

XD-AAR-843-A
ISN 41451

EVALUATION
JAMAICA - URBAN & RURAL SHELTER IMPROVEMENTS
PROJECT NO. 532-HG-011

000104

Evaluated by:

D. McVoy
R. Dubinsky

TABLE OF CONTENTS

- I. SUMMARY - FINDINGS AND RECOMMENDATIONS
 - A. Overall Findings
 - B. Specific Immediate Action Recommendations
- II. BACKGROUND
 - A. Original and Revised Project
 - B. Evaluation Methodology
- III. PROJECT DESCRIPTION
 - A. Project Components
 - B. Significant Actions and Dates
- IV. INPUTS AND OUTPUTS
 - A. Planned Inputs and Outputs
 - B. Actual Inputs and Outputs To Date
- V. SITE SELECTION, DESIGN AND CONSTRUCTION
 - A. Settlement Improvement
 - B. New Schemes
 - C. Build On Own Land
 - D. Construction
 - E. Affordability
- VI. FINANCING
 - A. Summary
 - B. Allocation Of Financial Resources
 - C. Terms and Procedures
 - D. Findings and Recommendations
- VII. MARKETING, BENEFICIARY SELECTION AND LOAN ORIGINATION
 - A. Summary
 - B. Procedures, Beneficiary Selection and Status
 - C. Findings and Recommendations
- VIII. LOAN SERVICING
 - A. Summary
 - B. Servicing Arrangements
 - C. Findings and Recommendations
- IX. PROGRESS TOWARDS POLICY GOALS AND FULFILLING COVENANTS
 - A. Policy Goals
 - B. Fulfilling Covenants
- X. UNPLANNED EFFECTS
 - A. GOJ Budget Cuts
 - B. Marketing of Project 532-HG-010

ACRONYMS

AGENCIES AND INSTITUTIONS

MINISTRY OF CONSTRUCTION (HOUSING)	MOC(H)
JAMAICA MORTGAGE BANK	JMB
NATIONAL HOUSING TRUST	NHT
ESTATE DEVELOPMENT COMPANY	EDCO
SUGAR INDUSTRY HOUSING LIMITED	SIHL
CONSTRUCTION AND MAINTENANCE DIVISION (MOC(H))	CMD
TASK FORCE FOR MARKETING	TF
ESTATE MANAGEMENT DIVISION (MOC(H))	EMD
COMMUNITY SERVICES DIVISION (MOC(H))	CSD
CARIBBEAN HOUSING FINANCE CORPORATION	CHFC
JAMAICA COOPERATIVE CREDIT UNION LEAGUE	JCCUL
CREDIT UNIONS	CU

PROGRAM

SQUATTER SETTLEMENT IMPROVEMENT COMPONENT	SI
NEW SCHEMES COMPONENT	NS
BUILD-ON-OWN-LAND COMPONENT	BOL
START-A-HOME (CORE UNIT)	SAH
HOME IMPROVEMENT LOAN/MORTGAGE	HIL/M
GRADUATED PAYMENT MORTGAGE	GPM
AID HOUSING GUARANTY LOAN	AID/H

11

I. SUMMARY - FINDINGS AND RECOMMENDATIONS

A. OVERALL FINDINGS

The Government of Jamaica devoted substantial effort to a review of its policies and programs in the shelter sector and subsequently in October 1982 adopted a new National Housing Policy. This new policy sets a framework for Government intervention in the shelter sector and provided initial guidance for some institutional realignment. This project, 532-HG-011, was launched concurrently with the beginning of the implementation of the new National Housing Policy.

The project was redesigned to assist the GOJ in translating the policy into practice. Significant positive changes which reflect policy objectives have been initiated since the adoption of the policy. However, two years into implementation under the new policy, the institutional restructuring has not fully resolved the problems of lack of clear management control, cost recovery on Government projects and unnecessary duplication of functions among institutions. The complexities of the numerous institutions and their relationships exacerbate the problem of improving the efficiency of implementation of the housing programs.

Although many of the construction and delivery functions have been improved in this project, the finance, marketing and mortgage servicing institutions and operations remain extremely complex.

The National Housing Policy sets forth a broad framework for the provision of housing finance and the definition of appropriate roles of public sector shelter institutions. To date, this project has shown that the problems are more complex than anticipated in the policy and that the institutions (and framework) as now constituted need modification and reorganization to achieve policy goals.

RECOMMENDATION:

The roles and functions of the Government finance and production agencies should be reviewed to determine their capacity to carry out the goals of the housing policy. Such review should lead to recommendations on restructuring and or consolidation of these institutions as appropriate to allow them to be able to implement the Governments shelter program in an efficient and effective manner. (See VIII. Goals & Covenants B.2)

B. SPECIFIC IMMEDIATE ACTION RECOMMENDATIONS

1. Reductions to Meet Budget

RECOMMENDATION:

Estimated total costs for the New Schemes Component exceed the budgeted AID/HG Loan amounts. This component requires close monitoring and probably a reduction in size to remain within budget. (See IV. Site Selection, Design and Construction, B.7).

2. Build-On-Own Land Flexibility

Recommendation:

Under the Build-On-Own Land Component, client/buyers are asked to accept completed Start-A-Homes with kitchens and baths regardless of the availability of piped water to the site and the clients ability to use the facilities. More flexibility should be allowed to tailor the units provided to the client/buyers needs. (See IV. Site Selection, Design and Construction, C.3).

3. Build-On-Own-Land Progress

RECOMMENDATION:

Start-a homes construction within the BOL component has lagged. Consideration should be given to SIHL taking over at least part of the construction. (IV. Site Selection, Design and Construction, C.5)

4. Planning and Construction Responsibilities

RECOMMENDATION:

The Housing Policy and the Memorandum of Agreement are consistent in that they call for MOC(H) getting out of the direct planning and construction work. MOC(H) should, at this time, examine the operations of the Construction and Maintenance Division (CMD) and determine whether CMD or the parastatal production agencies (EDCO and SIHL) should do the direct planning and construction work. (See IV. Site Selection, Design and Construction, B.1).

5. Marketing

RECOMMENDATION:

The Task Force (TF) should carefully examine each step in its process of delivering lots or units to the beneficiary and seek ways to simplify and speed up the process. This may involve a system where various activities related to a project are pursued in parallel. The use of critical path analysis for each project might be useful in streamlining the process. The TF and MOC(H) should make every effort to focus staff resources on completing the legal paperwork and property acquisition for projects where construction is complete so that they can be sold. Emphasis must be given to HG-010 projects to assure they are completed. (See VI. Marketing. C.1 & 2 & IX. Unplanned Effects).

6. MOC(H) and CHFC Agreement

RECOMMENDATION:

MOC(H) and CHFC should execute an agreement clarifying their roles, responsibilities and liabilities. The agreement should specifically deal with the extent of the liability that CHFC has to make payments under promissory notes issued to MOC(H) for each of the project components. The agreement should also make clear that MOC(H) will ultimately provide splinter titles for all units/lots sold so that CHFC will have adequate security for the loans it originates. (See VI. Marketing, C.3 and 4 & VII. Loan Servicing, C.1).

7. MOC(H) and NHT Agreement

RECOMMENDATION:

NHT and MOC(H) should execute an agreement clarifying their roles and responsibilities. The specific project and/or unit purchases and the role that AID/HG funds have played in financing each activity should be identified and a project completion schedule prepared. This would establish a more formal relationship for HG-011 projects and could serve as the basis for future undertakings between the two organizations. (See VI. Marketing, C.5 & IV. Financing, D.2).

8. NHT and JCCUL Agreement

RECOMMENDATION:

An Agreement between NHT and JCCUL should be executed as quickly as possible so that implementation of the component can begin. Loan servicing arrangements should be made as administratively simple as possible. (See VI. Marketing, C.6 & VII. Loan Servicing, C.2 & V. Financing, D.2.).

9. JMB and JCCUL Agreement

RECOMMENDATION:

Concurrent to the NHT/JCCUL Agreement, JMB and JCCUL should resolve the question of interest rate to be charged by the JMB for the HG funds and conclude their loan agreement. (See VI. Marketing, C.6 and 7, & V. Financing, D.2)

10. JMB Responsibilities

RECOMMENDATION:

The Implementation Agreement designates the Jamaica Mortgage Bank (JMB) as Borrower. The Ministry of Construction (Housing) (MOC(H)) is the key implementing agency along with its production agencies and the task force. Project analysis, information collection, project reporting and general coordination are now actually carried out by the MOC(H) Policy Secretariat, not by the Borrower (JMB). The MOC(H) should coordinate its monitoring and reporting activities with the JMB to assure that the Borrowers' reports to AID meet the requirements of the Implementation Agreement and take account of the staff capacities of the two organizations to monitor the program. (See VII. B. Fulfilling Covenants)

C. OTHER RECOMMENDATIONS

RECOMMENDATION:

In preparation for new settlement improvement projects (532-HG-012) a concerted effort should be made to apply the experiences from these and previous projects and coordinate the type of water supply provided with the availability of sanitary waste disposal. (See IV. Site Selection, Design & Construction, A.3).

RECOMMENDATION:

EDCO, in conjunction with contractors who own their own prefabricated systems, should conduct a thorough analysis of core house unit design and construction alternatives and develop a more economical and flexible approach to core housing for HG-012. (See IV. Site Selection, Design & Construction, B.5.)

RECOMMENDATION:

It is important to determine just how the unrealized gain of Jamaican dollars which result from devaluation will be used. (V. Financing, D.1)

RECOMMENDATION:

IMMEDIATE ACTION - All agreements between participating institutions should be concluded as quickly as possible. (V. Financing, D.2)

RECOMMENDATION:

JCCUL should complete loan agreements with JMB and NHT. JCCUL and JMB should agree on the interest rate that will be in effect. One approach worth exploring to reduce the cost of JCCUL borrowings might be to ask NHT to increase its contribution beyond 50 percent so that the lower NHT interest rate could offset the potential increased cost of JMB borrowing and allow the JCCUL and the credit unions to earn a reasonable spread on the funds. (V. Financing, D.4)

RECOMMENDATION:

Long term cash flow projections should be developed under various scenarios to determine the likely gap between HG servicing requirements and reflows. (V. Financing, D.4)

RECOMMENDATION:

In general, informal contact between the agencies (CHFC & MOC) should be improved. Specifically, the proposed arrangement whereby for SI projects, CHFC will be sent Notifications of Sales should be implemented on a timely basis. (VI. Marketing, Beneficiary Selection & Loan Organization, C.4)

RECOMMENDATION:

While there is no way to readily resolve the potential resentment that may be generated, the MOC(H) ought to be prepared to explain to buyers the basis and reason for the different terms between HG-010 and HG-011 improved lots. (VI. Marketing, Beneficiary Selection & Loan Organization, C.8)

RECOMMENDATION:

The MOC(H) should review and evaluate how the prices of units/lots are set and recommend means of simplifying the process that would not jeopardize the maximum cost recovery possible. The MOC(H) should calculate the costs of the subsidy arrangements that are presently being used and determine if they are appropriate or if a more cost effective or efficient system could be implemented. The GPM's should be closely monitored over time to ascertain whether the assumptions underlying their use, namely that incomes will continue to increase at some rate, are valid and that delinquency rates do not increase above acceptable limits. (VI. Marketing, Beneficiary Selection & Loan Organization, C.9)

II. BACKGROUND

A. ORIGINAL AND REVISED PROJECT

This project was originally authorized in September 1981 as a follow-on to Project 532-HG-010. The Project was originally designed to continue the Settlement Improvement and Land Ownership Component, and the Home Improvement Loan Component, the latter implemented entirely through the private sector. During 1981 technical assistance was provided to MOC(H) to assist in an examination and revision of the Jamaica National Housing Policy, including reassessing the roles of the various housing agencies. Significant progress was made toward establishing a framework for more rational policies and in February 1982 work was started on revising the original project so that it could provide support and substance to the anticipated new policy and its implementation. In October 1982, the new National Housing Policy was officially adopted by the GOJ. During that same month the Project was officially revised to add to the original components to provide:

- new construction of basic core houses in projects and on individual lots;
- a significant increase in GOJ inputs into comparable housing and to offset the cost of the AID/HG loan in onlending;
- technical assistance to help implement the program components, complete and sell MOC(H) unfinished projects, divest MOC(H) of much of its non-productive portfolio and implement the new policy.

B. EVALUATION METHODOLOGY

This evaluation was performed to measure progress of this project 1 1/2 years after signing the Implementation Agreement, based on a quantification and qualification of the project inputs and outputs. The purpose is to identify major issues and constraints in implementation and assess progress toward accomplishing the project purpose and the goal.

The methodology used involved the review of all basic project documents, PRE/H and RHUDO files, institutional records and reports and interviews with those currently responsible for project implementation. Where possible data and information were cross-checked through different sources to establish validity.

NOTE: All disbursements from the U.S. lender to date have been converted at the exchange rate of J\$1.78 = US\$1.00 and therefore that rate is used for all conversions in this paper.

