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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-1047

July 20, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Regional - Caribbean Development Bank

Attached for your review are the recommendations for authorization of (1) a loan in an amount not to exceed $10,300,000 to the Caribbean Development Bank for the United States Dollar and local currency costs of goods and services to assist the Borrower in developing a secondary market for home mortgages and making sub-loans for housing for low income families, and (2) a guaranty assuring against loss of a loan investment of not to exceed $2,000,000 and interest by an eligible United States investor or investors acceptable to A.I.D. for the long-term financing of houses to be financed by the Caribbean Development Bank.

These proposals are scheduled for consideration by the Development Loan Staff Committee at a meeting on Wednesday, July 26, 1972.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-IV

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CARIBBEAN DEVELOPMENT BANK
HOUSING LOAN AND INVESTMENT GUARANTEE

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* These Exhibits are not included in this paper but are available in LA/DR Files upon request.

CARIBBEAN DEVELOPMENT BANK

HOUSING LOAN AND

INVESTMENT GUARANTEE

PART I Summary and Recommendations

1. Borrower: The Borrower of the AID loan will be the Caribbean Development Bank (CDB), a regional development bank established in 1970 to contribute to the economic development and growth of its members, with special regard to the needs of the less developed regional members.

2. AID Loan: The AID loan will be for up to $10,300,000 to be repaid over 40 years, including a ten year grace period, at an interest rate of 2 percent during the grace period and 3 percent thereafter. The Housing Investment Guaranty will be for a loan in the amount of $2,000,000 to be repaid in 25 years.

3. Purpose: The purpose of the project is twofold; first, it would provide housing at the low income level which would generate additional employment in the building trades, and serve to develop more efficient local low cost housing institutions; second, it would create a secondary market for residential mortgages at the middle income level thereby accelerating house construction for the lower middle and middle class.

4. Background: The concept of a secondary market in residential mortgages for the Caribbean was first broached in the Barall Report on development of the Caribbean. It was given impetus by the AID loan to the Jamaica Mortgage Bank and the reports of the Federal National Mortgage Association (FNMA) relating thereto. During discussions with the CDB, the CDB also requested assistance at the primary level for low income families because of the numerous requests from its member territories, the socio-political implications of inadequate housing and the need for employment.

The Barall Report had contemplated a secondary market for the entire Caribbean. However, it is the policy of the CDB to, for the time being, concentrate its assistance on the smaller, less developed states and territories. i.e., Antigua, Dominica, Grenada, St. Kitts, St. Lucia, St. Vincent, Montserrat and British Honduras. During negotiations, the CDB agreed to invest $3 million in the secondary market activity. The CDB also agreed that it would continue to regard housing as high priority and to assure the continuance of the program through later inputs. Local inputs at the low income level will come from capital contributions of the local governments and/or foreign assistance from the British and Canadian governments.

5. Project Description: The CDB will use the AID loan and other funds to finance housing programs in its member states and territories. There will be two distinct categories of the CDB assistance.

a. The CDB will serve as a secondary market for medium cost residential mortgages by operating as a reserve or back up for residential lenders through the purchase and sale of their mortgages and by attracting institutional and other funds into home mortgages through their resale or the offering of obligations backed by a portfolio of home mortgages and free of the problem of holding mortgages. Income will be derived from the purchase of mortgages at a discount sufficient to cover the cost of the CDB's secondary market activities. Although the program will be initiated exclusively with the less developed states and territories it will be expanded to include the other members if, after one year of operation, demand is too weak. In any case the program will eventually include all the members.

b. The CDB will provide financial assistance to eligible public bodies or private non-profit institutions for low cost housing programs to supplement local contributions. This program will be available initially to the less developed states and territories but may, at the discretion of the CDB, be expanded to include other members of the CDB. While efforts will be made to provide assistance to all of the less developed states and territories, the amounts and timing will depend on their performance in meeting the criteria established by the CDB.

There will be separate accountability for the two activities described above.

