

R E P O R T

on

MARKET ANALYSIS

BANQUE DE CREDIT IMMOBILIER

Port-au-Prince, Haiti

Prepared for:

Office of Housing

Agency for International Development

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PORT-AU-PRINCE, HAITI

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LIST OF ACRONYMS

BCI	-	Banque de Credit Immobilier
BRH	-	Banque de la Republique d'Haiti
?BNC	-	Banque National de Credit
?BPH	-	Banque Populaire Haitienne
ONA	-	Office National d'Assurance
EPPLS	-	Entreprise Publique de Promotion de Logements Sociaux

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MARKET ANALYSIS

BANQUE DE CREDIT IMMOBILIER/PORT-AU-PRINCE, HAITI

September, 1983

SUMMARY

The market for establishing a housing finance institution in Port-au-Prince is virtually wide open.

Strong demand for housing among Port-au-Prince residents of all but the uppermost income levels goes unattended largely because of the unavailability of financing, even for those who can afford to pay.

About three-quarters of Port-au-Prince's residents rent their housing, and well over half of the housing stock is built of scrap metal, straw and wood. Population densities are extremely high.

The ability of Haiti's depository institutions to attract deposits in recent years bids well for an institution such as the BCI which would have the advantage of being the only such institution offering long term housing finance.

Though residential mortgages would be the speciality of the BCI, it is envisioned as basically a full service financial institution. It would have the ability to lend a portion of its depository funds for a wide variety of purposes, and would offer a competitive range of depository accounts and customer services.

Organized on a stock ownership basis, the institution would be 90 percent private sector controlled, with the GOH initially taking a 10 percent position, but selling its shares during the first five years of operations.

While most Port-au-Prince residents live in conditions of poverty, the logical focus of operations for the BCI would be on upper middle and upper income sectors.

While housing solutions affordable by some Haitian households below the \$115 per month median income level are available, it would be very difficult for a depository institution such as the BCI to profitably lend to that sector of the population.

The construction industry in Haiti has experienced substantial growth during the last ten years and should be able to headily meet the demand generated by the BCI.

Potential problems are a shortage of imported building materials resulting from a lack of foreign exchange and inadequate public services in newly developed areas. In order to provide background information for the PID phase

in the creation of Haiti's first Housing Credit Bank (BCI), the following market analysis was done at the request of USAID's Office of Housing.

For reference purposes only, the institution under consideration is herein referred to as the BCI. It is foreseen that the location and operational focus of the BCI would, at least initially, be limited to the Port-au-Prince metropolitan area. While some of the data included in this report is national in scope, the real market in question is Port-au-Prince.

The analysis was carried out over the course of two visits to Haiti in September, 1983 by two consultants:

Dan Chilson - National Savings and Loan League; Washington, D.C.
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Washington, D.C.

The consultants worked in close collaboration with the Haitian firm Capital Consult, S.A. under contract to USAID, with supervision of the RHUDO/Caribbean and USAID Mission/Haiti.

I. BACKGROUND

Port-au-Prince with an approximate population of 900,000 is the capital city and economic center of Haiti, which has an estimated 5,200,000 inhabitants.

Port-au-Prince is experiencing a strong growth rate of about 5.2 percent annually. Its dominant position in the country is reflected by the fact that it hosts some 90 percent of Haiti's industrial activity and generates about 40 percent of national income in an economy whose principal sector is agriculture. Cap-Haitien, the second largest city is about 1/12th the size of Port-au-Prince.

Distribution of income in Haiti is very uneven, with 5 percent of the population capturing 50 percent of the revenues.

A combination of a depressed agricultural commodity market, severe damage inflicted by Hurricane Allen in 1980 and the worldwide economic recession contributed largely to net negative growth of the Haitian economy in the past two years.

II. HOUSING FINANCE IN HAITI

A. THE BANKING SECTOR

The banking sector in Haiti consists of the Central Bank (BRH), two state commercial banks (BNC and BPH), three private banks incorporated in Haiti, and five affiliates of foreign banks.

The BNC is the largest commercial bank in the country and the only one with a nationwide network of branches. Two of the foreign banks have one branch each outside Port-au-Prince.

1. Savings Mobilization

The arrival of the foreign bank affiliates in Haiti in the 1970's introduced a competitive element to the depository system and was the main factor in increased savings mobilization as reflected in Table 1.

However, the source of those savings has been more related to the credit needs of commercial enterprises and the banks' requiring compensating balances of the borrowers than it has to efforts by the banks to attract household savings.

(Compensating balances refers to the banking practice of requiring commercial borrowers to maintain their operating and cash accounts with the lending institution).

Despite this growth, the domestic savings rate has remained quite low, constituting only 2.1 percent of GDP in 1982.

Few Haitians maintain a depository relationship with licensed financial institutions and fewer still have access to credit. A 1976 IMF study of the Haitian financial system reported that about one Haitian in fifty had a savings account. There is little at present which would indicate an increase in this ratio.

A survey conducted by the Haitian firm Capital Consult, S.A. in 1981 found that among textile and electronics industry workers earning wages well above the median income level, only 2 percent maintained bank accounts.

Lack of confidence in the depository institutions does not appear to be the case in Haiti. Rather among poorer Haitians who constitute the majority of the population, lack of capacity to save and unfamiliarity with formal thrift mechanisms would appear to be the real obstacles to attracting savings.

By some estimates up to 60 percent of the population of Port-au-Prince lives below the absolute poverty level. Potential for mobilizing savings from such people clearly does not exist. However, the above statistics suggest that among the remainder of the population, there is good potential for attracting further savings.