III. PROJECT DESCRIPTION (From Implementation Agreement, Annex A, 1/83)

PROJECT PURPOSE

The specific purpose of the Project is to assist the GOJ and the Jamaican private sector to develop the institutional, financial, planning and implementation framework necessary to provide adequate shelter and related services for low income households whose income are below the median, established at J\$8,150 (US\$4,579) as of July 1983.

- A. PROJECT COMPONENTS (the numbers appearing below are illustrative and are subject to change within the terms of the Agreement).

Borrower and Financial Manager: Jamaica Mortgage Bank (JMB)

1. Squatter Settlement Improvement

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

The squatter improvement program will upgrade approximately 5,000 plots on various sites throughout the island. The amount of US\$4,200,000 of the Loan is reserved for this subproject. The GOJ will provide up to the equivalent of US\$12,680,000 for this subproject. Average price per unit will be J\$6,000 (US\$3,370). Sites will be selected utilizing the selection criteria identified in the Master Project Delivery Plan. The land and improvements should be affordable by squatter families with incomes down to the 5th percentile. Sales Agreements, to be replaced by long-term mortgages, will be originated and serviced by the CHFC.

Sub-Borrower and Implementation Manager: MOC(H)

Implementing Agents: EDCO, TF and CHFC

2. New Schemes

The new schemes subproject will provide approximately 1,600 core units and/or serviced plots located in the Kingston and St. Andrew area and other urban centers. The amount of US\$5,400,000 of the Loan is reserved for this subproject. The GOJ will provide up to the equivalent of US\$17,100,000 for this subproject. Maximum price per unit will be J\$25,500 (US\$14,325). In addition to a mix of starter homes to be developed in stages for lower income families, each project area could include larger, serviced plots for rapid

sale to households at or near the national urban median income. Criteria satisfactory to A.I.D. will be developed for the selection of sites under this project.

Units should be affordable by families whose income falls between the 25th and 50th percentile. Sales Agreements, to be replaced by long-term mortgages, will be originated and serviced by the CHFC and the NHT.

Sub-Borrower and Implementation Manager: MOC(H)
Implementing Agents: EDCO, CMD, CHFC AND NHT

3. Owner-Occupier/Build-On-Own Land

This subproject will finance approximately 1,100 owner-occupier core units (starter homes) scattered on individually-owned plots throughout the island. The amount of US\$3,150,000 of the Loan is reserved for this subproject. The GOJ will provide up to the equivalent US\$9,210,000 for this subproject. Average price per unit will be J\$20,000 (US\$11,236). It is planned to revive this program by conventional construction and subsequently by prefabricated components produced by rehabilitated and/or new prefabrication plants. The range of units to be made available will be affordable by families whose income is in the 40th to 50th percentile range. Sales Agreements, to be replaced by long-term mortgages, will be originated and serviced by the CHFC.

Sub-Borrower and Implementation Manager: MOC(H)
Implementing Agents: CMD, EMD AND CHFC

4. Home Improvement/Mortgage Loans

This subproject will provide approximately 1,250 home improvement and/or mortgage loans to members of credit unions belonging to the JCCUL. The amount of US\$2,240,000 of the Loan is reserved for this subproject. This will be matched by an equivalent contribution by the NHT in Jamaican Dollars. Average loan amount will vary depending on the type of loan (approximately J\$16,000 (US\$8,989) for mortgage loans and the median income. JCCUL and NHT will use their best efforts to arrange for co-financing in order to carry out this Project component.

B. SIGNIFICANT ACTIONS AND DATES

<u>DATE</u>	<u>ACTION/DOCUMENTATION</u>	<u>FUNDING</u>	
9/81	Authorization	AID/HG	US\$15,000,000
		GOJ	4,000,000
		OTHER	<u>900,000</u>
		TOTAL	\$19,900,000
6/82	Grant for Supporting Technical Assistance	AID	\$ 500,000
		GOJ	<u>168,000</u>
		TOTAL	\$ 668,000
10/82	National Housing Policy Adopted		
10/82	Project Revised By Action Memorandum	AID/HG	\$15,000,000
		GOJ	41,000,000
		OTHER	<u>2,500,000</u>
		TOTAL	\$58,500,000
1/83	Implementation Agreement Signed		
2/83	Implementation Letter No. 1		
2/83	Master Project Delivery Plan Submitted		
3/83	Host Country Guarantee Agreement Signed		
3/83	Loan Agreement Signed Investor: Payne Webber Terms: 5 Years at Floating Rate with Long Term to be Negotiated		US\$15,000,000
3/83	First Disbursement from U.S. Investor Advance to JMB US\$5,000,000 Eligible Mortgages - New Schemes US\$2,500,000		US\$ 7,500,000
9/83	Second Disbursement Eligible Expenditures 3,700,000 Held in Escrow in U.S. 3,800,000		7,500,000
6/84	Status Summary Advance to JMB 5,000,000 Eligible Mortgages 2,500,000 New Schemes Eligible Expenditures <u>3,700,000</u> Total Disbursed to JMB 11,200,000 Held in Escrow in U.S. <u>3,800,000</u> TOTAL \$15,000,000		

IV. INPUTS AND OUTPUTS

A. PLANNED INPUTS AND OUTPUTS - (See Table 1)

1. Beginning Inputs and Outputs

The October 1982 revised project planned inputs and outputs were established in the illustrative breakdown in the Implementation Agreement, Annex A, signed 1/83. These estimated target figures are tabulated in Table 1. At the time of the First Disbursement in 3/83 MOC(H) submitted 342 mortgages from a New Scheme type project (Catherine Hall) worth US\$2.5 million (J\$4,450,000) which was acceptable by AID as eligible mortgages under the terms of the Implementation Agreement. In addition AID authorized a US\$5 million (J\$8,900,000) advance for a total disbursement of US\$7.5 million (J\$13,350,000). Within this advance, an additional 86 mortgages at Catherine Hall were also reimbursed under the New Scheme component as eligible expenditures for completed works in place. The approval of the disbursement also accepted a reallocation of AID/HG funding in which US\$1.134 million (J\$2,018,000) was transferred from the Build-On-Own Land component to the New Schemes Component (See Table 2).

2. Reduced Inputs and Outputs - (See Table 2)

Table 2 indicates the reallocation of the AID/HG funding to the components; the current estimate of GOJ inputs and the revision of the planned outputs as of May 1984. As a result of severe cuts in the GOJ budget for housing, the direct and indirect inputs have had to be reduced. This has made it necessary to reduce the planned physical outputs for those components dependent on the budget. In the Settlement Improvement Component the physical outputs have been reduced from 5,000 lots to 1,450 lots; New Schemes Component reduced from 1,600 units to 709 units (of which 428 eligible mortgages have been accepted and 281 units remain to be produced); and Build-On-Own Land Component reduced from 1,000 units to 180 units. The Home Improvement Loans/Mortgages Component, which is not dependent on GOJ budget allocations, remains unchanged.

The GOJ inputs have been reduced for each component and are quantified as direct and indirect inputs. Direct inputs are those cash or in-kind contributions directly related to each component. This includes such things as government owned land, acquired private land, existing infrastructure investment, professional fees and administrative costs. Indirect inputs are the estimated value of those units and projects which are sold to NHT and CHFC along with the AID/HG financed projects so that the cost of capital for all schemes is below the lending rates of the institutions. In other words, the lower cost of capital for non-AID/HG schemes will be used to offset the higher AID/HG interest rate. Indirect inputs also include the value of similar type schemes, i.e. starter homes built by the GOJ but not included in the foregoing.

Table No. 1

PLANNED INPUTS AND OUTPUTS - PROJECT 532-HG-011
REVISED PROJECT AS OF JANUARY 1983^{1/}

<u>COMPONENT</u>	<u>OUTPUTS</u>	<u>FINANCIAL INPUTS</u> (U.S.\$ and J\$ in Millions)		
		<u>AID/HG</u>	<u>GOJ</u>	<u>TOTAL</u>
1. SETTLEMENT IMPROVEMENT	5,000 Improved Lots @ (J\$6,000) average	US\$4.200 (J\$7.476)	US\$12.680 (J\$22.570)	US\$16.880 (J\$30.046)
2. NEW SCHEMES	1,600 Core Units @ US\$14,325 (J\$25,500) maximum	5.400 (9.612)	17.100 (30.438)	22.500 (40.050)
3. BUILD-ON- OWN LAND	1,100 Core Units @ US\$11,236 (J\$20,000) average	3.160 (5.625)	9.210 (16.394)	12.370 (22.019)
4. HOME IMPROVEMENT/ MORTGAGE LOANS	1,000 Home Improvement Loans @ US\$2,247 (J\$4,000) 250 Mortgages @ US\$8.938 (\$16,000)	2.240 (3.987)	2.247 ^{2/} (4.000)	4.487 (7.987)
TOTALS		US\$15.000 (J\$26.700)	US\$41.237 (J\$73.402)	US\$56.237 (J\$100.10.)

1/ From Implementation Agreement

2/ Planned NHT Co-financing

J\$1.78 = US\$1.00

Details may not add to totals due to rounding

Table No. 2

PLANNED INPUTS AND OUTPUTS - PROJECT 532-HG-011
AS OF MAY 1984

<u>COMPONENT</u>	<u>OUTPUTS</u>	<u>FINANCIAL INPUTS</u> <u>(U.S.\$ and J\$ in Millions)</u>			
		<u>AID/HG</u>	<u>GOJ</u>		<u>TOTALS</u>
			<u>DIRECT</u> ^{1/}	<u>INDIRECT</u> ^{2/}	
1. SETTLEMENT IMPROVEMENT	1,117 Improved Lots @ US\$3,760 (J\$6,693)/Lot	US\$4.200 (J\$7.476)	US\$2.917 (J\$5.193)		US\$7.117 (12.669)
2. NEW SCHEMES	709 Core Units 428 Cath. Hall 281 Start-A-Homes @ US\$14,235 (J\$25,500)/unit maximum	6.534 (11.630)	2.719 (4.840)	27.922 (49.701)	37.175 (66.171)
3. BUILD-ON-OWN LAND	180 Start-A-Homes @ US\$11,236 (J\$20,000)/unit average	2.026 (3.607)	.071 (.126)	.472 (.840)	2.569 (4.573)
4. HOME IMPROVEMENT MORTGAGE LOANS	1,250 Loans/Mortgages 1,000 Homes @ US\$2,247 (J\$4,000) 250 Mortgages @ US\$8,938 (J\$16,000)	2.240 (3.987)	2.247 ^{3/} (4.000)		4.487 (7.987)
TOTALS		US\$15.000 (J\$26.700)	7.954 (14.159)	28.394 (50.541)	51.347 (91.400)

1/ Direct inputs into each component

2/ Indirect inputs of schemes turned over to NHT & CHFC which offset onlending rates

3/ Planned NHT Co-Financing

J\$1.78 = US\$1.00

The estimated value of the direct inputs is US\$5.707 million (J\$10,159,000) and for indirect inputs US\$28.394 million (J\$50,541,000) for a total GOJ contribution of US\$34.101 million (J\$60,700,000). In addition, NHT will lend US\$2.247 million (J\$4,000,000) to JCCU, for use in its component of the program. Therefore, the total local contribution will be US\$36.348 million (J\$64,700,000).

B. ACTUAL INPUTS AND OUTPUTS TO DATE

1. AID/HG Loan Disbursements - (See Table 3)

A total of US\$15.0 million has been disbursed by the U.S. Investor of which JMB has received US\$11.2 million (J\$19,936,000) and US\$3.8 million is held in escrow in the U.S. As mentioned previously, of the US\$11.2 million, US\$2.5 million (J\$4,450,000) was used to reimburse MOC(H) for 428 eligible mortgages under New Schemes which constituted the first completed output, and left a balance of US\$8.7 million (J\$15,486,000). JMB has disbursed to the implementing agencies (as of 6/84) a total of US\$7.4 million (J\$13,202,000) for reimbursement for eligible expenditures on the three construction components. The undisbursed balance to date is approximately US\$1.3 million (J\$2,314,000).

This means that for the three construction components, JMB has disbursed 59% of the allocated AID/HG inputs for reimbursement for eligible expenditures, i.e. materials purchased and works in place.

Since no funds have been disbursed for Component 4, Home Improvement/Mortgage Loans, the overall disbursement by JMB constitutes 50% of the total AID/HG inputs.

2. GOJ Inputs to Date

All of the direct inputs have either been provided or are committed. Government land has been utilized, private land is being acquired as needed, existing infrastructure is being utilized in projects, professional fees have been funded and charged to project costs and administrative personnel are involved in implementation.

At this point, the indirect inputs can only be roughly estimated on the basis of the current GOJ budget allocations and the planned involvement of NHT and CHFC in future sales of units. At the present time total indirect inputs are estimated to be US\$36.348 million (J\$64,700,000).