6. Financial Plan: The resources of the CDB for housing will be derived initially from the AID loan, a U.S. housing investment guaranty (HIG) and an equity contribution for the CDB. In addition, the eligible states and territories and home owners will provide contributions to the program.

Source	Amount
AID	$10.3 million
CDB	3.0 million
HIG	2.0 million
Local Institutions	2.0 million
Home Owners	1.5 million
	$18.8 million

Within the total financial plan, the breakdown between the secondary mortgage market fund and low cost housing is as follows:

Secondary Market

Source	Amount
AID	$4.0 million
HIG	2.0
CDB	3.0
Home Owners	1.5
	$10.5 million

Assuming an 8% rate on the investment guaranty, the average interest to the CDB will approximate 5% per annum.

Low-cost Housing

Source	Amount
AID	$6.3 million
Local Institutions	2.0
	$8.3 million

The CDB will relend at 4% to the local institution which will pass it on at the same interest rate, thus receiving no spread, to the home purchaser. In lieu of a spread, the local institution will charge occupants 2% per annum of the construction cost to cover maintenance and management. The CDB loan will be guaranteed by the host government.

7. Alternate Sources of Financing: The IBRD, IDB and Eximbank are not interested in providing financial assistance to this program.

8. Statutory Criteria: All applicable criteria have been met as indicated in the Checklist of Statutory Criteria.

9. Markets to be Served:

a) Primary Market: The market toward which the low income fund is directed is generally families earning between $1,000 - $1,200 annually and for housing, including land, costing approximately US$2,700 - US$3,400. The limit will vary somewhat territory by territory with maximum incomes approximating the following:

Antigua	EC$2500 (US$1400)
Dominica	EC$2700 (US$1500)
Grenada	EC$2500 (US$1400)
Montserrat	EC$2000 (US$1100)
St. Lucia	EC$2600 (US$1450)
St. Kitts	EC$1700 (US$ 950)
St. Vincent	EC$1900 (US$1600)

The market for the top of this income group is at least 1,100 annually based on yearly new family formations of 3,500 the backlog of need, multi-family occupancy, obsolescene and dwellings unfit for habitation. The three year program contemplated a total initial construction of 2,200 dwelling units with only 500 constructed in the first year of construction so that there is a margin of safety.

b) Secondary Market: The market to be served is the middle income level. In general this has been defined as incomes over EC$3000 (US$1,900) for houses costing EC$9,000 - EC$20,000 (US$5,000 to US$12,000). This market has been estimated at 800 per year.

10. Issues: The principal issue analyzed and resolved during the intensive review was the role of the Commonwealth Development Corporation in housing finance in the Caribbean and the A.I.D. investment guarantee fee. Details of those issues are presented in Part V.

11. Recommendations: On the basis of the intensive review, the Project Committee has concluded that the proposed project is technically, economically and financially sound. Thus, it is recommended that a loan to the Caribbean Development Bank, in an amount not to exceed $10.3 million be authorized, subject to the following terms and conditions:

a) Interest and Repayment Terms: The Borrower shall repay the loan to AID in U.S. dollars within forty (40) years from the first disbursement under the Loan, including a grace period on the repayment of principal of ten (10) years, with interest payable in U.S. dollars at two (2%) percent per annum during the grace period and three (3%) percent per annum thereafter.

b) Other Terms and Conditions:

1. $6 million of the AID loan will be used for relending to eligible local public or non-profit private bodies for the construction of housing generally serving households earning from EC$1,800 - $2,100 (US$1,00 - $1,200) annually; $4,000,000 for the purchase of home mortgages on housing generally not exceeding EC$20,000 (US$12,000) in value; and approximately $300,000 may be used by the CDB for technical assistance to, and monitoring of local authorities.

2. The CDB will provide US$3 million in equity financing for the secondary market fund.

3. The CDB will covenant that, unless AID agrees otherwise in writing, for the purpose of providing funds for the continuance of the program, prior to any disbursement of loan funds for the Secondary Market Fund in excess of $2,000,000, or within 24 months of execution of the loan agreement, whichever occurs sooner, it will have developed and offered to the public an obligation of the Borrower, satisfactory to AID with such incentives as may be necessary to assure its purchase.

