to build 165 dwelling units. The government of Dominica provides assistance to local housing programs at a level of approximately $200,000 US per annum.

MICHAEL G. WHITE
Director, Housing Development Corporation
Queen Mary Street, Roseau, Commonwealth of Dominica

Telephone 3008 or 3009

Mr. White stated that the existing housing, even though damaged by the hurricane, is a major resource. However, financing is desperately needed for the repair of the damaged housing. The situation is especially difficult for lower income families who had already paid for homes which were damaged or destroyed, and now must rebuild them. His organization, the Housing Development Corporation, has an income of about $400,000 US per annum which comes from rents on government produced housing (mainly AID housing), the sale of government owned land to individuals and the sale of government owned property.

According to Mr. White, housing for middle income families is a major problem. These families cannot use the limited government financing or obtain financing from commercial sources. In respect to Roseau, the capitol, he feels that the time has come to begin building multi-family housing for government workers, young civil servants and other groups. As Roseau develops, housing will be needed for young people coming from the countryside to the metropolitan area.

He also believes that technical assistance in housing management and housing production is a priority.

MR. EVERTON A. CHARLES
Manager, Dominica Cooperative Credit Union League
37 Old Street
Roseau, Dominica

MR. JOHN SCHULTER from the World Council of Credit Unions Inc. also participated in the conversation.

Mr. Charles was concerned about the possible impact on the credit unions if they received funds through the government. While he had no specifics, he could envision that the government might impose conditions upon the credit unions in order to receive AID assistance. He was concerned that this would interfere with their traditional manner of lending.

There are presently 21 credit unions in Dominica, enrolling 25,000 families, or perhaps 30% of the population. These families have deposited nearly $3.8 million US into the system and have borrowed almost $3.0 million US from it. The credit union movement in Dominica is 30 years old and grows at an annual rate of 10% to 15% per year. The movement has branched out into other areas and is now attempting to buy land and develop a subdivision of 65 lots.

Credit union loans are small; $20 to $200 US per loan is typical. The interest rate is 1% per month on the declining balance. The credit unions have made some mortgage loans totalling about $25,000 US. The terms for these long-term loans were 9% for 30 years and the mortgages were sold to the Caribbean Development Bank. Together, all the credit unions on Dominica employ between 25 and 30 full time people and an additional 20 to 25 people part time. He estimates that $2.0 million US is loaned out annually. The smallest of the Dominica credit unions consists of 100 people, with a capital of $6,000 US, while the largest has 12,000 members and a capital of $2.0 million US.

Dominica's credit union system would be very interested in exploring the use of AID financing to supplement its own limited resources. When asked to comment on the dimensions of such capital assistance, Mr. Charles ventured to guess they could place $.75 to $1.0 million US annually without adding any administrative staff.

MR. NORMAN ETIENNE
Managing Director
Housing Development Bank
St. Lucia

MR. GUY ST. ROSE
Credit Control Manager
Housing Development Bank
St. Lucia

Presently, the Bank does not have a housing program because it lacks mortgage funds. They have already put approximately $400,000 US into long term mortgages. The Bank's funding in the past has come from the CDB. Two loans have been obtained for $1.6 million US, of which $1.5 million has been lent. The lending terms for home improvement and new construction loans are 9% for a period of 20 years. The maximum amount that a family may borrow is equal to 25% of family income. However, loans made by the Housing Development Bank may not exceed $7,700 US, or 40 times monthly income. The average loan made by the Housing Development Bank has been for $3,500 US, which used to buy a 300 to 350 square foot house. People are able to build a house without sanitary facilities for approximately $4,600 US; sanitary facilities cost an additional $750 US.

Fifteen percent of the Housing Development Bank funds have been used to purchase existing homes or new homes; 50% has been for home improvements and enlargements and 35% has been for new construction. Land costs in St. Lucia vary from $.75 to $1.50 per square foot. The desirable size of a house lot is 3,000 square feet, so that there is room for a "pit toilet".

Mr. Rose estimated that median annual income in St. Lucia is between $2,000 and $2,500 US. Under present circumstances, a family with such an income could obtain a loan of up to $700 US. As of its last balance sheet (October 1980), the Housing Development Bank has lent $2.4 million US. Approximately $300,000 US is currently three months or more in arrears.

Much of the housing on St. Lucia is chattel housing. In fact, 80% of the lower income housing is most likely this type. One major obstacle is that land law and land use controls are based upon the Napoleonic code. Because of chattel housing, lower income people normally rent the land for the housing unit. Typically rentals range from $5 to $30 per month per house "spot". The typical rental lot is approximately 1,500 square feet.