Table No. 3

JMB DISBURSEMENTS TO IMPLEMENTING AGENCIES
PROJECT 532-HG-011
AS OF MAY 1984

(millions of J\$)

<u>COMPONENT</u>	<u>JMB LOAN COMMITMENT ALLOCATION</u>	<u>NO. LOTS UNITS</u>	<u>DISBURSED</u>	<u>PERCENT ALLOCATION</u>	<u>BALANCE</u>
1. SETTLEMENT IMPROVEMENT Projects under construc- tion	\$ 7.476	1.117	\$2.856	38%	\$4.620
2. NEW SCHEMES CATHERINE HALL Projects under construc- tion	11.630 (4.450) (7.180)	342 367	9.289 (4.450) (4.839)	80% (100%) (67%)	2.341
3. BUILD-ON- OWN LAND Units under construc- tion	3.607	180	1.172	32%	2.435
SUBTOTALS	(22.713)		(13.317)	(59%)	(9.396)
4. HOME IM- PROVEMENT MORTGAGE LOANS	3.987		-	-	-
TOTALS	26.700		13.317	50%	13.3

V. SITE SELECTION, DESIGN AND CONSTRUCTION

A. SETTLEMENT IMPROVEMENT

Implementing Agency: EDCO

1. Site Selection

Most of the sites were previously identified and planning and some regularization and construction had begun on two sites in anticipation of acceptance as eligible project by AID. General selection criteria had been established and was acceptable to the U.S.A.I.D. Resident Technical Advisor who subsequently approved six of the eight sites proposed.

Inspection of sample approved sites showed that the criteria were followed and the sites were quite workable. Even though some of these sites were already identified, planned and some work started prior to the arrival of the U.S.A.I.D. Resident Technical Advisor, the full site selection process was still carried out. In general, the results appear to be quite satisfactory.

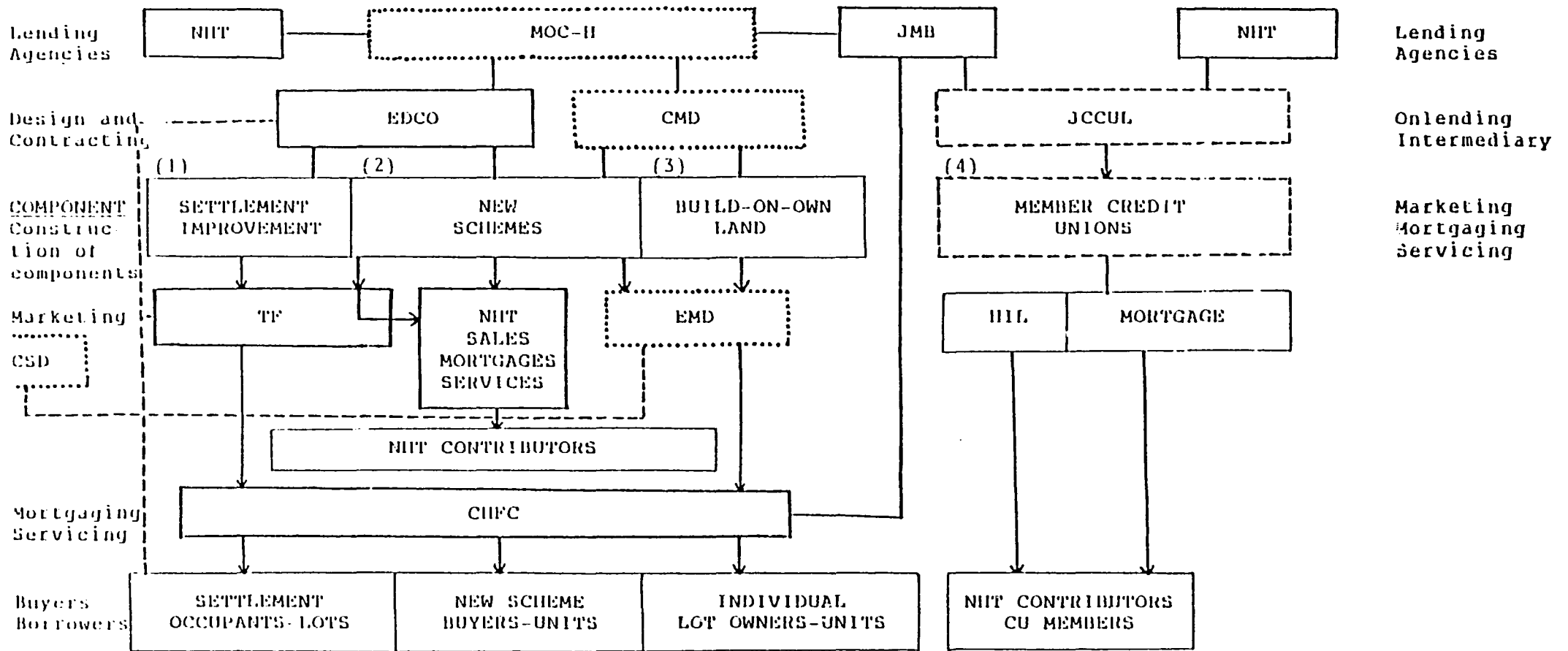
There are, however, two sites on the short list of potential projects for HG-011 financing which are presently not approved and therefore require careful scrutiny. Of particular note, is Rectory Lands which has a low level of occupancy spread over a relatively large area. This factor would normally disqualify a site for consideration for settlement upgrading. However, in the present case, due to the substantial amount of planning and design work done to date, the overall upgrading area is being reduced and the scattered residents of the site are being consolidated within the reduced site area.

Lot distribution is concentrated in 3 Parishes: 276 in Clarendon (2 sites); 688 in St. Andrew (5 sites), and 153 in St. Catherine (1 site). In densely populated urbanized areas, future site selection should go through the more disciplined process that is outlined in the PP for Stage No. 1, Preliminary Analysis. The criteria should be refined based on experience and basic data better utilized and integrated. This activity would culminate in a comprehensive brief for each potential site and provide the data base for comparison of potential sites.

2. Collaboration and Approval - Other Agencies

Unlike Project 532-HG-010 consultations with Parish Councils and the National Water Commission started at the site selection and planning stage. This has greatly improved cooperation and collaboration and should assure final approval and acceptance of the site improvements. Further, it will give the Parish Councils and the National Water Commission advanced notice of their eventual operation and maintenance obligation.

FUNCTIONAL CHART - PROJECT 532-HG-011
DESIGN CONSTRUCTION AND MARKETING



 GOVERNMENT
 PARASTATAL
 PRIVATE

3. Level of Standards

From the beginning, the selected projects have been planned and designed with minimum improvement standards. All projects will provide lot regularization, surveyed boundaries and eventually freehold titles. Infrastructure standards are at two levels: two of the eight sites will have improved circulation network (roads and walks) and watermains with fire hydrants and standpipes serving 30 - 40 families; six of the sites will have improved circulation network (roads and walks), water mains with fire hydrants and laterals for individual connections and minimal storm drainage. The major difference inclusion of individual water connections and storm drainage for the latter.

No provision is made for the improvement in the disposal of waste water and sewage. This is probably appropriate since the options currently available are not affordable to the beneficiaries. Where only standpipes are provided, water consumption is limited. The provision of the improved access to water via the standpipes does not greatly increase the sanitation problems since individuals cannot hook up waterborne sanitary facilities. Since providing for house connections without also providing for sanitary waste disposal can increase water consumption and might increase sanitation problems, efforts should be made to identify affordable sanitary waste disposal systems. The site analysis and subsequent recommendation on individual water connections or standpipes should take account of the availability of sanitary waste disposal. Consideration should be given to only providing individual water connections where there is access to a sanitary waste disposal system.

Overall, the level of standards being financed in these projects is minimal and affordable and well balanced within and between projects. The major inconsistency is that availability of sanitary waste disposal has not been coordinated with the decisions to provide individual water connections.

RECOMMENDATION:

In preparation for new settlement improvement projects (532-HG-012) a concerted effort should be made to apply the experiences from these and previous projects and coordinate the type of water supply provided with the availability of sanitary waste disposal.

4. Land Acquisition

Some sites or parts of sites which were selected included privately owned land which had to be acquired. Immediately after final site selection, steps were taken to do the surveying, acquire the land and proceed with parent and splinter titling. Although a slow process, it seemed to be progressing and no major problem was identified. The selection of projects located on privately owned land complicates and lengthens the process. When the site is privately held, not only does the selling price have to be negotiated and the capital investment for purchase made, but the time consuming titling and splintering of title must be completed. However, this process was initiated at the start of the project (rather than at the end as in Project 532-HG-010) which should allow enough time to complete the process before the lots are ready to be titled and sold to the project beneficiaries.

5. Planning and Design

Most of the selected sites had been identified and planning work had been undertaken before the arrival of the USAID Technical Advisor. On at least three of the sites, preliminary upgrading work had been completed. Many of the lessons learned in Project 532-HG-010 were seriously applied in the final designs which provided for reduction of standards on all projects. Road access, paving and retaining walls were reduced to a minimum. The removal of existing structures was held to a minimum and those requiring relocation were provided lots on the site. Generally, the planning and design of all projects appear to be much better than in Project 532-HG-010. There is evidence that the experience gained from the previous project was applied especially with regard to designing an affordable solution and providing for the recovery of development costs.

6. Construction

The first four projects had an average estimated completion time by contract of 2.5 months and were essentially completed in that time. However, the preliminary work on these projects was started as early as February 1982 so this 2.5 month completion time is not a true measure of the total construction period. On some projects, however, the final finishing work has dragged on for 4 to 6 months after the contract completion date. At this date, less than 5% remains to be completed on the first four projects which constitute 386 lots of the 1,424 planned or 27% essentially completed. There may be some justified reasons for delays, but it is clear that the only way to assure more prompt completion and delivery is to tighten up contract management. Considering the complexity of construction projects of this type, performance has been satisfactory and much better than in project 532-HG-010.

7. Costs

To date, the line has been held on project costs with minimal escalation and variations from the initial estimated and budgeted costs for construction. One project has been completed and three others are over 95% complete. The average cost per improved lot was J\$5,275 ranging from J\$4,380 to J\$6,440. With professional fees of 14.5% the average cost would come to J\$6,040 plus land cost.

The first four projects which are essentially completed and constitute 27% of the planned upgrading activity have average individual lot costs that slightly exceed the planned average of J\$6,000 per lot. The estimated average lot cost to be financed by USAID, including fees is J\$7,370 for the two additional projects (Whitehall Avenue and McKoy Lands) which have received USAID Resident Advisor's approval. While the figure exceeds the average per plot cost established in the Implementation Agreement, the affordability threshold for this project component is maintained at approximately 95% on the basis of increasing household incomes and GPM financing. The construction contracts for these two projects will have to be carefully managed in order to maintain this affordability level.

Land for the two projects on Waltham Park Road has been bought while negotiations are underway on the five others. Average per lot estimates of the cost of acquiring private land for these projects range from J\$1,500 to J\$3,000. Land costs will be factored in to the final sales prices. The JMB commitment for AID/HG financing for this component is J\$7,476,000. The estimated cost of the eight projects which appears on the short-list (see Table 4) is J\$7,096,600 the surplus of J\$378,400 will be taken into consideration when the final evaluation of the last two projects (Rectory Lands and Back Bush) is undertaken.

Table No. 4

CONSTRUCTION PROGRESS - PROJECT 532-HG-011
SETTLEMENT IMPROVEMENT COMPONENT
AS OF AUG. 1984

PROJECT	PARISH	NO. LOTS	ESTIMATED COSTS		LEVEL OF SERVICES ^{3/}	START CONST.	ESTIMATED COMPLETION	%
			ESTIMATED PROJECT COST ^{2/}	PER LOT				
1. Black Ants Lane	St. Andrew	170	J\$ 918,100	J\$ 5,400	IWC	6/83	1/84	100
2. York Town	Clarendon	76	421,800	5,550	SP	9/83	3/84	95
3. 75-77 Waltham Park Road	St. Andrew	87	582,100	6,690	IWC	8/83	6/84	99
4. 81A 91 Waltham Park Road	St. Andrew	53	390,900	7,375	IWC	8/83	6/84	95
5. Whitehall Avenue	St. Andrew	175	1,135,000	6,485	IWC	9/83	11/84	30
6. McKoy Lands	St. Catherine	153	1,281,900	8,380	IWC	3/84	12/84	03
7. Rectory Lands ^{1/}	Clarendon	200	1,660,300(Est)	8,300	SP	No work started		02
8. Back Bush ^{1/}	St. Andrew	203	707,500(Est)	3,485	SP	3/84 (started) 4/84 (stopped)		-
JMB Commitment for AID/HG Financing		1,117	7,097,600	SP 5,825 Av.		Gross Average		54%
			7,476,000	IWC 6,750 Av. (6,354 Av.)		(On project basis)		

1/ Not yet approved by USAID Resident Technical Advisor.

2/ USAID financial contribution to project; includes professional fees, but not land costs.

3/ SP: Standpipes - For 30 - 40 families, titling and improved roads and walks.

IWC: Individual Lateral Water Connections - Titling, improved roads and walks and minimal storm drainage.