TABLE 1
 DEPOSITS OF THE HAITIAN BANKING SYSTEM
 1969/70 - 1981/82
 (in millions of US dollars and %)

	TOTAL DEPOSITS	CHECKING DEPOSITS	SAVINGS DEPOSITS	TERM DEPOSITS
Sept. 70	22.7 (100.0%)	11.3 (49.6%)	10.1 (44.6%)	1.3 (5.8%)
71	29.4 (110.0%)	14.4 (68.8%)	13.7 (46.6%)	1.3 (4.6%)
72	39.7 (100.0%)	19.1 (48.1%)	18.3 (46.2%)	2.3 (5.7%)
73	54.8 (100.0%)	25.3 (46.3%)	24.8 (45.2%)	4.7 (8.5%)
74	71.9 (100.0%)	28.4 (39.5%)	31.7 (44.0%)	11.8 (16.5%)
75	86.4 (100.0%)	28.1 (32.6%)	36.6 (42.3%)	21.7 (25.1%)
76	119.2 (100.0%)	36.8 (30.8%)	48.5 (40.7%)	33.9 (28.5%)
77	144.3 (100.0%)	38.0 (26.3%)	60.7 (42.0%)	45.6 (31.7%)
78	177.9 (100.0%)	45.9 (25.8%)	77.3 (43.4%)	54.7 (30.8%)
79	201.5 (100.0%)	52.9 (26.2%)	90.0 (44.7%)	58.6 (29.1%)
80	252.5 (100.0%)	66.8 (26.4%)	105.8 (41.9%)	79.9 (31.7%)
81	284.9 (100.0%)	85.3 (29.9%)	109.3 (38.4%)	90.3 (31.7%)
82	308.3 (100.0%)	92.6 (30.0%)	119.8 (38.9%)	95.9 (31.1%)

2. Lending Practices

The average small businessman, because he is unable to offer a bank adequate collateral, is unable to obtain a loan. Such persons are forced to borrow from street corner lenders, pawn brokers or informal credit groups at rates many times those of the formal sector. Because the vast majority of Haitians have no access to the formal credit market, the informal market thrives.

The banking sector extends credit principally to its commercial clients with 90 day terms, generally rolled over at maturity if the debt is properly serviced.

By law, the commercial banks may not lend more than 10 percent of their domestic deposits for long term mortgages. An extremely restrictive foreclosure law applied to foreign financial institutions has effectively taken them out of the mortgage market.

The Haitian banks make some long term housing loans to their better clients. Loan to value ratios are limited to 50 percent and loan terms are usually five years. Such loans presently carry interest rates of approximately 17 percent.

As a result, few Haitians have access to financing for housing and the terms of that which is available are not conducive to home ownership.

B. THE PUBLIC SECTOR

Haiti has no national shelter strategy. Government interventions have been in the form of occasional projects usually benefitting low income households.

Introduction to Organizations

Aside from the BNC, there are two public sector organizations dealing in the financing or provision of housing for Haitian citizens.

1. ONL

The National Housing Agency (ONL) was created in 1966 and functioned under a very broad mandate to administer all public housing projects. Individual projects were developed by the Department of Public Works and then placed under the management responsibility of the ONL.

Budgetary constraints generally left the organization with insufficient funds to operate on a project scale. At the end of 1979, the ONL managed a total of only 1,987 units.

For 1980-82, the ONL's principal contribution came in the form of management of two UN funded low income projects in the Port-au-Prince area, providing 1,476 units in all. Loans representing 85 to 95 percent of the property's value carried terms of 15 years at 8 and 12 percent respectively for the two projects.

2. EPPLS

In December 1982, a decree of Haitian President Jean-Claude Duvalier transformed the ONL into the Public Enterprise for Social Housing (EPPLS). This new institution received a more specific mandate to provide shelter solutions for those Haitians in greatest need. Defining a national housing policy will be the EPPL's responsibility.

While the EPPLS suffers from the same budgetary constraints as its predecessor, it is carrying out an organizational restructuring for which it has hired several technical advisors which should result in more efficient administration.

The organization has contracted with the World Bank for the funding of three projects in the cities of Les Cayes, Cap-Haitien and Port-au-Prince. A loan amount of \$7 million will finance construction of 2,210 units. The individual mortgage loans administered by the EPPLS will carry 6 to 8 percent interest rates with 15-year terms.

3. ONA

A second public sector institution active in housing finance is the National Insurance Agency (ONA), which makes loans to its subscribers (60,000 in 1981) who have maintained a perfect record of contributions over a five-year period.

The ONA had granted about 500 loans by 1980, with 250 applicants awaiting the availability of funds. Annual originations were at a level of approximately 60 loans, with 100 month terms at an interest rate of 8 percent. Volume has apparently not increased significantly since that time.

III. HAITIAN HOUSEHOLDS

The average household size in Haiti's urban areas is 5.3 persons. Recent surveys conducted by the EPPLS found the number to be about 4.3 in low income areas.

A. INCOME LEVELS

In 1979, the World Bank estimated that 65 percent of Port-au-Prince's population lived below the relative poverty level, with at least 40 percent of the city's residents living in absolute poverty, based on criteria of minimum daily consumption of basic food items.

The 1980 SSA, using World Bank income figures, estimated the medium income level for Port-au-Prince households at \$101 per month.

For the years 1980 through 1982, the cost of living index for Port-au-Prince as published by the Central Bank of Haiti reflected a 10 percent increase.