4. Prior to the first disbursement for the Primary Market Fund the CDB will establish rules and regulations satisfactory to AID governing the use of that fund.

5. Prior to the first disbursement for the Secondary Market Fund the CDB will formulate rules and regulations satisfactory to AID governing the use thereof.

6. After one year of operations under the Secondary Market Fund, the CDB and AID will hold a progress review. If it is determined that the less developed regional members of the Bank are not utilizing the available funds at an acceptable rate, the Bank will agree to open the Fund to other regional member countries.

Project Committee

Loan Officer and Chairman:	R. Bobel, LA/DR
Housing Advisors:	H. Robinson, LA/DR M. Pita, FCH T. Callaway, HUD H. Plant, FHLMC
Economist:	J. Cook
Principal Drafters:	H. Robinson, R. Bobel, J. Cook, M. Pita

PART II THE BORROWER

The borrower of the AID loan will be the Caribbean Development Bank (CDB) established on January 26, 1970 with headquarters in Bridgetown, Barbados.

The Bank's membership consists of the English speaking states and territories of the Caribbean, Canada, the United Kingdom, Venezuela and Colombia, the latter two admitted in April, '72. A listing of the Caribbean states follows:

Independent States	-	Jamaica, Trinidad and Tobago, Barbados and Guyana.
Associated States	-	Grenada, St. Vincent, St. Lucia Dominica, Antigua, and St. Kitts-Nevis-Anguilla.
Crown Colonies	-	British Honduras, the Bahamas, Montserrat, British Virgin Islands, the Cayman Islands, and the Turks and Caicos.

The principal purposes of the Bank are to contribute to the economic development and growth of its member countries in the Caribbean and to promote economic cooperation and integration among them, with special regard to the needs of the less developed members of the region.

A. History

At the Canada/Commonwealth Caribbean Conference held in Ottawa in July 1966 it was decided that a study should be made of the possibility of establishing a financial institution to serve the Commonwealth Caribbean countries and territories. In November of the same year a conference of representatives of the Governments of Barbados, Leewards, Windwards, Canada, the United Kingdom and the United States of America was held in Antigua to consider the Report of a team of experts which had been commissioned by Canada, the United Kingdom and the U.S.A. to make an economic survey of Barbados, Leewards and Windwards.

One of the recommendations in the Report was that there should be established a Regional Development Bank for the territories which were included in the Survey. However, representatives of the Conference, bearing in mind the decision of the Ottawa Conference, agreed that consideration should be given to the establishment of an institution to serve all the Commonwealth Countries and territories.

With the concurrence of all Countries and Territories, the U.N.D.P. was requested to appoint a team of experts with the following terms of reference:

> "To undertake a study of the possibility of establishing a financial institution for regional development in the Caribbean which might be used as a method of financing projects of particular interest to the smaller areas as well as projects which would benefit the region as a whole".

The team, whose report was submitted in July 1967, recommended the establishment of a Caribbean Development Bank with an intitial capital of U.S.$50 million. The Report was considered at a Meeting of Officials in Georgetown, Guyana, in August, 1967 and its acceptance was recommended. At a Conference held in Barbados in October 1967, the Heads of Government of the Commonwealth Caribbean countries and territories accepted the Report and established a Committee of Officials to work out details for the establishment of the Caribbean Development Bank, including the preparation of a Draft Agreement.

The Draft Agreement Establishing the Caribbean Development Bank was submitted early in 1968 and was finally adopted after three Meetings at Ministerial level. At the last Meeting in July 1969 a Preparatory Committee for the Establishment of the Bank was set up and a Project Director was subsequently appointed. The Committee was responsible for all arrangements leading up to the establishment of the Bank, including the Conference of Plenipotentiaries, ratifications and the Inaugural Meeting of the Board of Governors. The Committee received assistance from the U.N.D.P., International Bank for Reconstruction and Development and the Inter-American Development Bank.

The Agreement was signed at Kingston, Jamaica, on 18th October, 1969, at a Conference of Plenipotentiaries of eighteen Countries and territories and it entered into force on 26th January, 1970.