B. NEW SCHEMES

Implementing Agencies: CMD, EDCO - (See Table 5)

1. Implementing Agencies

The Memorandum of Agreement dated January 17, 1983 stated that: EDCO would have the responsibility for the infrastructure works for New Scheme and Settlement Improvement sub-projects; SIHL would have the responsibility for core (start-a-homes) for New Scheme sub-projects; and CMD the responsibility for the BOL Component. In practice EDCO was given total responsibility for Settlement Improvement program and two of the New Scheme sub-projects (infrastructure and 181 start-a-homes). CMD was given the responsibility for three New Scheme projects. Contrary to the Agreement SIHL has played no role in the New Scheme component.

RECOMMENDATION:

IMMEDIATE ACTION - The Housing Policy and the Memorandum of Agreement are consistent in that they call for MOC(H) getting out of the direct planning and construction work. MOC(H) should, at this time, examine the operations of CMD and determine whether CMD or the parastatal production agencies (EDCO and SIHL) should do the direct planning and construction work.

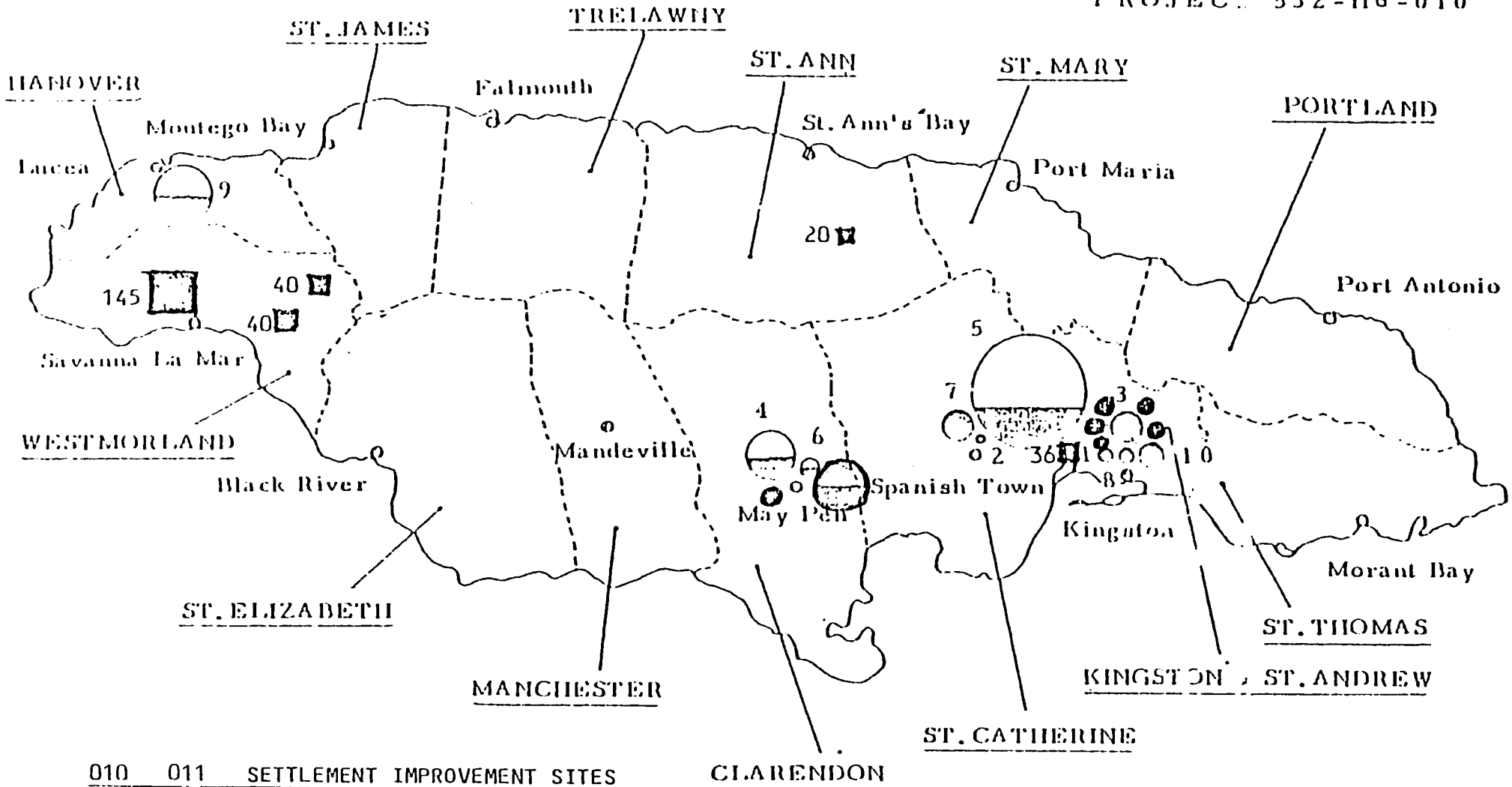
2. Site Selection

Sites were selected from among available sites with preference given to those with infrastructure in place. The site selection criteria were applied in the final review and all sites appear to be satisfactory. Three of the sites (Moneague, Darliston and Bethel Town) had infrastructure essentially complete and these sites required only the construction of the start-a-homes. The two sites being developed by EDCO (Simmons Land and Llandilo) required infrastructure.

It is interesting to note that the project sites are concentrated in Westmoreland Parish which has three projects consisting of 225 units. In addition, there is one project of 36 units in St. Andrew Parish and one project of 20 units in St. Ann Parish. This geographic concentration most likely resulted from the availability of serviced sites and/or projects with the planning/design in an advanced stage rather than an in-depth analysis of housing need by geographic area.

3. Collaboration and Approval

As in Settlement Improvement the project managers paid more attention to early collaboration with other agencies involved in the process and preliminary approvals of Parish Councils and the National Water Commission were in fact received.



010 011 SETTLEMENT IMPROVEMENT SITES

○ Unoccupied lots
 ◐ Occupied lots

NEW SCHEMES

40 ◐ Project Sites/Units

PROJECT LOCATION, SIZE AND OCCUPANCY

0 5 10
 Miles



JAMAICA

4. Level of Standards

On the sites where infrastructure was planned and designed as part of the project, attention was given to minimization of standards and economy in planning and constructing the new infrastructure. The start-a-homes, on the other hand, appear to be planned and built at a relatively higher standard of finish. The start-a-homes built by CMD on the completed project, Moneague, are very well finished, both inside and out. These standards of finish should be analyzed and alternatives identified to reduce the finish and as such the cost on future projects and/or redesign the units to allow the buyer to complete finishing on his own.

5. Planning and Design

The standard K.I.W. prefabricated bent steel kit has been used for both New Schemes and Build-On-Own Land construction. Though it may have proven economical and convenient at the time, it is questionable whether it continues to be the best method. EDCO is considering decreasing or abandoning the use of K.I.W. kits in favor of alternative prefab panel systems. It now appears to be a good time to re-examine core unit design and construction methods before proceeding with unit design under HG-012.

Although three of the New Scheme sites are final phases of existing MOC(H) schemes and thus required little new site planning, the new planning undertaken for the other two sites appears to have utilized acceptable minimum standards.

RECOMMENDATION:

EDCO, in conjunction with contractors who own their own prefabricated systems, should conduct a thorough analysis of core house unit design and construction alternatives and develop a more economical and flexible approach to core housing for HG-012.

6. Construction

a. Managed by CMD

One project of 20 units, Moneague, has been completed except for individual water connections. This small project was well managed by the contractor and was completed in January 1984 after 6 months on site. Time from beginning construction to final allocation will be about 12 months. The other two projects, Darliston (40 units) and Bethel Town (40 units), were started in 6/83 by one contractor who was terminated due to poor performance after about 20% of the work had been completed. It has taken more than 6 months to settle the first contracts and negotiate new ones. Completion is now scheduled for 2/85 - more than a year and a half after beginning construction. All three projects are on government owned land with infrastructure in place.

b. Managed by EDCO

On Simmons Land (36 units) infrastructure was started in 4/83 and is now completed. Little progress has been made to date on construction of the starter-home units due to the Contractor's failure to properly staff the site following the awarding of contracts. Total construction time will be almost two years. On the second project, Llandilo (145 units), infrastructure was started in June 1983 and is due to be finished in August 1984. Rocky soil conditions and unusually heavy rains hampered speedier progress during the infrastructure phase. The start-a-home units have not yet been started. Total completion time will probably be 20-24 months. Both project site are Government owned. The infrastructure and superstructure components of a project are scheduled in sequence under two separate contracts.

7. Costs

The Moneague project is the only project on which final costs have been calculated. The value of a developed lot is J\$4,800, and the start-a-home cost is J\$27,109 for a total sale price of J\$31,909. Assuming a 5% deposit (downpayment) the Moneague mortgage value would be J\$30,313. Of this, JMB, with the AID/HG, was originally budgeted to finance J\$25,000 based on the originally estimated cost/unit of J\$29,600. The final cost/unit is J\$31,909 which reflects an overrun of J\$2,309 or 7.2%. This is quite small considering that construction costs have increased by 40-50% since January 1983. The other two projects with infrastructure in place were estimated at an average cost of J\$27,225 since the historic infrastructure costs are lower.

The two projects being managed by EDCO, Simmons Land (36 units) and Llandilo (145 units) are estimated to cost an average of J\$29,750/lot plus land and professional fees. With fees, they will come to J\$34,064. If current infrastructure costs are also added, unit price will be considerably higher than was the case for the first three projects.

The original budgeted cost for all 5 projects (281 units) was J\$6,925,848 excluding fees and land cost or an average estimated per unit cost of J\$24,650. An updated final completion cost for the five projects (see Table 5) is estimated at J\$7,948,500. The JMB commitment for AID/HG financing was J\$6,069,800.

RECOMMENDATION:

IMMEDIATE ACTION - Estimated total costs for the New Schemes components exceed the budgeted AID/HG amounts. This project requires close monitoring and probably a reduction in size to remain within budget.

RECOMMENDATION: A reduction in construction time would result in cost savings. The production agencies should collaborate with the policy secretariat to analyze the construction process and propose modifications to the system that would reduce construction time.

CONSTRUCTION PROGRESS - PROJECT 532-HG-011
NEW SCHEME COMPONENT
AS OF APRIL 1984

<u>PROJECT</u>	<u>PARISH</u>	<u>NC./TYPE UNITS</u>		<u>PROJECT COST</u>		<u>TOTAL PROJECT</u>	<u>COST/UNIT/3/ SAH</u>	<u>CONSTRUCTION</u>		
		<u>SAH^{1/}</u>	<u>2 B/R</u>	<u>MOC(H)</u>	<u>AID/HG</u>			<u>START</u>	<u>ESTIMATED COMPLETION</u>	<u>COMPLETE</u>
1. Moneague BY CMD	St. Ann	20	-	92,100 ^{4/}	500,000	592,100	29,600	5/83	1/84	100
2. Darlinston by CMD	Westmore- land	40	-	78,000 ^{4/}	1,000,000	1,078,000	26,950	6/83 1/84	Terminated 6/85	25
3. Bethel Town	Westmore- land	40	-	101,000 ^{4/}	1,000,000	1,101,000	27,500	6/83 1/84	Terminated 8/85	15
4. Simmons ^{2/} Land	St. Andrew	36	40	1,630,600	1,017,800	2,648,400	28,300	INFRA UNITS 4/83 4/84	12/83 11/84	100 -
5. Llandilo ^{2/} (Phase II)	Westmore- land	145	83	3,719,200	4,430,700	8,149,900	31,200	INFRA UNITS 6/83 -	8/84 -	70 -
TOTALS		281	123	5,530,900	7,948,500	13,568,500	29,600 Av.			
JMB COMMITMENT FOR AID/HG FINANCING				7,180,000		(AID/HG MAXIMUM 25,500)				

1/ Units financed by AID/HG

2/ Only infrastructure approved by USAID Technical Advisor

3/ Excludes land and professional fees

4/ Cost of existing infrastructure

C. BUILD-ON-OWN LAND COMPONENT

Implementing Agency: CMD of MOC(H) - (See Table 6) -

1. Selection

The selection process for beneficiaries began early in 1983 and 558 applications were approved. 328 applications were approved for SAH (start-a-home) units and 230 were approved for two-bedroom units - a ratio of 3:2. Advice letters were sent out to 216 approved applicants. However, only 118 paid their deposit. On the basis of this, 100 K.I.W. kits were ordered, 34 SAH kits and 66 two-bedroom kits, a ratio of 1:2.

2. Construction

CMD was informed that the AID/HG disbursements from JMB would provide long term mortgage financing for the core SAH units only. To date, only 31 SAH units have been planned (out of a planned and budgeted 180 units) and kits ordered. Of the 31 SAH kits ordered and delivered, 10 units have been completed and 17 are under construction for a total of 27 units. There are also 35 two-bedroom units under construction and 19 units have been completed. Due to a shortage of cement, work had stopped on some units in 3 Parishes. Construction is managed by CMD who furnishes the K.I.W. kit and construction materials and contracts locally for labor.

3. Standards

It is understood that all of the SAH and two-bedroom units are considered standard packages which includes all pipe, plumbing fixtures, electric wiring, interior and exterior finish and interior partitions and ceilings. In cases where the client/buyer does not wish electrical installations, where power is not available or interior toilet or kitchen where piped water is not available, special permission is required to reduce the package to meet the needs of the client/buyer. It would appear reasonable to provide a minimum package option consisting of only an unfinished shell. In a specific situation where a client/buyer did not want and could not use plumbing and therefore had no need of an inside bath and kitchen, septic tank and electricity, a CMD technician estimated that there be as much as a 30% savings.