During that same period, wages among the textile and assembly industry workers remained basically constant.

In the public sector, following general increases in 1980, wage levels were either frozen or, in some cases, reduced.

As previously mentioned, the Haitian economy contracted in real terms for the years 1980-81 and 1981-82. This is likely to be the case for 1982-83 as well.

Based solely on the 10 percent cost of living increase, it is possible that the monthly medium income level for Port-au-Prince households could have risen to approximately \$130. However, in view of the fact that earnings of regular wage earners remained constant and that was negative growth in the economy since 1980, it would be more accurate to allow for an approximate 5 percent increase in incomes.

Thus, a rough estimate of medium monthly household income for Port-au-Prince would be \$115.

B. HOUSING DEMAND

The majority of Haitians live in sub-standard housing without direct access to water or sewer systems. The Shelter Sector Assessment as well as the 1979 Urban Sector Survey of the World Bank stated that 43.7 percent of the city's population was living in densities of 800 people or more per hectare. Low income areas were commonly shown to have per hectare occupants of more than 1,500.

Sixty-one percent of the dwelling units in Port-au-Prince offered less than 3m² of space per resident as of 1979. Indicators of the level of construction activity relative to the growth rate of the city do not suggest that this pressure has eased.

The World Bank report found 64 percent of the Port-au-Prince housing stock to be built of scrap metal, straw and wood.

In 1979, an estimated 75 percent of the capital city's residents were renters. It is apparent that the unavailability of housing finance has forced even relatively upper income Haitians (earning \$300-800/month) to remain renters. Conversations with real estate agents and developers in Port-au-Prince indicated that only those people who have been able to pay cash for the construction or purchase of a home, manage to become owners.

In 1980, the French consulting firm SEMA conducted a study of the Haitian housing sector. SEMA estimated the annual growth rate of Port-au-Prince at 6 percent. They concluded that in order to provide housing for that growth related portion of the population, some 8,000 new units a year would be needed.

In addition, based on a 20-year plan to relieve overcrowded areas and improve shelter quality in slum areas, SEMA estimated the need for another 8,500 units per year, or a combined total of 16,500.

C. AFFORDABILITY

Table 2 lists the six housing types proposed for financing by the BCI while Table 3 indicates the required monthly payments and household income. Only unit A, which is a core house with vary basic services is affordable by the medium income for Port-au-Prince. Unit B is a one bedroom house built and serviced at the same minimum standards as Unit A, but because of the increase building size will have a payment almost double. Units C and D would serve the young professionals who are now paying rents of \$200-300 a month, but do not have the resources to acquire a house without financing. The most expensive units would be affordable only to the higher income groups.

TABLE 2
HOUSING TYPES PROPOSED FOR FINANCING BY THE BCI

UNIT	FIRST YEAR		SECOND YEAR		THIRD YEAR		PLOT SIZE (m ²)	LAND COST (m ²)	PERCENT CIRCULATION	PERCENT PUBLIC
	COST/m ²	COST(\$)	COST/m ²	COST(\$)	COST/m ²	COST(\$)				
A Core House 15m ²	95	1,425	100.0	1,500	105.0	1,575	60	1.94	20	10
Infrastructure	9	937	9.5	980	10.0	1,032				
Total Costs		2,362		2,480		2,607				
B 1 Bedroom 40m ²	95	3,800	100.0	4,000	105.0	4,200	100	1.94	23	10
Infrastructure	9	1,563	5.5	1,634	10.0	1,705				
Total Costs		5,363		5,634		5,905				
C 2 Bedroom 74m ²	170	12,500	178.5	13,209	187.5	13,875	150	2.32	25	15
Infrastructure	12	3,580	12.6	3,730	13.2	3,880				
Total Cost		16,160		16,939		17,755				
D 3 Bedroom 96m ²	210	20,160	220.5	21,160	231.5	22,224	200	2.71	25	15
Infrastructure	14	5,570	14.7	5,803	15.4	6,037				
Total Cost		25,730		26,971		28,261				
E 4 Bedroom 130m ²	250	32,500	262.5	34,125	275.5	35,815	350	3.10	25	15
Infrastructure	16	11,141	16.8	11,604	17.6	12,075				
Total Cost		43,641		45,730		47,890				
F 4 Bedroom 200m ²	300	60,000	315.0	63,000	331.0	66,200	600	3.10	30	20
Infrastructure	18	25,320	18.9	26,000	19.9	27,600				
Total Cost		85,320		89,400		93,800				

TABLE 3
MONTHLY PAYMENTS AND INCOMES REQUIRED TO
PURCHASE PROPOSED HOUSING TYPES
(in U.S. \$)

UNIT	COST	LOAN ¹	MONTHLY ² PAYMENT	MONTHLY ³ INCOME
A	2,362	1,655	23.15	95
B	5,363	3,755	52.54	210
C	16,160	11,310	158.32	635
D	25,730	18,010	252.08	1,010
E	43,641	30,550	427.56	1,710
F	85,320	59,725	835.89	3,345

1 Assuming a 30 percent down payment

2 Loan Terms: 15 percent interest rate, 15 year term

3 Assumes 25 percent of income for housing

IV. CONSTRUCTION INDUSTRY

While data is limited, there are several sources which indicate an increase in construction activity and strengthening of the building industry in Haiti and particularly in Port-au-Prince during the last 10 years. There has been a decline in construction activity during the last three years but the level of activity is still much higher than it was 10 years ago. This section will review the indicators of construction activity, information obtained on building firms in Port-au-Prince, as well as the ability of the industry to meet the needs generated by the BCI.