The Secretary-General of the United Nations acted as the Depository for the Agreement and the Government of Barbados was appointed as Trustee for the receipt of payments of the first instalment of subscriptions towards share capital.

B. <u>Capitalization</u>

The CDB initiated operations with an authorized capital stock of US$50,000,000, of which $25,000,000 was to be paid-in and the balance callable. (See Annex IV Exhibit 1 for breakdown of shareholdings by member). The paid-in capital was to be contributed in five installments, the first 20 percent ($5,000,000) of which was paid-in when the Bank initiated operations. The balance was to be paid-in at the rate of 16 percent per year over the next five years. At the end of CY 1971 paid-in share capital amounted to $9,896,000 (including an advance payment of $896,000) and an additional $4,000,000 will be paid-in during CY 1972 by the Bank's original members. (See Annex IV, Exhibits 2 and 3 for CDB Balance Sheets for CY 1970 and 1971.) In addition, the recent admission of Venezuela and Colombia in April '72, has added another $1,800,000 to paid-in capital bringing the Bank's total paid-in equity to $14,800,000 during CY 1972. At its recent Board of Governors meeting in April '72, the Bank's authorized capital was further increased from $50 million to $100 million to provide shares for new members.

In addition to its share capital resources the Bank has a separate special fund known as the Special Development Fund which may be used to make or guarantee loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those determined by the Bank for its ordinary operations. Thus far Special Development Fund resources include an AID loan of $10,000,000, interest free contributions from the U.K. and Canada of $5,000,000 each and a $2,500,000 Canadian contribution for agricultural development of the less developed members of the Bank. Thus, the Bank now has available some $22,500,000 in its Special Development Fund. In addition, Venezuela and Colombia have offered to contribute $5,000,000 and $3,000,000, respectively, to the Fund. With these resources the total long term debt availabilities of the Fund will exceed $30,000,000.

C. Organization

The Bank has a Board of Governors, a Board of Directors, a President, a Vice-President, and operating staff.

The Board of Governors consists of a representative of each member government and is headed by a Chairman elected by the Board at its annual meeting. The Board of Governors represents the highest authority of the Bank. It may delegate some of the powers to the Board of Directors. However, among the significant powers that it may not delegate are those regarding membership of the Bank, the election of Bank Directors and President, and the decision to terminate the operation of the Bank and to distribute its assets.

The Board of Directors is composed of ten (10) members of whom eight (8) are elected by governors representing regional members and two (2) are elected by governors representing non-regional members. The Board of Directors is essentially responsible for the general operations of the Bank. Its Chairman, who is appointed by the Board of Governors, also serves as the President of the Bank.

The Bank's operating documents have been carefully reviewed and approved by AID in connection with the CDB's compliance with the conditions precedent of AID Loan No. 538-L-001. These documents, on file in LA/DR, include the following:

i. Agreement Establishing the Caribbean Development Bank. (This document also serves as its Charter);

ii. By-laws of the Caribbean Development Bank;

iii. Agreement Between the Caribbean Development Bank and the Government of Barbados Regarding the Headquarters of the Caribbean Development Bank, and;

iv. The Bank's operating rules and regulations consisting of,

a) Financial Policies,
b) Loan Conditions,
c) Guidelines for Procurement,
d) Guidelines for Choice of Consultants, and
e) Special Development Fund Rules

Staffing of the Bank - The Bank is most fortunate in having as its President, Sir Arthur Lewis, an internationally known and respected economist. Prior to his acceptance of the Bank's presidency, Sir Arthur had been, for the previous seven years, a professor of public and international affairs of Princeton University. He has published books in his field; held numerous positions with the United Nations as an economic advisor and consultant; served the Government of Jamaica as director of its Central Bank and as a member of its Industrial Development Corporation; and was an important figure in British academic life for more than twenty years. Sir Arthur is a West Indian, born on January 23, 1915 in St. Lucia. His formal professional education was British; he earned a Ph.D. from the London School of Economics and an M.A. from the University of Manchester.