RECOMMENDATION:

IMMEDIATE ACTION - Under the Build On Own Land component, client/buyers are asked to accept completed start-a-homes with kitchens and baths regardless of the availability of piped water to the site and the clients ability to use the facilities. More flexibility should be allowed to tailor the units provided to the client/buyer needs.

4. Costs and Cost Control

Final costs on completed units are not yet available but it is estimated that the SAH units are running at about J\$22,500 and two-bedroom units at J\$34,500. The original planned average costs used by CMD were J\$23,000 for SAH and J\$30,000 for two-bedroom. So far the SAH units have apparently been kept in line. No professional fees or administrative costs will apparently be charged. However, included in the contracts is a clause which provides for escalation in labor and materials. There appears to be some concern about the quality of cost controls, financial management and accountability, but no specific information was readily available on which to base a judgement.

5. Implementation

During the first year only 31 SAH units have been started out of a total of 180 units. Of these 31 units, only 10 units have been completed and 17 units are under construction. Only about $\frac{1}{6}$ of the total planned units have been started and only 10 units or 5% of the total planned have been completed. At this rate it will take several more years to complete this component.

Apparently, consideration has been given to SIHL taking over the construction management on 61 units, but the transition has not yet occurred since there was some confusion about the transfer of responsibilities. Should this transfer be concluded, SIHL should concentrate on delivering the SAH units which are eligible for long term AID/HG financing. Approximately 150 units are yet to be built.

RECOMMENDATION:

IMMEDIATE ACTION - The construction of start-a-homes under the Build On Own Land component has lagged. Consideration should be given to SIHL taking over at least part of the construction of the units yet to be started and built.

D. CONSTRUCTION FINANCE

The AID/HG is being used as construction financing for all three project components. To date, JMB has disbursed US\$8.7 million (J\$15,486,000) for advances and works in place. Of this US\$7.4 million (J\$13,202,000) has been for works in place. For this amount, JMB is paying interest to the U.S. Investor. To this point, there is no indication that the cost of this financing is being considered in the budgeting and final sales pricing of the units produced. It should be remembered, even though the units have not been completed and sold to the beneficiary, JMB must pay interest to the U.S. Investor from the date of initial disbursement during this construction phase.

Table No. 6

CONSTRUCTION PROGRESS PROJECT 532-HG-011
BUILD-ON-OWN LAND COMPONENT
AS OF MAY 1984

<u>PARISH</u>	<u>APPROVALS</u>			<u>UNITS ORDERED</u>			<u>UNDER CONSTRUCTION</u>			<u>COMPLETED</u>			
	<u>TOTAL</u>	<u>SAH</u>	<u>2 B/R</u>	<u>ADVICE LETTER</u>	<u>TOTAL</u>	<u>SAH</u>	<u>2 B/R</u>	<u>TOTAL</u>	<u>SAH</u>	<u>2 B/R</u>	<u>TOTAL</u>	<u>SAH</u>	<u>2 B/R</u>
1. St. Andrew	37	20	17	20	7	4	3	5	2	3	1	1	0
2. St. Thomas	47	20	27	21	8	2	6	4	2	2	1	0	1
3. Portland	17	11	6	6	3	1	2	1	0	1	0		
4. St. Mary	45	20	25	23	16	2	14	10	2	8	1	0	1
5. St. Ann	47	24	23	17	6	1	5	6	1	5	0		
6. Trelawny	20	13	7	10	6	3	3	4	2	2	1	0	1
7. St. James	1	0	1	1	0	0	0	0	0	0	0	0	0
8. Hanover	29	10	19	2	1	0	1	1	0	1	0		
9. Westmoreland	1	0	1	1	1	0	1	1	0	1	0		
10. St. Elizabeth	61	46	15	9	3	1	2	3	1	2	0		
11. Manchester	27	21	6	14	9	6	3	8	3	5	0		
12. Clarendon	98	64	34	22	9	3	6	7	1	5	1	0	1
13. St. Catherine	<u>128</u>	<u>79</u>	<u>49</u>	<u>70</u>	<u>31</u>	<u>11</u>	<u>20</u>	<u>3</u>	<u>3</u>	<u>0</u>	<u>24</u>	<u>9</u>	<u>15</u>
TOTALS	558	328	230	216	100	34	66	53	17	35	29	10	19

Source: MOC(H) Estate Management Division

In between project completion and sales and occupancy there is almost always a lapse in time during which security guards must be posted and paid. This cost, as well as the cost of repairs resulting from damage or depreciation during vacancy, is also a production and delivery cost.

- E. AFFORDABILITY - Based on an updated August 1984 median family income of J\$9,150 per annum

1. Settlement Improvement

Based on the estimated project costs presented in Table 4 plus land costs, which are estimated at approximately J\$1,500 per plot, average per plot costs for the HG-011 upgrading projects will vary from roughly J\$7,000 - J\$10,000. Assuming a 10% downpayment, program beneficiaries would be expected to amortize from J\$6,300 to J\$9,000. On the basis of GPM financing (6%, 30 year repayment period) and debt service ratios varying from 15-25%, the range of average per plot costs proves highly affordable. Affordability for the upgrading program, as described in previous sections, serves from 89% of the target population (J\$9,000 principal, 15% D.S.R.) to almost 96% (J\$6,300 principal, 25% D.S.R.). This range is within the planned target group called for in the I.A. -- 95% of urban households.

However, the above system is predicated on the amortization of the full infrastructure cost as a project expense. In other words, the total cost of infrastructure is added directly to the cost of the plot. No attempt is made to integrate the recovery of certain infrastructure expenses (such as water and sewerage) with the rate schedules of the utility agencies themselves. As affordability issues become of ever greater concern during future project development, Government should begin to consider alternative recovery mechanisms for expenditures associated with infrastructure installation.

2. New Schemes

The projected selling prices for the starter home units financed under HG-011 (excluding downpayments, but including professional fees and land costs) vary from J\$27,000 to J\$38,000. Assuming GPM financing at 8% for 30 years and a 25-33¹/₃ debt service ratio, the affordability for the projected range of selling prices varies from serving the 44th percentile (J\$38,000 selling price, 25 D.S.R.) to the 17th percentile (J\$27,000 selling price, 33¹/₃ D.S.R.). This affordability range meets the requirement of the I.A. that units should be affordable by families whose incomes fall between the 25th and 50th percentiles.

3. Build On Own Land

If the final sales price, less deposits, produces mortgages of J\$25,000 per unit for SAH, the unit will be affordable by families at the 18th percentile group provided that an 8% GPM mortgage is used and 30% of income allowed for repayment. The planned target group was the 40th to the 50th percentile in the I.A.

VI. FINANCING^{1/}

A. SUMMARY

The original project design phase appears to have underestimated the administrative problems posed by the financial arrangements and the efforts to co-mingle funds from different sources. The original projects design defined the financial arrangements and formal agreements were signed between MOC(H) and JMB. Other agreements between JMB and JCCUL, NHT and JCCUL, CHFC AND MOC(H), and NHT and MOC(H) have been discussed but not finalized. Issues relate to interest rates to be charged, repayment procedures, and the responsibilities of the agencies participating in the project.

The JMB is the borrower under the project and it disburses the proceeds of the HG Loan to the implementing agencies, monitors the use of the funds, and certifies to USAID that the funds have been expended properly. AID/HG funds are supplemented with other public financial resources. They are mixed, employing various financial arrangements, with MOC(H) funds and NHT funds. These additional resources help to make the components financially feasible but arrangements developed to disburse and repay the funds add significantly to the complexity of the institutional relationships and administrative procedures.

In the components where construction occurs, AID/HG funds serve initially to provide construction financing and then are used to provide long term mortgage financing to buyers of lots and houses. AID/HG funds are disbursed to two implementing agencies - the MOC(H) and EDCO for construction of Settlement Improvement and New Schemes Projects and for BOL homes.

Once projects are complete and housing units/lots sold, the CHFC originates mortgages in the case of the SI, BOL and the non-NHT buyer part of NS components. NHT buys out portions of NS projects from the MOC(H) and finances the purchase of these units for its contributors. In addition, NHT will provide half of the financing to the JCCUL for the HIL/M component with the remaining funds coming from JMB. The number of agencies involved and the development of four different types of programs makes this project a very complex financial undertaking.

^{1/} This section of the report discusses only the direct financial inputs to the project, not the indirect contributions of the GOJ.

The administrative charges of the participating organizations vary and in some cases agreements between the parties have not yet been concluded. There is no standard pattern among the agencies about how the administrative costs related to the provision of financing are treated. The CHFC and JCCUL charge interest rate margins while the NHT charges a 5% fee for closing costs.

B. ALLOCATION OF FINANCIAL RESOURCES

The direct financial inputs to this project are the proceeds of the AID/HG loan (J\$26.7 million) less AID/HG loan fees (which are excluded for the purposes of this analysis) and the NHT contribution (J\$4.0 million) for home improvement loans and mortgages. The net total value of the direct financing, therefore, is assumed to be J\$30.687 million. The distribution of funds by component and source is listed below. (See page 2 for total project inputs).

<u>Component</u>	<u>Financial Inputs</u> <u>(in thousands of J\$)</u>		
	<u>AID/HG Loan</u> <u>Commitment</u>	<u>NHT</u> <u>Commitment</u>	<u>Total</u>
1. Settlement Improvement	7,476	--	7,476
2. New Schemes	11,630	--	11,630
3. Build On Own Land	3,607	--	3,607
4. Home Improvement/ Mortgage Loans	<u>3,987</u>	<u>4,000</u>	<u>7,974</u>
TOTAL	26,700	4,000	30,687

Fund flows to participating agencies are used for different purposes during different phases in the project. Initially AID/HG funds are to be allocated by JMB to the MOC(H) and JCCUL as follows:

MOC(H): J\$22.713 million
JCCUL: J\$3.987 million

Of the \$22.713 million funds committed to the MOC(H), J\$4.450 million has been reimbursed to the MOC(H) for loans made to buyers of Catherine Hall units leaving a balance of \$18.263 million for new construction. The MOC(H) is supplementing these funds with MOC(H) budget funds and the value of owned land and infrastructure in the estimated amount of J\$29.606 million. NHT, from its own resources, and JMB (HG resources) are each lending approximately J\$4 million to JCCUL for credit union home improvement and mortgage loans.

JMB reimburses MOC(H) and EDCO for eligible construction expenditure. Funds are converted to permanent mortgages when the units/lots are sold. The proceeds can be recycled into new projects or used to repay JMB. NHT provides long term financing to its contributors who will repay NHT for funds lent to them. As security for its mortgage debt, CHFC will issue promissory notes to MOC(H) backed by the mortgages on the units/lots for the loans that it will originate.

C. LOAN TERMS AND PROCEDURES

The financing fees charged, disbursement procedures and loan terms vary by agency. A set of loan agreements have been prepared which are intended to define the relationships among the parties and spell out the financing terms and conditions. JMB has borrowed the AID/HG funds (J\$26.700 million) at a floating rate for thirty years with the option to convert to a fixed rate during the first five years. MOC(H) expects to borrow J\$22.713 million from the JMB. MOC(H) will pay JMB the floating rate plus a two percent margin in addition to certain other fixed financing charges (currently totalling approximately 13%) and will borrow funds for 25 years.

All disbursements under this project have been made on the basis of J\$1.78 per U.S.\$; the US\$3.8 million remaining in escrow will be converted at the exchange rate in effect at the time such funds are disbursed from escrow. The sharp drop in the value of the J\$ creates an unrealized gain when the last disbursement occurs if the JMB gets the benefit of the current conversion rate.

MOC(H) borrows money from JMB based on certification of construction in place. Reimbursements are made directly to a separate account in EDCO. EDCO signs promissory notes for the disbursements which are guaranteed by the Ministry of Finance. The funds are used for construction financing by the MOC(H) delivery agents. When these funds are converted to purchase mortgages, the individual borrowers will pay 6, 8 or 10 percent interest over the 30 year term of the mortgages.

JCCUL will borrow funds from NHT and JMB based on reimbursements for loans made. JCCUL will pay JMB 15% interest for AID/HG funds and will borrow the other half of the funds at 6% from NHT. Thus, the JCCUL will be able to borrow funds for the Home Improvement Loan/Mortgage component at an effective average rate of about 10 1/2%. JCCUL will issue promissory notes for each disbursement. NHT and JMB will be repaid over a 20-25 year period on a quarterly basis by JCCUL which will collect the mortgage and home improvement loan payments from credit union members. JCCUL will earn the difference between its cost of funds (10 1/2%) and 12% in making mortgages and home improvement loans.