A. LEVEL OF ACTIVITY

The contribution of the construction sector to the Gross Domestic Product (GDP) is an indication of how well the sector is doing in relationship to the over all economy. A substantial improvement occurred between 1967 when the construction sector contributed 1.7 percent (\$10.7 million) of the GDP and 1980 when the sector contributed 5.5 percent (\$57.5 million). This results in an average annual growth rate of 13.9 percent for the construction sector as compared to 4.1 percent for the national economy during the same period. (Table 4) There has been a decline in actual production (15.3 percent) since 1980 as part of the general decline in economic activity resulting from the world wide economic problems. Indications are that activity during 1983 within the sector has dropped slightly below the 1982 level of \$48.8 million.

Use of cement, one of the locally produced building materials, is a primary indicator of construction activity in Haiti. As indicated in Table 5, the use of cement increased from 37.298 Metric Tons (9.2 Kg. per capita) in 1966 to 230.350 MT (46.0 Kg. per capita) in 1979. Because of the decrease in demand, production has decreased by a little more than 15 percent since 1980. The consumption of cement is primarily by the private sector which used an average of 85.9 percent of cement production between 1968 and 1982.

Another indication of construction activity is the number of building projects registered with OFATMA, the public agency which provides worker compensation insurance in Haiti. Table 6 indicates that there has been a steady increase in the number of projects, with the exception of 1975 and 1976, from 159 in 1970 to 620 in 1980. It is likely that only about 20 to 30 percent of formal sector projects are registered with OFATMA and that these are usually the larger projects. If this is the case, then there were more than 2,000 construction projects in 1980.

The above data shows that the construction sector enjoyed impressive growth in relation to the economy as a whole between 1967 and 1980. Even though there has been a decrease in activity during the last three years, it is felt that the capacity of the industry has been maintained.

B. CONTRACTORS AND BUILDING FIRMS

It is not possible to establish a complete listing of firms involved in construction in Haiti since much of the building, especially in lower income neighborhoods, is done through the informal sector. The College of Architects and Engineers does maintain a registry of organizations involved with design and construction in Haiti.

TABLE 4
CONTRIBUTION OF THE BUILDING AND PUBLIC WORKS
SECTOR TO THE GDP
1955-1982
(in thousands of 1976 U.S. dollars)

YEAR	BUILDING & PUBLIC WORKS	PERCENTAGE OF TOTAL GDP	TOTAL GDP
1955	8,732	1.5	565,456
1960	14,689	2.4	621,388
1965	14,052	2.2	633,323
1966	10,773	1.7	637,791
1967	10,665	1.7	623,958
1968	11,436	1.8	644,146
1969	14,405	2.2	668,702
1970	17,547	2.6	673,058
1971	20,120	2.8	716,671
1972	23,373	3.2	723,386
1973	30,869	4.1	757,831
1974	39,473	4.9	801,818
1975	41,062	5.1	810,708
1976	45,215	5.1	879,205
1977	46,800	5.3	888,000
1978	50,800	5.5	924,200
1979	56,000	5.6	992,400
1980	57,600	5.5	1,053,400
1981	57,000	5.6	1,021,800
1982	48,800	4.8	1,017,600

Source: IHSI, unpublished data

TABLE 5
 PRODUCTION AND CONSUMPTION OF PORTLAND CEMENT IN HAITI
 1955-1980

Year	PRODUCTION (Metric Tons)	CONSUMPTION (Metric Tons)	CONSUMPTION PER CAPITA (Kilograms)
1955	32.518	30.665	9.1
1960	53.860	52.595	14.5
1961	49.982	50.636	13.8
1962	56.585	55.550	14.9
1963	50.484	54.591	14.4
1964	56.170	51.604	13.4
1965	42.129	49.289	12.6
1966	38.369	37.800	9.5
1967	35.203	37.298	9.2
1968	46.183	40.631	9.9
1969	54.790	51.414	12.4
1970	64.879	62.629	14.8
1971	72.614	72.975	16.9
1972	88.816	84.616	19.4
1973	125.991	128.208	28.9
1974	138.460	141.151	31.3
1975	154.421	144.656	31.6
1976	245.810	162.274	34.8
1977	267.995	170.671	35.9
1978	246.538	191.864 est.	39.7 est.
1979	237.464	220.957 est.	44.9 est.
1980	242.945	230.350 est.	46.0 est.
1981	229.000	-	-
1982	206.000	-	-

Sources: a.) Production: 1955 in Austroplan I, p.79;
 1956-1974 in IHS, unpublished
 data; 1980 in DCT, Bulletin No.
 18, p.21

b.) Consumption: 1955-1971 in IHS, 1974, p.145;
 1972-1973 in IHS 1977, p.200;
 1974-1978 in IHS, unpublished
 data; 1979-1980, estimations
 based on production (Archives
 IHS/DCI, exportations (Archives
 AGD).

TABLE 6
CONSTRUCTION PROJECTS REGISTERED WITH OFATMA
1970-1980

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
First Quarter	41	63	84	98	83	116	105	168	85	169	162
Second Quarter	37	43	130	115	128	117	93	132	134	131	139
Third Quarter	44	64	88	113	115	103	100	132	199	145	184
Fourth Quarter	37	75	122	82	112	60	72	95	153	112	135
TOTAL	159	245	424	408	438	396	370	527	571	557	620

Sources: Unpublished data of OFATMA (1970-1980) and the IHS (1970-1979), and various issues of Bulletin Trimestriel de Statistiques

At the present time, there are 125 firms registered with the College. Table 7 gives the breakdown of the firms by the size of projects they can undertake. It is estimated that only 39 of the firms at present can handle projects larger than 5 units with the rest of the firms offering limited construction services or design services only. In addition to this, there are several hundred artisans and individuals operating in the informal sector doing repairs, additions and building basic housing units. If the registered firms operated at full production, they would have a capacity of 1,500 to 2,000 units per year. In many cases, output has been limited by the lack of project financing, so it is likely that production could be increased if a source of construction financing and mortgages were available.