At the end of CY 1971, the Bank had a total staff of 45 of which 18 were professionals and 27 non-professionals. Of the 18 professionals on the Bank's staff, 7 were recruited during 1971 under an agreement whereby the United Nations Development Program (UNDP) undertakes to provide technical assistance to the Bank. A review of the Bank's staff leads us to the conclusion that it possesses the needed background and experience to successfully implement the development objectives set out in the Bank's Charter. Annex III, Exhibit 3 contains the staffing pattern of the Bank.

D. Operations

The Bank completed its second year of operations on December 31, 1971 and is now in the midst of its third year.

Lending operations were limited in the first year as staff recruitment, drafting of operating documents and initial review of loan proposals dominated the activities of the Bank. The number of loan commitments accelerated in CY 1971 as the Bank approved 20 loans with a total commitment of US$6,099,027 bringing the total commitment level to $7,163,410 by the end of CY 1971. The breakdown of these commitments were as follows:

CDB Commitments

Source	Amount
Ordinary Resources	$ 3,385,455
Special Development Fund	2,427,955
Canadian Agricultural Fund	1,350,000
	$ 7,163,410

The AID loan was utilized as the source of financing for the loans approved under the Special Development Fund - $2,427,955. These consisted of a loan to British Honduras for a power and distribution system expansion and to several of the Associated States for credits for small industry. According to the Bank's Annual Report for 1971, it expects to commit at least US$15 million during CY 1972. Furthermore, the Bank's staff has indicated that, of this amount, some $6.4 million will be committed from AID's first loan bringing the total amount of AID commitments to US$8.8 million.

In summary, the Bank is now in full operation and is able to utilize its lending resources in line with previous projections. For this reason we are confident that it is now appropriate for the Bank to initiate the housing program discussed herein.

E. Profitability

As a public development bank profit maximization is not an objective of the CDB. On the other hand, it is important that the Bank does not operate at a loss so that it can obtain long-term debt financing on the competitive world money market as well as from the international development institutions on more concessionary terms. Thus, the Bank takes a careful look to assure an adequate spread on each of its lending operations to assure that it does not operate in the red. During its first two years the Bank has managed to earn a slight profit even though its scale of operations was limited. On total incomes of US$225,521 and $445,347 in 1970 and 1971 it had net profits of $14,514 and $10,485, respectively. The biggest expense item was that of its staff which increased from $169,353 in 1970 to $257,113 in 1971. Annex IV, Exhibits 4&5 contain the Bank's profit and loss statements for its two operating years.

PART III - Description of the Project.

A. Background

The eight territories comprising the lesser developed members of the Caribbean Development Bank (Antigua, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, St. Vincent and British Honduras) have a population of approximately 650,000 and by 1980 should have a population exceeding 750,000. They have an increasing housing deficit and an increasing unemployment. In the lower income levels, there have been some sporadic attempts by governments to build housing, primarily for rent, but the total has been miniscule in comparison to the need and rental housing has been affected by non-payment of rent. In the middle income groups, the lack is adequate financing.

In 1967, the Barall Report suggested several forms of regional activity in the field of housing, including a regional secondary market patterned after the Federal National Mortgage Association (FNMA) in the United States but the Barall Report was never implemented. The Caribbean Development Bank, however, has recently been subjected to pressure by its members to do something about housing, particularly low income housing. As a result, the CDB requested assistance from AID at two levels: (1) a concessional loan, which coupled with CDB equity, would help create a secondary market for the middle income families and (2) a concessional loan which, coupled with local contributions, would permit reaching low income families. A precedent exists in the Caribbean in the recent AID loan to the Jamaica Mortgage Bank.

Taken individually, the needs and capabilities of the above mentioned territories are so small as to make difficult any approach on an individual country basis. Collectively, on a regional basis, a limited secondary market is feasible and a pattern of assistance to low income families can be developed.

Following the application of the CDB, a team of low cost housing and secondary market experts visited the East Caribbean to explore with the CDB the feasibility of the proposed approaches and has made recommendations embodied in this CAP.