In looking at St. Lucia one must keep in mind that its economy has been affected by two hurricanes and six years of severe drought.

One of the unique aspects of the land situation in St. Lucia is that most of the land is government owned. When government has made land available it has generally been for industrial rather than residential purposes.

The government of St. Lucia has an implementing agency for development called the Urban Development Corporation. However, as of January 1981 this agency was being disbanded for lack of performance. A new company, called the National Development Corporation, will be responsible for land development in St. Lucia. Lawson Caldron will be the manager of that agency.

THE HONORABLE
MR. BRUCE WILLIAMS
Member, House of Representatives for the
District of Vieuxford and the Minister
of Health and Local Government

Squatting has become a major problem, even in an area such as Vieuxford, the southernmost district of St. Lucia and an area with little economic activity for many years. Mr. Williams stated that in the past he has had conversations with AID Barbados regarding housing assistance.

Although obtaining land should not be difficult in St. Lucia, there may be some problems. Most of the land is owned by government and most of the squatting occurs on government land. Based upon his knowledge he indicated that a locally built home of 10' x 20' would cost between $3,000 and $4,000 US, including materials and "outside" labor. Mr. Williams believes that various kinds of wood suitable for timber built homes are available on St. Lucia.

He indicated extreme interest in obtaining financing that families who are now squatting can use to buy land.

MCDONALD DIXON
Manager
National Commercial Bank of St. Lucia
PO Box 1031
Bridge Street
Castries, St. Lucia, West Indies

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Mr. Dixon described the capital organizations on St. Lucia. Currently, total deposits are approximately $35 million US. Commercial loans for housing require a one-third equity and are made for three years on a discounted basis. He estimates that the interest rate is between 13% and 14%. Longer term mortgage loans are sometimes available. They currently run for 9% to 11%, depending upon the bank, and are made for 20 years. Bankers will normally make loans equal to four times annual salary. Typically, loans are made for homes in the range of $13 to $25 thousand US.

When asked whether or not the National Commercial Bank of St. Lucia would be interested in AID HG financing, Mr. Dixon stated that any amount would be very welcome.

GEORGE GIRAD
Secretary of Finance
Ministry of Finance
St. Lucia

At this time the government is very interested in obtaining resources to resolve housing problems. If any AID funds are available they should be provided directly to the Government of St. Lucia, instead of the Caribbean Development Bank.

Foreign exchange is a major concern and the ability to borrow $1 or $2 million US for foreign exchange and use the money for housing would be very useful.

MR. PHILLIP M. NASSIEF
Managing Director
Dominica Coconut Products Limited
P.O. Box 18
Dominica, West Indies

Telephone 1101

The Dominica Coconut Products Ltd. consists mainly of small farmers who basically own the company. As members earn dollars from selling their coconuts, part of the income is used to increase their share of ownership in the company.

The recent hurricane was a disaster for the local growers and production is down perhaps 30%. It takes seven years for a new tree to begin producing. However, the employment at the factory has not been reduced because it is beginning to augment the soap and other washing products it makes from coconut oil by adding other products.

Mr. Nassief estimates that 25 of his members lost their homes in the hurricane. A typical dwelling is worth perhaps $4,700 US. The coconut growers association would provide land for new housing if they could obtain financing. He is currently seeking $200,000 US for housing. Repayment would be assured as people are accustomed to a payroll or income "checkoff" to pay for agricultural and housing loans. He indicated that other business associations would be interested in participating in a housing program, such as he suggested for his association. He mentioned a Mr. Gerry Aird, a local businessman, who would be interested.

MR. N. ERICSON WATTY
Secretary/Manager
The National Planning Organization
Government Headquarters
Kennedy Avenue Roseau
Commonwealth of Dominica

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A major problem facing the government, according to Mr. Watty, is land use planning. Until now they have had neither the staff nor the data and resources to undertake this work. As a government survey of the population was recently completed, the coming summer or fall would be an excellent time to undertake such planning in Dominica.

His office recently made an application to the World Bank for housing assistance. (A copy of the application has been received.) The application will assist in producing approximately 690 housing sites. A portion of the Trinidad and Tobago loan will be used to develop subdivisions.

Mr. Watty believes that the most critical housing problem in Dominica is overcrowding, resulting both from the damage caused by the hurricane and the basic scarcity of housing.

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