The concept of developing a larger site which could then be divided into smaller sections of 5 to 10 plots and sold to small builders was discussed with builders and officials. This has never been tried in Port-au-Prince but was felt to be a workable idea deserving further study. One suggestion was that the EPPLS develop the land which could then be sold to private builders. This approach could help to solve some of the infrastructure and servicing problems discussed in Section V.C.

C. ABILITY OF THE CONSTRUCTION SECTOR TO MEET THE DEMAND GENERATED BY THE BCI

The demand which might be generated by the founding of the BCI was calculated using the savings mobilization scenarios in the Capital Consult proposal (Table 11) for the Bank. Table 8 gives the amount available for long-term residential mortgages. The largest amount would be available in the first year of the maximum scenario. Tables 9 and 10 illustrate two options for the distribution of funds between 6 different housing types. Option 1 (Table 9) is a more conservative approach which concentrates lending activity during the first two years in the upper income groups, thus reducing the workload and risks while the bank is being established. In the third year, 5 percent of funds would be made available for low income families. Option 2 would make funds available for small mortgages from the start of operations thereby increasing the number of mortgages to be processed by almost 47 percent for the first year. The largest number of loans (463) would be generated the first year of the maximum scenario of Option 2.

If the construction industry can satisfy the demand generated by this option, it would be able to handle the demand of other possibilities since they would produce fewer units. A comparison with the past performance of the sector and its present capacity indicate that the production of 463 units in the first year is possible. The total value of the proposed units would be \$5,468,750 which is 11.2 percent of the output of the sector in 1982. Also, the maximum number of units is less than 1/3 of the projected potential (1,500 to 2,000 units) of the industry.

The following is a breakdown of how the goal of 463 units might be met. The maximum allowable loan would be \$50,000 which at \$9,449 per unit would finance a maximum of 53 units.

NUMBER OF FIRMSIZE OF PROJECT UNITS PRODUCED

3	50	150
5	20	50
12	5	60
Individual mortgages		<u>153</u>
TOTAL		463

Due to the lead time needed for the development of projects, it is possible that units would not be ready for financing in time to meet the projected lending targets. This would not be a problem after the first year since the BCI could work with developers to coordinate the production of units. From a technical point of view, it is felt that a reduced number of mortgages in the first year of operations with increases during later years would be desirable, thus allowing the BCI staff more time to perfect procedures and developers time for project preparation.

TABLE 7
CONSTRUCTION AND BUILDING FIRMS IN PORT-AU-PRINCE

CATEGORY	CAPACITY	NUMBER
1	Projects of 50 units or more	6
2	Projects of 10-50 units	12
3	Projects of 5-10 units	21
4	Projects of 1-5 units or design firms	<u>86</u>
TOTAL		125

TABLE 8

BCI FUNDS AVAILABLE FOR LONG TERM RESIDENTIAL LENDING
(in U.S. \$)

	MINIMUM SCENARIO			MAXIMUM SCENARIO		
	FIRST YEAR	SECOND YEAR	THIRD YEAR	FIRST YEAR	SECOND YEAR	THIRD YEAR
Capital	750,000	375,000	375,000	1,250,000	625,000	625,000
Savings	3,000,000	1,000,000	1,000,000	5,000,000	2,000,000	2,000,000
Grants	1,000,000	1,000,000	-	1,000,000	1,000,000	-
SUBTOTAL	4,750,000	2,375,000	1,375,000	7,250,000	3,625,000	2,625,000
Reserve Fund (20% of Deposits)	[600,000]	[200,000]	[200,000]	[1,000,000]	[400,000]	[400,000]
SUBTOTAL	4,150,000	2,175,000	1,175,000	6,250,000	3,225,000	2,225,000
Short & Medium Term Loans (30%)	[1,245,000]	[652,500]	[352,500]	[1,875,000]	[967,500]	[667,500]
Long Term Loans	2,905,000	1,522,500	822,500	4,375,000	2,257,500	1,557,500
Portfolio Amerti- zation	-	415,000	692,000	-	625,000	1,037,000
Total for Long Term Loans	2,905,000	1,937,500	1,514,500	4,375,000	2,882,500	2,594,500
Maximum Size of Loan (10% of Saving)	300,000	400,000	500,000	500,000	700,000	900,000