B. Nature of the Project

1. Primary, low cost program

The CDB is desirous of meeting the pressing political, social and economic needs of the East Caribbean. A plan has been devised for sub-loans to public or private non-profit bodies for the development of low cost housing projects. Because of the cost of even basic construction some subsidization is essential. This will be in the form of capital, and possibly debt service contributions by the local territories. Moreover, because of the past sad experience with rental housing and the questionable performance of some existing public bodies, Hire-Purchase (as described below) will be used and some existing local public institutions may be by-passed.

In essence, as explained in greater detail under the Financial and Implementation Plans, sub-loans for construction, only, will be made to local institutions at 4% per annum amortized in 20 years. These will be coupled with local contributions of land and urbanization, and of construction costs exceeding EC$10.00 (US$5.50) per square foot.

Presently, the cost of construction ranges from a low of EC$9 per square foot in Dominica to EC$13.50 in St. Lucia to EC$21.00 in Antigua but economies are achievable. In lieu of outright sales supported by home mortgages, houses will be assigned on a Hire-Purchase arrangement with the occupant obtaining title at the end of twenty years. During that period, the occupant will pay 4% per annum, amortized on a maximum of EC$5,000 (US$2,800) of the cost of the house (the rest of the development cost will be covered by capital contributions of the host territory) and pay 2% per annum on the EC$5,000 (US$2800) to cover maintenance and management.

It is contemplated that, with possible savings in construction costs and taking into consideration one and two bedroom houses, that actual construction costs will range as low as EC$2700 (US$1800). On the basis of 25% of income for debt service, there is a market in the low income levels. It is customary in the islands to pay anywhere from 33% - 50% for rent so that strict adherence to a 25% of income ratio is not necessary. Moreover, there is a sufficient gap between the incomes of "low" income and "middle" income families to provide a cushion of demand.

Subsidies are a normal form of assistance throughout the world. Written down land values is the most painless form of subsidy for governments. Absorption of part of the interest is another tool. The Caribbean follows this pattern.

Over a four year period (the first year will be a programming, pre-construction phase), there is an institutional capability of over 3000 dwelling units as compared to the 2200 estimated to be built from the initial $6,000,000 loan.

2. Secondary Market

The need for a secondary market in the Caribbean for home mortgages has been apparent for a number of years. The resources of existing thrift and mortgage institutions serving the various territories in the area, taken individually, are of limited volume, liquidity and mobility. Collectively, however, these institutions represent a relatively substantial source of housing funds, if a way could be found to coordinate and augment them. The Caribbean Development Bank (CDB), which has been in operation for approximately two years, could achieve these goals through establishment of a secondary mortgage operation. The resulting increased liquidity and access to additional resources would make possible accomplishments that the individual institutions by themselves are not able to achieve. With this as background, Sir Arthur Lewis, President of the CDB, on December 21, 1971, requested A.I.D.'s assistance in establishing a secondary mortgage market operation in the Bank.

A feasibility study of the project was conducted April 10-28 by a team which included personnel from the A.I.D. Latin American Bureau, a consultant from the A.I.D. Office of Housing (SER/H), the International Affairs Division of HUD, and the Director of Research of the Federal Home Loan Mortgage Corporation, a recently created secondary mortgage operating agency for the U.S. savings and loan industry.

a. Nature of a Secondary Mortgage Market

A Secondary mortgage market exists when one source of funds (generally a home finance institution or a mortgage bank or broker) "originates" (i.e. makes and services) mortgage loans and another source of funds purchases those home mortgages or participations in them from the original lenders at a yield to the secondary purchaser adequate to cover the cost of money to it, its administration costs and servicing costs. Purchases may be of existing mortgages or, where the situation warrants, in the form of advance commitments for mortgages existing at the time of transfer to the CDB.