D. FINDINGS AND RECOMMENDATIONS

1. Policy for Handling the Effects of the Devaluation of the Jamaican Dollar

The JMB has borrowed US\$11.2 million of the US\$15 million HG loan at an exchange rate of J\$1.78 to US\$1.00. For the remaining US\$3.8 million in escrow, the JMB would receive J\$14.250 million at an exchange rate of, for example, J\$3.75 or J\$7.48 million more than was originally anticipated. At the same time the potential liabilities of JMB for the HG loan at the J\$3.75 exchange rate increase from J\$26.7 million to J\$56.250 million or 211%. Eliecer Fernandez in his report to Sara Frankel of January 1984, "Jamaica Mortgage Bank Financial Evaluation", raises the issues of whether the JMB should use the additional Jamaican dollar funds to cover unanticipated foreign exchange losses or invest them in the project and how JMB might deal with the effect of the Jamaican currency devaluation on its financial position. He recommends that the GOJ relieve JMB of the effect of the J\$ devaluation but implies that if that does not occur that the initial unrealized gain of additional Jamaican currency be used to partially offset devaluation losses.

RECOMMENDATION:

It is important to determine just how the unrealized gain of Jamaican dollars which result from devaluation will be used.

2. Clarification of Financial Arrangements

JMB has entered into loan agreements with the MOC(H). However, MOC(H), CHFC and JMB need to formally agree to repayment arrangements which clearly define the liabilities of the parties and the flow of repayments. NHT and MOC(H) also need to agree on the terms and conditions of NHT project purchases.

RECOMMENDATION:

IMMEDIATE ACTION - All agreements between participating institutions should be concluded as quickly as possible.

3. Mixing of Funding Sources for the Home Improvement/Mortgage Component

JCCUL plans to borrow half of the funds for the home improvement/mortgage loan component from JMB and half from NHT. This joint funding arrangement was intended to enable JCCUL to blend the higher cost AID/HG funds (12-13 percent) with the lower cost (6 percent) NHT funds. The rising cost to JMB of AID/HG funds because the HG loan carries a floating interest rate could force JMB to increase the cost of JCCUL's borrowings. This would have the effect of reducing the spread available to JCCUL and participating credit unions. Thus, reducing the attractiveness of involvement in the HG for them. JMB and NHT have proposed loan agreements to JCCUL but they have not been signed because final agreement on the terms has not been reached.

4. Incongruence Between Loan Terms

Beneficiaries are being offered long term financing of 30 years. This term exceeds the loan term for the overall HG Loan (which has 29 years remaining) and the term of the loans provided by the borrower, JMB, to implementing agencies (25 years). These different loan terms mean that there will be shortfalls in the reflows requiring that additional funds be found to repay the AID/HG.

RECOMMENDATION:

Long term cash flow projections should be developed under various scenarios to determine the likely gap between HG servicing requirements and reflows.

VII. MARKETING, BENEFICIARY SELECTION AND LOAN ORGANIZATION

A. SUMMARY

One objective of the project was to implement the new policy by focusing servicing responsibilities on CHFC. Progress has been made in this regard. The servicing/marketing activities of participating agencies were described in project documents; however, the procedures and mechanisms for coordination were not specifically defined beyond that of utilizing the system developed by the Task Force for marketing HG-010. Nor does it appear that consideration was given to simplifying and rationalizing the institutional framework for these activities.

Marketing, beneficiary selection and loan origination arrangements vary among the HG components but typically involve several different organizations. For the SI component, the TF, working with CSD, markets and selects buyers and handles loan origination activities. The loan origination process is particularly complex in the SI component because of the surveying, acquisition and titling activities that must occur.

In the NS and BOL component, EMD handles marketing and selection for non-NHT mortgagors. NHT handles these functions for NHT NS buyers. Once these processes are complete the loans become the responsibility of the loan originators, NHT and CHFC. In all of these schemes as recommended by the Public Housing Finance Framework the interest rates charged on loans will be either 6, 8 or 10 percent depending on the income of the borrower.

In the HIL/M component credit unions publicize the availability of funds, select borrowers and in the case of home improvement loans originate the loans. In the case of mortgage loans, the credit unions publicize the availability of funds, but the other functions related to beneficiary selection and loan origination are handled by JCCUL. Credit unions service home improvement loans and the JCCUL services the mortgages in most instances.

Table 7 summarizes the loan terms and likely monthly mortgage responsibility of borrowers for each of the components.

Although construction activities are underway in three components, the marketing beneficiary selection and loan origination phases of the project have just begun. Relationships and procedures have been defined in general terms but in many respects they need to be specified more explicitly. Agencies responsible for these activities need to be more fully aware of the pace of development or of when their services will be required.

CHART B

FUNCTIONAL CHART - PROJECT 532-HG-011
AGREEMENTS AND FLOW OF FINANCE

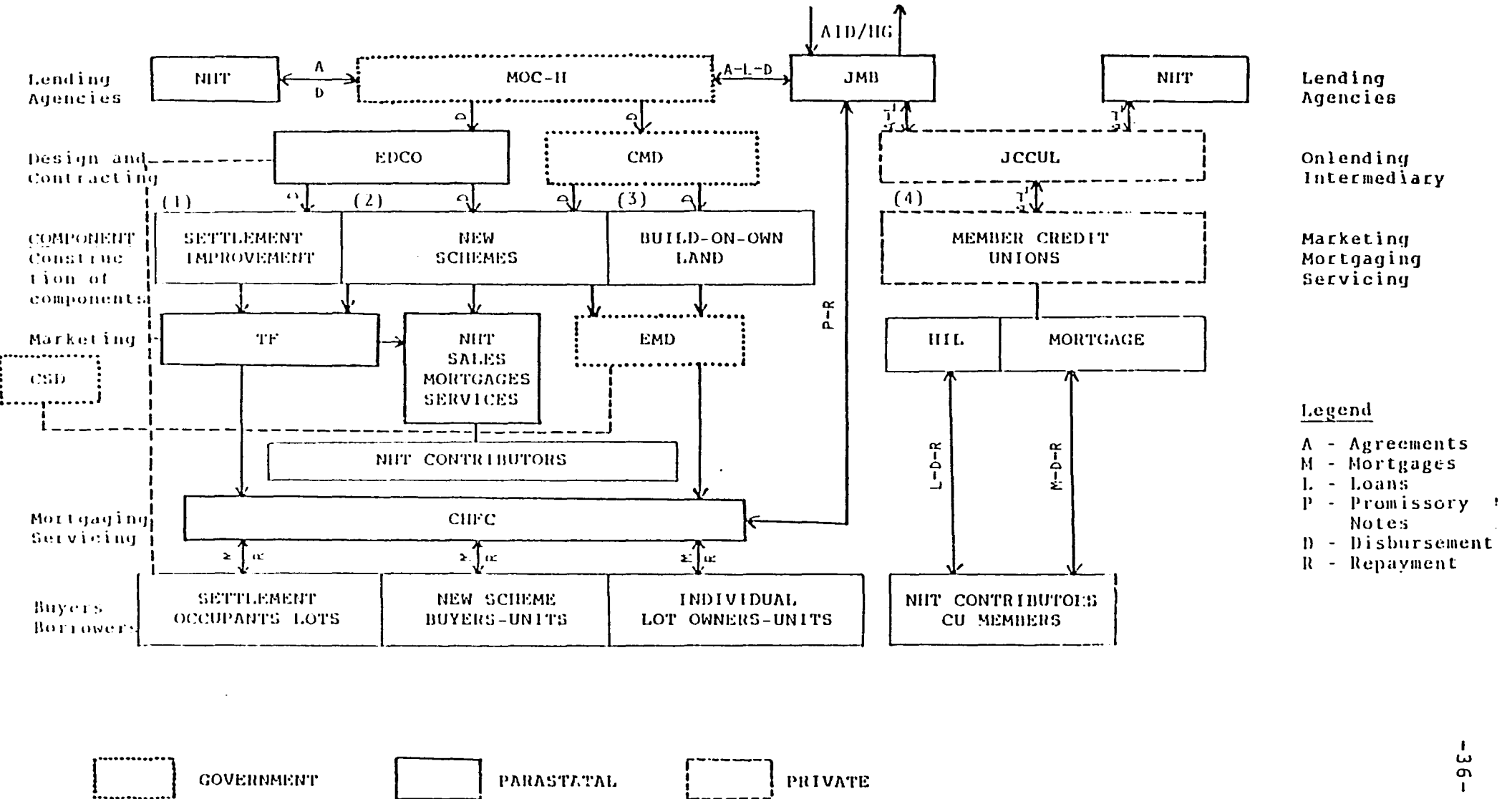


Table No. 7

HOUSE/LOT SALE AND LOAN TERMS
(J\$)

<u>Component</u>	<u>Estimated Unit/Lot Cost</u>	<u>Down-Payment</u>	<u>Other Loan Costs</u>	<u>Loan Amount</u>	<u>Inter-est Rate (%)</u>	<u>Loan Term (In yrs)</u>	<u>Monthly Payment on Entry^{1/}</u>
1. Settlement Improvement	8200	200 (in Kingston)	20	8000	6	30	30.40
2. New Schemes	36750	1750(5%) ^{2/}	0-20 ^{3/}	35000	8	30	156.45
3. Build on Own Land	26315	1315(5%)	20	25000	8	30	111.75
4. Home Improvement/ Mortgage Loans							
-- Home Improvement Loans	N.A.	0	0	4000	12	5(average)	88.98
-- Mortgages	17778 ^{4/}	1779(10%)	0	16000	11	20	165.15

^{1/} All loans are assumed to be GPMs except that the home improvement and mortgage loans are level payment.

^{2/} NHT considers this sum a service charge which is in part a downpayment.

^{3/} There is no other loan cost for NHT contributors, but a J\$ application fee for non-NHT contributors.

^{4/} 10% downpayment assumed on 20 percent downpayment.

B. PROCEDURES, BENEFICIARY SELECTION AND STATUS

1. Settlement Improvement

a. Procedures

Lot purchasers will be of two types - current occupants of the land and non-occupant purchasers. Current occupants have the right to purchase the land they occupy; non occupant purchasers have to make application to purchase a plot and meet the borrower selection criteria.

The TF using principally CSD staff for field liaison services, keep current occupants aware of the status of a SI project during the development phase. Once development is complete and the land purchased (if it is not owned by the government), CSD staff help occupants complete loan application forms and determine the type of loan they can afford, e.g. conventional or graduated payment (GPM) loans. In the case of unoccupied lots the TF advertises for purchasers and CSD staff distributes applications, interviews potential buyers, and assists in the preparation of applications. Applications are then transmitted to the TF which determines if the applicants are income eligible. Once applicants are determined eligible, the TF submits their names to the MOC(H) for final approval and notifies them of their selection or non-selection. If selected, buyers send a deposit to CHFC.

The TF also takes responsibility for the time consuming and complex steps that are required to coordinate and prepare the ownership documents including land surveying, private land acquisition, parent and splinter titling, and lot pricing. The TF prepares the loan closing and title transfer documents, and CSD closes the sale. Documents are then turned over to CHFC which services the loans. CHFC is not involved in the selection and qualification of buyers, although CHFC may check the documentation for clerical errors.

In this component the cost of infrastructure development is funded by the AID/HG; the land is either owned by the MOC(H) or will be purchased by MOC(H) utilizing non-HG resources. AID/HG and MOC(H) funds that are invested in the project are rolled over to provide the long term financing to buyers. Buyers pay their proportionate share of the cost of the land and infrastructure development which is financed with a combination of the buyers downpayment and mortgage loan for the remaining purchase price. Mortgage payments finance the repayment of the AID/HG funds and the MOC(H)'s investment.

As sales are completed, promissory notes issued by CHFC and backed by the purchasers' mortgages are signed with the MOC(H). The loan payments less a margin to CHFC are used to repay the outstanding debt. Exact arrangements for repayment are not fully defined. Part of the debt will represent funds owned to JMB under the AID/HG loan and part will be owed to MOC(H) for its contribution.

b. Beneficiary Selection and Loan Underwriting Standards

Current occupants are automatically eligible to buy the land they occupy if they meet the credit criteria, even if their income exceeds the median income. Loan payments generally do not exceed 25% of a household's income. Other indebtedness and savings history may also be taken into account in selecting buyers. Non-occupants must meet similar criteria and, in addition, must be approved by the MOC(H) and have incomes below the median. Applications are processed on a first come first serve basis. If other considerations must be applied, income qualification, the proximity of the applicants current residence to the scheme, and the size of the applicant's family, quality of present living accommodation, etc. are used.

When the resident purchaser cannot qualify to purchase the lot because he has a very low household income, other arrangements such as equity sharing or a leasehold will be made. Loans are made for 30 years. Interest rates are 6, 8 or 10 percent depending on the income of the borrower. Borrowers earning less than J\$100 a week pay 6%, those earning J\$100-J\$200 (up to the median) pay 8% and those earning more than J\$200 pay 10%. Buyers can choose either a level payment or graduated payment mortgage. A deposit of J\$200-J\$400 is required depending on the location of the scheme. Assuming an average mortgage of J\$8,000, a household would have to earn at least J\$2,407 per year to afford to buy a lot, assuming use of a GPM mortgage. The household would have initial mortgage payments of J\$30-40 per month.

c. Status

While 34% of the AID/HG funds have been spent and one project completed (Black Ants Lane with 170 lots) and three projects with 216 lots nearly finished (York Town, 75-77 Waltham Park Road and 81A-91 Waltham Park Road), no lots have been transferred to buyers. This is due to the time required to prepare the various conveyance documents and to complete negotiations with private landlords. Until MOC(H) completes land purchase, occupants are encouraged to continue to pay rent, if any, to the property owners. Delays in transferring lots to purchasers means that the MOC(H) continues to carry the interest cost of the AID/HG loan it borrowed from the JMB to finance the projects.