TABLE 9
DISTRIBUTION OF BCI FUNDS - OPTION 1

UNIT	MINIMUM SCENARIO						MAXIMUM SCENARIO					
	FIRST YEAR AMOUNT	YEAR UNITS(%)	SECOND YEAR AMOUNT	YEAR UNITS(%)	THIRD YEAR AMOUNT	YEAR UNITS(%)	FIRST YEAR AMOUNT	YEAR UNITS(%)	SECOND YEAR AMOUNT	YEAR UNITS(%)	THIRD YEAR AMOUNT	YEAR UNITS(%)
A	-	-	-	-	75,725	41(28.5)	-	-	-	-	129,725	71(28.4)
B	-	-	96,875	25(20.2)	151,450	37(25.7)	-	-	144,125	36(19.6)	259,450	63(25.2)
C	726,250	64(39.2)	484,375	41(33.1)	378,625	30(20.8)	1,093,750	97(39.4)	720,625	61(33.1)	648,625	52(20.8)
D	1,452,500	80(49.1)	871,875	46(37.0)	605,800	30(20.8)	2,187,500	121(49.2)	1,297,125	69(37.5)	1,037,800	52(20.8)
E	435,750	14(8.6)	290,625	9(7.3)	151,450	4(2.8)	556,250	21(8.5)	432,375	13(7.1)	259,450	8(3.2)
F	290,500	5(3.1)	193,750	3(24.0)	151,450	2(1.4)	437,500	7(2.9)	288,250	5(2.7)	259,450	4(1.6)
TOTALS	2,905,000	163(100.0)	1,937,500	124(100.0)	1,514,500	144(100.0)	4,375,000	246(100.0)	2,882,500	184(100.0)	2,594,500	250(100.0)
AVERAGE MORTGAGE	17,822		15,625		10,517		17,885		15,665		10,378	

TABLE 10
DISTRIBUTION OF BCI FUNDS - OPTION 2

UNIT	MINIMUM SCENARIO						MAXIMUM SCENARIO					
	FIRST YEAR AMOUNT	UNITS(%)	SECOND YEAR AMOUNT	UNITS(%)	THIRD YEAR AMOUNT	UNITS(%)	FIRST YEAR AMOUNT	UNITS(%)	SECOND YEAR AMOUNT	UNITS(%)	THIRD YEAR AMOUNT	UNITS(%)
A	145,250	88(28.7)	96,875	56(28.6)	75,725	41(28.5)	218,750	132(28.5)	144,125	83(28.4)	129,725	71(28.4)
B	290,500	77(25.1)	193,750	49(25.0)	151,450	37(25.7)	437,500	116(25.0)	288,250	73(25.0)	259,450	63(25.2)
C	726,250	64(20.8)	484,375	41(20.9)	378,625	30(20.8)	1,093,750	97(30.0)	720,625	61(20.9)	648,625	52(20.8)
D	1,162,000	64(20.8)	775,000	41(20.9)	605,800	30(20.8)	1,750,000	97(30.0)	1,153,000	61(20.9)	1,037,800	52(20.8)
E	290,500	9(2.9)	193,750	6(3.1)	151,450	4(2.8)	437,500	14(3.0)	288,250	9(3.1)	259,450	8(3.2)
F	290,500	5(1.7)	193,750	3(1.5)	151,450	2(1.4)	437,500	7(1.5)	288,250	5(1.7)	259,450	4(1.6)
TOTALS	2,905,000	307(100.0)	1,937,500	196(100.0)	1,514,500	144(100.0)	4,375,000	463(100.0)	2,882,500	292(100.0)	2,594,500	250(100.0)
AVERAGE MORTGAGE	9,463		9,885		10,517		9,449		9,871		10,311	

V. POSSIBLE CONSTRAINTS TO HOUSING PRODUCTION

A. BUILDING MATERIAL SUPPLY

At least a portion of all materials used in housing construction is imported. Several of the primary materials are manufactured or processed in Port-au-Prince but the raw materials or energy requirements are imported. These materials which include cement, reinforcing bars, PVC pipes and corrugated metal roofing are the only materials with controlled prices set by the government. The prices of all other materials are not fixed but operate on the free market. Because of deforestation, Haiti which at one time exported wood now imports almost all wood used in housing construction. Some of the larger builders have started using imported metal scaffolding since even the wooden poles traditionally used for this purpose are in short supply.

Because the import component is different for various materials, it is difficult to determine the exact percent of imported materials used in residential construction. It is estimated that for an upper middle income residence costing \$21,000, the import component would be above 34 percent of the actual construction costs but about 25 percent of the total costs of the unit when other costs such as administration, builder profit, land and finance are included.

The system of building materials supply is well established in Port-au-Prince with a total of 61 firms scattered around the city. Of this number, there are five large companies which supply the full range of materials needed by contractors. The other 56 are smaller and specialize in the supply of certain materials only. The existing system was able to meet the increased demand for materials during the active period of construction in the late 1970s. There were short periods of 2 weeks to a month when certain materials were not available, but there were no long delays of projects because of supply problems. Annual inflation in building materials during this period ranged from 10 to 15 percent but prices have stabilized with the decrease in economic activity.

Because there is an import component of all building materials, a potential problem could be created for the construction sector by a lack of foreign exchange to finance imports. There have been no problems up to this time, but it is becoming more difficult for suppliers to obtain needed foreign exchange. In the past, many of the smaller establishments would order and import their own stock but now are buying wholesale from the large firms. As the proposal for the BCI develops, it will be important to review carefully the foreign exchange situation in Haiti.

B. LAND AVAILABILITY

The availability of land will be a problem because of the rapid growth of Port-au-Prince and because of the existing natural barriers to development. The ocean to the north and the mountains to the south and west limit expansion in these directions. The only direction left for expansion is to the east along the Delmas Road, Petionville, a suburb to the southeast of the city, and the plain beyond the airport. Since cadastral surveys and land registration are just beginning in Port-au-Prince, it is not possible in a short time to ascertain the location and quantity of land available for development. A tour of the area indicated that there is a considerable amount of vacant land within a short

distance of the main roads. Some of this land has been subdivided and sold while some is owned by builders who are waiting for the appropriate time to start development. There are also many structures in various stages of completion. Since financing is not available, construction is done in stages as funds permit. As development moves further from the center of the city, the problems of access and servicing which are discussed in the next section become more severe.