2. New Schemes

a. Procedures

In the New Schemes component there are two types of buyers - NHT contributors and those unable to get a unit from NHT. EMD handles the latter group for CHFC while NHT sells units directly to its contributors. The TF assists in titling and the administrative aspects of infrastructure completion work that is required in NS projects. It also insures that in the case of NHT units that all the NHT requirements to accept the scheme have been met.

When a project is completed by MOC(H), units are either sold directly to buyers through EMD or to NHT which in turn sells them to their contributors (in some cases MOC(H) and NHT may each purchase part of a project). EMD advertises the availability of units and accepts applications from low income families. They are processed on first come first serve basis, and if determined eligible based on an interview and examination of employment and income documentation, the EMD submits their names to the Minister for final approval. CHFC also interviews the applicants and approves or disapproves them. Approved applicants are notified to select a unit and are given two weeks to pay their deposit to CHFC. EMD prepares the closing documents and handles the sales and mortgage registration functions. CHFC is responsible for mortgage origination and loan servicing.

In the case of NHT, it purchases units from MOC(H), selects contributors to buy the units, and provides financing for them. NHT advertises the availability of units and accepts applications for them. Applicants are ranked on the basis of a "Priority Entitlement Index" which was developed as part of the Public Sector Housing Finance Framework. The index is intended to give priority to persons: (1) earning J\$100 a week or less; (2) who have contributed to the NHT for a long period of time; and (3) who have purchased JMB mortgage bonds. Applicants qualify for assistance if they obtain 200 points under the index. Applicants are then selected on the basis of their Index score, whether they live close to the project and when they applied. After selection the purchaser selects a unit, a letter of commitment is issued by NHT, the purchase documents are prepared, and the sale closed.

b. Beneficiary Selection and Loan Underwriting Standards

CHFC mortgagors are selected by EMD and reviewed by CHFC. In the case of Catherine Hall, since the system was not yet in place, the TF made the selections but CHFC also checked the documentation for accuracy. Beneficiaries must be able to make the mortgage payments with 25-30% of household income. Loans are for a term of 30 years and the interest rate charged will be 8% since, given the cost of the units, eligible applicants must earn between J\$100-J\$200 a week to be able to afford to purchase the units.

Buyers can choose either a level or graduated payment mortgage. A deposit of 5% and a processing fee of J\$20 are required. Other criteria are similar to those employed in the SI component. Assuming an average mortgage of J\$35,000, a household would have to earn at least J\$7,509 per year to afford a unit, assuming use of a GPM. The household would have initial mortgage payments of J\$156.45 per month.

NHT contributor households can devote up to 25% of their income for mortgage payments though in some cases a ratio of up to 33¹/₃% is considered. Loans are for 30 years at a 8% interest and both graduated and level payment loans are available. No deposit is required, but 5% of the cost of a unit is added to the price to cover administrative and closing costs.

c. Status

USAID accepted as eligible J\$4,450,000 of mortgages originated by MOC(H) with 428 buyers of Catherine Hall units. No additional units other than those at Catherine Hall have been sold under this component although Moneague, with 20 units, has been offered for sale. The Moneague units will cost J\$31,909. It is premature to determine if EMD has developed effective and efficient arrangements to handle the sale of units.

3. Build On Own Land

a. Procedures

Borrowers in this program own their own land and apply to MOC(H) for assistance in building a home and for mortgage financing. Loan applicants apply for assistance to EMD, which evaluates their applications and a list of eligible applicants is sent to the Minister for his approval. Once this approval is secured the land owner makes a deposit and signs a contract. Once the house is completed using AID/HG funds for construction financing, mortgage documents are prepared and signed. The AID/HG funds are then used to provide the permanent financing and the loan documents are turned over to CHFC which originates the loan.

b. Beneficiary Selection and Loan Underwriting Standards

Borrowers must be able to afford to meet their mortgage obligation with 25-30% of their household income. Loans are for a term of 30 years and the interest rate charged will be 8%. Borrowers can choose either a level or graduated payment mortgage. A deposit of 5% of the cost of the house and a processing fee of J\$20 are required. Other criteria are those employed in the SI component. Assuming an average loan of J\$25,000 a household would have to earn at least J\$5,364 per year to afford to participate in the component, assuming the use of a graduated payment mortgage. The household would have initial mortgage payments of J\$111.75 per month.

c. Status

As of May, 10 units had been completed but no mortgages had been closed.

4. Home Improvement/Mortgage Loans

a. Procedures

In this component the JCCUL will borrow AID/HG funds from JMB and a similar amount of funds from NHT to provide capital for member credit unions to make home improvement loans and for the JCCUL to make home mortgage loans. The same 20 unions that were involved in AID/HG 010 are expected to participate. Credit unions publicize the availability of funds. The unions, using their normal loan criteria, make home improvement loans and then secure reimbursement for the loans from JCCUL. JCCUL will have to keep track of requests for reimbursement so that at least the amount of the funds borrowed from NHT are lent to NHT contributors.

In the case of mortgage applicants, credit unions identify potential borrowers and turn the cases over to the JCCUL which handles beneficiary selection, the disbursement of loan proceeds to the borrowers and services the loans. JCCUL handles the administrative responsibilities for mortgages because of the complexity of mortgage lending and because most unions are not familiar with this form of lending.

b. Beneficiary Selection and Loan Underwriting

Beneficiaries can be both NHT and non-NHT contributors but NHT funds must be lent to NHT contributors. Applicants for mortgage loans apply through their credit unions who determine they are credit worthy and in need. Documents are then forwarded to the JCCUL which approves applications. Among other criteria, applicants must have incomes below the median, be first time homebuyers or in the process of selling their home and have been credit unions members for a year. Loans are level payment loans and cannot exceed 90% of the property value or J\$16,000, whichever is less. The interest rate will be 11% and the term 20 years. Assuming a J\$16,000 loan for 20 years a household would pay J\$165.15 per month.

Home improvement loan borrowers cannot have incomes above the median. Applications are processed and approved by individual credit unions. Loans are level payment loans and cannot exceed J\$4,000. The interest rate will be 12% and the term up to 10 years. Assuming a loan for five years of J\$4,000, a monthly payment of J\$88.98 would be required.

c. Status

This component is not operational. Implementation has been delayed by the failure of JCCUL and NHT to conclude a working agreement. An agreement is expected to be signed in September 1984.

C. FINDINGS AND RECOMMENDATIONS

1. Completion of Projects and Marketing

While good progress has been made in carrying out the physical development of SI projects and in building new schemes, marketing efforts are lagging. No lots have been transferred to buyers under the SI component and aside from Catherine Hall, the only NS project that is ready for sale is Moneague. The delays seem to result from several sources including lack of funds to buy upgraded sites and the fragmented process which extends the time involved in preparing titles and splinter titles. These delays are frustrating to potential buyers and costly to the MOC(H) because the MOC(H) has to absorb the carrying charges until the unit is actually sold and title transferred.

RECOMMENDATION:

IMMEDIATE ACTION - The Task Force and MOC(H) should make every effort to focus staff resources on completing the legal paperwork and property acquisition for projects where construction is complete so that they can be sold .

2. Improve Efficiency of TF Operations in the Settlement Upgrading Component

The experience of AID/HG O10 suggests that TF procedures and processes may be more complex than necessary and that sequential steps might be accomplished in parallel. For example, in AID/HG O10, unnecessary paperwork was caused by securing Minister approval for beneficiary selection of non-occupied lots before the affordability analysis was completed.

RECOMMENDATION:

IMMEDIATE ACTION - The TF should carefully examine each step in its process of delivering lots or units to the beneficiary and seek ways to simplify and speed up the process. This may involve a system where various activities related to a project are pursued in parallel. The use of critical path analysis for each project might be useful in streamlining the process (repeat of O10 Recommendation).

3. MOC - CHFC Relationship

The new housing policy envisioned CHFC as the principal loan originator and servicer for government assisted housing. The CHFC has taken over properties from the MOC(H) and will be the loan originator for the SI, BOL and non-NHT purchased NS units. The CHFC and Task Force have been working together on planning the arrangements for the SI component. The exact role, responsibilities and liabilities of CHFC for each of the components have not yet been formalized in writing.

RECOMMENDATION:

IMMEDIATE ACTION - MOC(H) and CHFC should execute an agreement clarifying the roles responsibilities and liabilities of each agency. The agreement should specifically deal with the extent of liability that CHFC has to make payments under promissory notes for each of the components. It should also make clear that MOC(H) will provide splinter titles for all units/lots sold so that CHFC will have adequate security for the loans it originates.

4. Improve Coordination Between CHFC and MOC

There appears to be inadequate communication between the MOC(H) and the CHFC. In the past, especially in the SI project, CHFC has received deposits although they have not been notified that lots have been sold. CHFC needs to be made aware in advance of completion schedules and the workload to expect so that it can more effectively plan the use of its limited staff resources.

RECOMMENDATION:

In general, informal contact between the agencies (CHFC & MOC) should be improved. Specifically, the proposed arrangement whereby for SI projects, CHFC will be sent Notifications of Sales should be implemented on a timely basis.

5. NHT-MOC Relationship

NHT has agreed to purchase new scheme units upon their completion, but MOC(H) and NHT have not entered into a formal agreement which spells out the terms and conditions of such purchases. At present NHT and MOC(H) operate on a letter of understanding basis for each project. For financial planning purposes NHT needs to be in a position to know approximately when units will be available for purchase.

RECOMMENDATION: (p.44)

IMMEDIATE ACTION - NHT and MOC(H) should execute an agreement clarifying the roles and responsibilities of each agency. The specific project and/or unit purchases and the role that AID/HG funds have played in financing each activity should be identified and a schedule of project completion prepared. This would establish a more formal relationship for HG Oll projects and could serve as the basis for future undertakings between the MOC(H) and the NHT as well.

JCCUL - NHT Relationship

JCCUL has held extensive discussions with NHT about the terms and conditions under which the JCCUL will borrow J\$4 million from NHT. The major point at issue has been the security that NHT will have for its loans. Inability to work out a satisfactory agreement which would be administratively sound and provide NHT with the security it needs has delayed implementation of this component. It appears that there is now general agreement on an approach acceptable to both parties. JCCUL has proposed that though separate records would be kept on JMB and NHT funds, monies would be co-mingled for lending purposes.

RECOMMENDATION:

IMMEDIATE ACTION - An agreement between NHT and JCCUL should be executed as quickly as possible so that implementation of the component can begin. Loan servicing arrangements should be made as administratively simple as possible.

7. JCCUL - JMB Relationship

A loan agreement has not yet been signed between the two parties since the issue of the interest rate that JCCUL will pay JMB and the spread available to JCCUL and credit unions remains unresolved. Originally JCCUL wanted to borrow funds at 12% and JMB proposed 13%. With the rising cost of AID/HG financing JMB may need to increase the rate charged JCCUL.

RECOMMENDATION: (p.45)

IMMEDIATE ACTION - Concurrent to the NHT/JCCUL Agreement, JMB and JCCUL should resolve the question of interest rate to be charged by the JMB for the HG funds and conclude their loan agreement.

8. Mortgage Terms Under the Settlement Improvement Component

In the Settlement Improvement component, lot buyers will be offered loans for 30 years at 6% interest with an option of a level payment or GPM arrangement. Two of the projects are located in Waltham Park near projects financed under AID/HG-010 where buyers borrowed money at 11% interest for 25 years with a GPM option. The more generous terms offered to HG-011 project's buyers may generate resentment among HG-010 buyers.

RECOMMENDATION:

While there is no way to readily resolve the potential resentment that may be generated, the MOC(H) ought to be prepared to explain to buyers the basis and reason for the different terms between HG-010 and HG-011 improved lots.

Use of GPMs and 6, 8 and 10 Percent Interest
Mortgages

GPMs are being used to make the housing units/lots produced affordable to low income households. For the same reason interest rates are tied to household income and set at 6, 8 or 10 percent. These financing terms do reduce the cost of financing and the income required to purchase a house or lot, but at the same time they have several negative features. Use of GPMs reduces the initial cost of financing to borrowers but long term repayment is contingent upon borrower incomes exceeding the increases in the rate of the mortgage payment. For example, on a GPM loan at 8% for 30 years payments increase 10% a year or a total of 94% by the eighth year. If borrower incomes do not keep pace with the increase in loan payments, cost recovery could be jeopardized.

In addition, the effect of the range of rates, all at below market interest rates, is not only to provide a subsidy to borrowers but also to make it administratively difficult to achieve a mix of funds that will not decapitalize the system given the relatively high cost of the AID/HG loan.