Likewise land costs vary greatly depending on the location within the city. Prime commercial land in the center of the city can cost as much as \$25 to \$50 per square meter. Land off the Delmas Road goes for between \$3.20 and \$1.20 per square meter depending on the distance from the road. The least expensive land is beyond the airport in the plain which sales for between \$1.20 and \$.80 per square meter. The tradeoffs between lower land cost and increased costs of servicing will need evaluation in the selection of projects.

C. INFRASTRUCTURE AND SERVICES

Government services are not adequate to meet the ever increasing demand of the expanding population of the city. Systems are inadequate in the older sections of the city and are often not available to new neighborhoods. One community along the Delmas Road has organized and is raising money to pave the main roads.

Availability of potable water is one of the main problems in Port-au-Prince. In many neighborhoods, residents must purchase water from private vendors at inflated prices. It is not likely that the city's already over taxed system will be extended into many newly developed areas. It will, therefore, be the responsibility of the developer to provide this service in most cases. This has been done or is planned for some of the larger developments by drilling wells and building water towers. This expense is added to the cost of the units. For smaller projects, this would not be feasible, thus requiring coordination on the part of the developers.

There is no sanitation system in Port-au-Prince so units are served by on-site systems such as pit privies or septic systems. Some projects have large communal septic systems which serve a group of houses. Care must be taken to assure that septic systems do not contaminate on-site wells which provide drinking water.

The distribution system for electricity covers most of the city. Providing electrical service is not seen as a major problem.

The transport system which consists primarily of brightly painted small trucks is privately owned and operated. It is felt that such service will be provided once an area has sufficient population to make it profitable.

D. ADMINISTRATIVE AND LEGAL CONSTRAINTS

The institutional capacity to direct and monitor urban growth in Port-au-Prince is very limited. Private development will continue but possible problems with land acquisition and registration particularly for larger projects could arise. Since there are limited zoning and building controls, the BCI will be required to institute a detailed review process to protect its investment.

Also, development can be limited by the existing legislation. It is noteworthy that Haitian law prohibits condominiums. All buildings must be owned by one person or legal entity. This has served to discourage construction of large buildings, especially apartment houses. The Minister of Finance recently requested a draft law in order to consider a change to permit condominiums.

VI. THE BCI

The need for a specialized housing finance institution in Haiti has long been recognized. After considerable preparation, in 1976 the Haitian government actually authorized the establishment of a National Housing Bank (BDL) which was designed as a public sector depository institution to handle middle-class shelter programs. The BDL was never capitalized. The current push to create the BCI has largely evolved from the difficulties of trying to establish the BDL, and reflects a reorientation towards private sector control of the institution.

For the past two years, considerable discussion of the idea has taken place between representatives of the Haitian government and the private sector, resulting in an agreement in principle for the public sector to control 10 percent of the institution, and the private sector 90 percent. The GOH would sell its 10 percent interest within five years on a pre-arranged schedule.

Ownership would be on a stock basis and an initial authorization of \$1.5 million in shares has been proposed. The BCI is envisioned as a profit-making depository institution focusing on the housing market.

A July, 1983 study by Capital Consult identified six different economic groups with a total of 410 to 510 potential investors. Based on this study, as well as the recent success of the Haitian Development Finance Corporation in raising \$1 million in stock capital with 142 investors, it is quite reasonable to anticipate that a BCI stock issue would attract the authorized amount of capital.

Detailed study to determine the appropriate structure and specific operational orientation for the BCI began in August, 1983, and has thus far resulted in a preliminary outline of the BCI's operational approach.

A. LENDING POLICIES

It has been proposed that the BCI invest 70 percent of its net deposits in long term mortgages varying from six to fifteen years at interest rates sufficiently above the institution's cost of funds to assure it a profit. It has been suggested that of those funds allocated for long term mortgages, 15 percent of net deposits would be used to fund industrial plants (6-10 year terms) with the remaining 55 percent being used for housing finance.

Loan amounts would be limited to 70 percent of the lesser of purchase price or appraised value of the property which will secure the loan. The institution might eventually consider higher loan to value ratios if a satisfactory mortgage insurance plan is implemented.

All loans would carry variable rate and variable payment provisions.

A principal category of financing for the BCI will be construction lending for both projects and individual residences. No loan for whatever purpose would exceed 10 percent of the institution's net deposits.

Funds extended for construction could be rolled over to long term residential loans in cases where creditworthy households applied for financing to purchase individual units.

The remaining 30 percent of net deposits would be invested in short term (one year or less) and medium term (one to five years) loans.

These loans would be mostly for household purposes such as purchase of furniture and appliances, and making home improvements. However the BCI would have the capacity to lend for nonhousehold items such as short term loans to its depositors for business or personal needs as well.

At present, lending rates in Haiti's banking sector vary from 15 to 18 percent p.a., depending on the client, security and nature of the loan. It is anticipated that the BCI's lending rates would roughly parallel those of other financial institutions.

B. SAVINGS MOBILIZATION

Various studies of the feasibility for a housing finance institution have been made in recent years. Estimates of the amount of savings that such an institution could expect to capture in its first three years of operations vary as follows:

Table 11
SAVINGS MOBILIZATION FOR THE BCI
(in millions of U.S. dollars)

	<u>GABAY STUDY</u>	<u>SEMA STUDY</u>	<u>CAPITAL CONSULT STUDY</u>
Year One :	\$1.0	\$ 1.3	\$3.0
Year Two :	2.0	2.6	1.0
Year Three:	3.0	3.0	1.0

The Capital Consult study offers the best explanation of why it is quite reasonable to expect at least \$1 million per year of new savings for the BCI.

Referring again to Table 1, one can see the growth of deposits in the banking system. Assuming that the BCI does not offer checking accounts until it has established a stable savings base, the institution would be competing for savings and term deposits only.

The sum of these last two categories as of September, 1982 was \$215.7 million. The BCI would be the eighth depository institution competing for funds in the market. An even distribution of that market would give each institution a 12.5 percent share. Given the strong demand for housing in Port-au-Prince and the fact that the BCI would be the only institution offering long term funds for housing, it is anticipated that the institution will receive both savings transfers from other banks, as well as new savings from persons seeking residential mortgages.

The Capital Consult hypothesis calls for the BCI to capture from 1 to 1.5 percent of the market in its first year, equivalent to between \$2.2 and \$3.3 million based on the total of savings and term deposits existing in September, 1982.

Capital Consult points out that the Banque de l'Union, a Haitian commercial bank, attracted 10 percent of the entire savings deposits in the market during its first year of operations.

Over and above the fact that the BCI would offer competitive yields to draw savers, the institution would have the unique attraction of being the only source of long term housing credit in the market. This is truly a significant factor, and not only should it result in the BCI gaining a proportionate share of new savings, but it is anticipated that a good number of depositors would transfer funds into the BCI in anticipation of obtaining housing finance.

Outside the individual savings market, a number of potential sources of funds can be identified:

1. Sale of mortgage backed obligations to the ONA and insurance companies;
2. Authorization of investment by the commercial banks of a portion of their required reserves in mortgage backed obligations of the BCI;
3. Compulsory savings programs directing a portion of workers salaries to be matched by employers and paid into a Social Housing Fund;
4. BCI management of pension fund assets with a corresponding home loan program for the funds' beneficiaries;
5. Use of the Central Bank as a discount/liquidity agent for the BCI.

Except for the last two suggestions, these proposed funding sources would require considerable technical preparation and assistance as well as legislative changes.

VII. THE BCI TARGET POPULATION

Given that all but the very wealthiest of Haitians are inadequately housed or have no access to housing finance, a newly established BCI would have a basically wide open market to operate in.

A. SELECTION OF A MARKET FOR THE BCI

One of the institution's first managerial decisions will be to define the segment or segments of the market on which it wishes to focus its efforts.

Part IV of this report discusses the overall capacity of the Haitian construction and materials industries as well as their ability to deliver housing units at various price levels.

Based on two scenarios of funds available for long term mortgage lending, Tables 9 and 10 are reflective of two somewhat different operating approaches. In order to consider the maximum amount of residential construction that the BCI could generate, as well as how that amount would relate to the capacity of the construction sector, Tables 9 and 10 were calculated with the full 70 percent of net deposits allocated for housing.

Table 9 could be termed a more conservative approach, restricting the BCI's lending activity to relatively middle and upper income households. Only in its third year of operations would the BCI direct 5 percent of its long term funds into the low income (defined as below the median level) category.

Repayment rates on existing low income housing projects in Haiti are at best 80 percent, and apparently often well below that level. Furthermore, the amount of work involved in processing and servicing low balance loan amounts, financed with interest bearing depository funds make it extremely difficult for a financial institution to profitably function in the low income sector.

Table 10 reflects a less conservative scenario under which the BCI would allocate 5 percent of net deposits for low income housing from the outset. The impact on the operations of the institution can best be seen by noting that in year one, 28.5 percent of the institution's long term lending, or 132 out of 463 loans would be generated by that 5 percent investment, based on the maximum investment scenario.

The case presented by Table 9 allows the BCI two years to acquire managerial expertise and operational efficiency before taking on a relatively heavy caseload of loans.

Even with 100 percent payment recovery and well managed computerized operations, from a financial management perspective, making low balance loans is very costly to a financial institution, and it will seek more cost effective investments.

As previously stated, the BCI has been proposed as a stock ownership, profit oriented institution. If the goal of the BCI will be to maximize profits, then it stands to reason that its lending will be focussed on upper middle and upper income clients.

B. BENEFITTING LOW INCOME HOUSEHOLDS

In working to establish a housing finance institution in Haiti, the three main support groups, the GOH, USAID and the private sector supporters of the idea have shared the view that such an institution is sorely needed and would act as an economic catalyst by stimulating the construction industry while providing an essential service to Haitians in need of housing.

The goal of USAID (at least in part), is more specifically for the institutions to serve low income Haitians. The difficulty then becomes how to accomplish this goal without handicapping the BCI.

Several suggestions have been raised regarding a possible role for the BCI in reaching low income households. While the institution might not be expected to use its own funds for this purpose, the issue of avoiding high administrative costs could possibly be dealt with according to these ideas:

1. It has been suggested that a special window or department be organized at the BCI specializing in low-cost shelter financing. This department would be strongly supported by AID funded technical assistance (TA) relieving the BCI of some of the operational costs associated with it.

2. Work through a private voluntary organization (PVO) or housing cooperative, assigning responsibility to that institution for loan administration and servicing, with the BCI receiving one monthly remittance consisting of all the payments collected.

3. Use the EPPLS in much the manner described in option 2.

Each of these options has some drawbacks, but they are presented only as food for thought. It is likely that additional options will be offered as part of a more detailed evaluation of this subject at the PID (Project Identification Document) stage, presently scheduled for November, 1983.