RECOMMENDATION:

The MOC(H) should review and evaluate how the prices of units/lots are set and recommend means of simplifying the process that would not jeopardize the maximum cost recovery possible. The MOC(H) should calculate the costs of the subsidy arrangements that are presently being used and determine if they are appropriate or if a more cost effective or efficient system could be implemented. The GPM's should be closely monitored over time to ascertain whether the assumptions underlying their use, namely that incomes will continue to increase at some rate, are valid and that delinquency rates do not increase above acceptable limits.

VIII. LOAN SERVICING

A. SUMMARY

The Housing Policy proposes that there be more specialization among the housing agencies and that cost recovery in Government assisted shelter projects be improved. To carry out this goal, the policy recommends that the MOC(H) and JMB divest themselves of loan origination and servicing responsibilities. The policy provides that CHFC, given its excellent track record as a loan servicing organization, provide loan origination and servicing for government assisted housing that is not destined for NHT contributors.

In total, four different loan servicing agencies will be employed: CHFC, NHT, JCCUL and credit unions. CHFC will be the loan originator for the SI and BOL components and for that portion of the NS units sold to non-NHT mortgagors. NHT will service the mortgages it originates for its contributors. Credit unions will service the home improvement loans they originate and in most cases the JCCUL will service its home mortgage originations. All servicers will collect payments monthly and repay borrowings to MOC(H), NHT or JMB quarterly.

Both NHT and CHFC are committed to the principle of cost recovery and appear to have established procedures and policies to achieve that objective. For example, in the past three years NHT has increased loan collections ninefold, from J\$200,000 to J\$1.8 million a month. CHFC has recently computerized its servicing operations and has a history of effective loan management. Credit unions and the JCCUL typically have minimal problems of non-payment. All four organizations require borrower-employers to deduct loan payments from the salaries of the borrowers.

B. SERVICING ARRANGEMENTS

1. Settlement Improvement

CHFC will originate and service these loans. CHFC will own the loans and sign a promissory note for the amount of the loans with the MOC(H) secured by the mortgages. The loan repayments will be used to pay off the promissory notes and the funds will repay the borrowings of the MOC(H) from the JMB and MOC(H)'s investments in the projects. CHFC will, therefore, be liable to a certain extent for any deficiencies that arise. CHFC will have full authority to take action in case of non-payment and will be authorized to modify payment arrangements. However, presumably foreclosure actions would not occur without the concurrence of the MOC(H).

2. New Schemes

CHFC will originate and service the loans of non-NHT mortgagors for this component, and will be more directly involved in the selection of buyers than they are in the case of the settlement improvement program. CHFC will screen applicants and qualify buyers, and will be liable for repayment of the promissory notes that they issue to the MOC(H). The loan repayments will be used to pay off the promissory notes and as such will repay the borrowings of the MOC(H) from the JMB and MOC(H)'s investments in the projects. CHFC will be

paid a 2% margin on the mortgage it originates. CHFC will employ similar servicing procedures and policies to those used in the SI component. NHT will handle its own loan servicing for units bought by NHT contributors and the reflows will repay NHT for the financing it provided to contributors.

3. Build On Own Land

CHFC will also originate and service loans and qualify beneficiaries for this component. It will be liable for repayment of the promissory notes that it has issued to the MOC(H). The loan repayments will be used to pay off the promissory notes and will repay the borrowings of the MOC(H) from the JMB. CHFC will be paid a 2% margin on the mortgages it originates; similar to that proposed in NS. CHFC will employ similar procedures and policies to those used in the SI and NS components.

4. Home Improvement/Mortgage Loans

Credit unions will service home improvement loans and JCCUL will service loans in most cases. A few credit unions may service mortgages for JCCUL. Credit unions pay for the cost of servicing out of the difference between what they pay for funds (between 9-10%) which is the average blended cost of NHT and JMB monies and the rate charged to borrowers, 12%. JCCUL will reimburse credit unions for completed home improvement loans. Reflows paid to credit unions will be used to repay the JCCUL. JCCUL in turn repays funds it receives less its fee to JMB. Because the repayment to JMB is over a 25 year period, credit unions and the JCCUL may have reflows of funds that can be relented to borrowers. Similarly, for NHT contributor loans, credit unions will collect repayments from borrowers and out of these funds repay JCCUL which in turn will repay NHT.

In the case of mortgages, JCCUL will borrow funds at an average blending rate of 10¹/₂%. The difference will cover overhead. Reflows will be used to repay JMB and NHT for the funds borrowed. For NHT contributors borrowing for home purchase, credit unions will repay JCCUL which in turn will repay its loan from NHT. Excess reflows will be available for relending. Repayment will occur over a 25 year period. Separate accounting will have to be maintained for NHT borrowers. In the case of improvement loans both the unions and JCCUL are liable for repayment. In the case of mortgage loans only the JCCUL is liable.

C. FINDINGS AND RECOMMENDATIONS

1. MOC - CHFC Relationship

As noted above, the exact terms and conditions of the MOC(H)-CHFC relationship have not been spelled out. Repayment arrangements have not been fully agreed to or adequately defined.

RECOMMENDATION:

IMMEDIATE ACTION - (See Section VI. C.3 for Recommendation)

2. JCCUL - NHT Relationship

As noted above, an agreement has not yet been executed between NHT and JCCUL which spells out the terms and conditions under which JCCUL will borrow funds and service loans. In the past NHT has contended that NHT loans must be separately identified and that records must be kept on every loan made. This would be a substantial administrative burden for credit unions and for JCCUL and prevent the co-mingling of funds. Lack of an agreement has delayed implementation of the component. It now appears that there is a general understanding acceptable to both parties which would allow funds to be co-mingled if separate records were kept for NHT.

RECOMMENDATION:

IMMEDIATE ACTION - (See Section VI. C.6 for Recommendation)

IX. PROGRESS TOWARD POLICY GOALS, AND FULFILLING COVENANTS

A. POLICY GOALS

The Implementation Agreement, Article II, Section 201, states "The goal of the Project, which is further described in Annex A attached hereto, is to improve the overall quality of life of low income families by improving the conditions of their shelter". The Project is designed to assist the GOJ to implement its newly adopted shelter policy goals as enunciated in A National Housing Policy for Jamaica dated October 15, 1982: It is too early to assess the overall improvement of the quality of life. However, there has been progress in the implementation of the newly adopted shelter policy. The I.A. lists specific areas to be pursued in the course of implementing project components.

1. Policy Coordination and Institutional Responsibilities

"Establishment of policy coordination and implementing mechanisms and the clear definition and development of institutional responsibilities". The Policy Secretariat has been recently established with a sociologist, civil engineer and finance officer. Their immediate job will be gathering and consolidating information on the housing sector and MOC(H) operations and preparing an annual report (the last annual report was made in 1977). At the present time and the Resident Policy Advisor (R.P.A.) is assisting the Permanent Secretary (P.S.) to complete the short and long range planning and budgeting. It is intended, however, that the Secretariat will develop the capacity to develop the base information that will allow for an ongoing process of budgeting and planning. Since the Policy Secretariat has just been established, it is premature to attempt to measure its effectiveness.

There has been some realignment of institutional responsibilities as called for in the Housing Policy:

NHT has ceased to provide interim financing in the traditional sense, reduced its involvement in direct project development, and has concentrated on long term mortgage finance.

CHFC has become the major mortgage servicer for MOC(H): has taken over some J\$30,000,000 (to date) of the old MOC(H) portfolio; is taking over all of the Project 532-HG-010 servicing; and will originate and service most of the mortgages generated by this project.

JMB continues to be the borrower and financial manager for the AID/HG Loans and onlending agent to MOC(H) and JCCUL. Although it has completed staff work on a bond program, the JMB has not been able to launch sales of the bond envisioned in the Policy. The JMB has had little success in designing a secondary mortgage market program that meets the perceived needs of the private and public sectors and can be launched given the current JMB financial constraints.

MOC(H) has been divesting itself of much of its old portfolio. It plans, under this project, to contract with the CHFC for mortgage origination and servicing to the greatest extent possible. Direct involvement in planning and construction by MOC(H) has continued but has decreased. MOC(H) still retains a planning and construction function in CMD which has continued to be involved in both the New Schemes and Build-On-Own Land components.

The Estate Development Division has become the parastatal agency EDCO, which now manages all Settlement Improvement work.

The Task Force (TF) on Marketing was created outside MOC(H) under EDCO and is managing the non-production aspects of delivering the MOC(H)'s shelter program.

Under this project the intention was for EDCO and SIHL to manage the work on New Schemes but SIHL has not received any contracts and EDCO and CMD are continuing to manage the project construction work.

Though significant progress has been made in implementing the institutional restructuring called for in the policy, it now appears that this restructuring may not have gone far enough in redefining the roles and responsibilities of the public sector shelter institutions. There continues to be duplication and overlapping of responsibilities among the institutions. The situation leads to inefficiencies in production and delivery of shelter units and ultimately to increased costs to both the Government and the beneficiary.

2. New Mortgage Instruments and Private Funds

"Development of new mortgage instruments and the use of public funds as leverage for attracting private or institutional funds". A uniform interest rate scale and terms have been established which is being used for all Government assisted (NHT and CHFC) mortgages. The target group has access to a conventional level payment or a graduated payment mortgage from any of the institutions cited above.

There is little evidence that efforts have been made to use public funds to leverage private and institutional investment for what has traditionally been public sector clientele.

3. Design to Meet Affordability and Repayment

"Careful design of housing programs and the institution of appropriate repayment arrangements to match the affordability of target groups". Considerable progress has been made in the design of programs and projects in which affordability is the most important criteria on which design is based. While it is now possible to estimate total project costs at the planning and design stage, a less than satisfactory record with respect to project implementation, in conjunction with rapidly escalating construction costs, has led to cost overruns on several of the new scheme projects. The basic structure for a more realistic calculation of costs is in place. It is now necessary for the implementing agencies to apply a more vigorous discipline at the outset and require performance during the delivery phase.

Appropriate repayment arrangements are now in place in the form of a variety of mortgage instruments including conventional level payment, graduated payments and equity sharing. For those in Settlement Improvement areas, with very low incomes, leasehold is still an option.

4. Cost Recovery Mechanisms

"Establishment of effective cost recovery mechanisms". The range of mortgages is now in place which help in bridging the gap between sales prices and affordability. Mortgage servicing has been primarily transferred to CHFC outside of MOC(H). It remains to be seen whether this change in servicer will increase collections.

5. Conversion from Leasehold to Freehold

"Conversion of public sector leasehold and rental housing to freehold tenure". In divesting itself of housing stock the MOC(H) has concentrated on those properties currently under freehold title. Although MOC(H) may still hold mortgages, servicing is being transferred to CHFC. No information was collected on the sale of old rental properties. However, all new projects, including old unfinished projects and those with AID/HG and MOC(H) financing, are being sold with freehold title.

B. FULFILLING COVENANTS

Article VI of the Implementation Agreement sets forth Special Covenants primarily addressed to MOC(H) and JMB.

1. MOC - H

The covenants covering design standards, affordability, eligibility, policy implementation and the Policy Secretariat have been previously covered under VIII, A. Policy Goals. The covenant on GOJ contributions is covered under III, A. 2. Reduced Inputs and Outputs.

2. JMB

Article VI, Section 6.05 of the Implementation Agreement sets forth covenants for JMB dealing with the overall management of this project. Generally, JMB has performed its financial monitoring function satisfactorily. A separate account is maintained tracking disbursements of the AID/HG for each component. It responds promptly when requests for disbursement are made to cover reimbursement for verified expenditures. JMB, however, is not adequately informed on the construction work being financed under the AID/HG and is not always made aware of changes that occur in component planning and implementation.

Up to now there have been no excess reflows so the question of their utilization has not arisen. However, there will be escrow earnings and an increase in the J\$'s generated when the US\$3.8 million is disbursed from escrow at the current exchange rate. Agreement should be reached as to acceptable uses of these resources which have not been programmed to date.

JMB has not yet submitted a status report on the progress of this project.

RECOMMENDATION:

The roles and functions of the Government finance and production agencies should be reviewed to determine their capacity to carry out the goals of the housing policy. Such review should lead to recommendations on restructuring and or consolidation of these institutions as appropriate to allow them to be able to implement the Government's shelter program in an efficient and effective manner.

IMMEDIATE ACTION - The Implementation Agreement designates the Jamaica Mortgage Bank (JMB) as Borrower. The MOC(H) is the key implementing agency along with its production agencies and the Task Force. Project analysis, information collection, project reporting, and general coordination are now actually carried out by the MOC(H) Policy Secretariat, not by the Borrower (JMB). The MOC(H) should coordinate its monitoring and reporting activities with the JMB to assure that the Borrowers' reports to AID meet the requirements of the Implementation Agreement and take account of the staff capacities of the two organizations to monitor the program.

X. UNPLANNED EFFECTS

A. MARKETING OF PROJECT 532-HG-010

It was planned that the marketing of the units developed under this project would follow the completion of marketing of units under HG-010. Some units under this project are nearing completion. Unless marketing of HG-010 project units is accelerated, a serious bottleneck will occur.