The secondary market provides a means for providing liquidity to participating primary lenders, for geographically redistributing resources as the situation permits and warrants, and for tapping resources not otherwise available for home mortgages.

b. Specific Objectives

(1) Increased Liquidity

Except for mortgage financing subsidiaries of the Commonwealth Development Corporation (CDC), lending institutions in the CDB area are dependent upon their own resources and have not taken the effort or been able to raise savings at a level and under conditions which will allow them to expand their lending facilities and to meet the home financing requirements of their local lending areas. There is an overall low rate of savings in the economies of the islands due to a high rate of local inflation and low rates of interest on savings accounts. Only recently, have interest rates on savings risen to 4% - 7% as against a previous rate of $2\frac{1}{2}$ - $3\frac{1}{2}$%. In addition, individual savings accounts fluctuate greatly, thereby requiring large reserves against possible withdrawals.

As a result of this very illiquid position, these institutions have adopted very conservative lending practices. Loan/value rations are generally only 50-60%, and the mortgage term is 5-10 years, although the Cooperative Bank of Dominica is now making 15 year loans. Therefore, although the average size of their loans ranges from U.S. $8,600 - $14,300, which is within the proposed middle-income price range, the down-payment requirement and the level of monthly payments necessary to amortize the loan combine effectively to preclude these institutions from serving the middle-income market.

Improved liquidity, together with increased loan/value ratios and extended terms permitted by CDB financing, will provide these local institutions with sufficient funds to meet the overall home financing requirements of their local lending areas with loans designed to reach moderate-income families.

(2) Geographic Allocation

The cooperative banks and building and loan societies that will participate in the proposed secondary market program must rely upon the savings generated within their own lending area. In addition to their general insufficiency, these funds must be limited to a relative small market area and cannot be reallocated to areas of relatively greater effective demand. This results in an additional inelasticity of the amount of mortgage funds supplied, which the proposed secondary market operation can remedy.

(3) Ability to Expand Mortgage Funds

In order to secure a continuous flow of funds to the mortgage originating institutions, the purchase of mortgage loans from primary lenders has to be combined with the marketing of CDB securities designed to augment funds available for housing. CDB plans to pool mortgages or participations purchased from primary lenders with other of its assets against which it will issue general obligations backed by its guaranty.

CDB does not wish to divert funds from existing sources into the secondary mortgage market, but rather wishes to develop new sources of funds. CDB, therefore, plans to take the necessary steps to tap some of the capital expatriated by foreign-owned commercial banks and insurance companies for investment in the secondary mortgage facility.

Other sources of financing may include inter-national borrowings, such as those made available through the A.I.D. loans and the Housing Guaranty Program. The effective pooling of the CDB area through the secondary mortgage technique **provides** a market sufficiently large to interest an international lender, where as the individual local institutions do not.

(4) Influence Policy

By virtue of its ability to provide the resources for home financing and the conditions for their use, CDB will be in a position to influence substantially the direction of housing and housing finance policy in its area.

(a) Home prices--by establishing ceiling prices on homes to be financed CDB through a secondary market can assure that increased funds will be used to provide housing within a price range acceptable to middle-income families. Availability of financing will encourage builders to build for this market. Increasing competition, and a continuing downward pressure by CDB on ceilings in terms of a constant E.C. $ should also encourage improved construction techniques and lower costs.

(b) Interest rates--the CDB discount and the rate at which it can sell its securities will have an influence on the mortgage rate that must be charged by the primary lenders and, ultimately, on the rate that can be paid for savings. The CDB interest rate strategy is separately discussed in this section.

(c) Construction standards--will be influenced by any minimum property standards established by CDB for participation in financing new construction.

(d) Unified mortgage instrument--Cooperative banks and building and loan societies generally use an open-end mortgage instrument with the total amount due to be paid on demand. Some of the institutions require a three month interest penalty in the event of pre-payment. These terms contrast with those offered by the area's mortgage finance companies, which are wholly-owned subsidiaries of Commonwealth Development Corporation a British government development financing organization, and whose mortgage documents generally provide for amortization over a fixed period of time and for pre-payment without penalty.

C. Socio-Political Implications

The East Caribbean islands, like other parts of the world, are suffering from both a rising housing deficit and unemployment. External restrictions on emigration is further increasing the problem. The need for relief on both counts is particularly evident in the low income urban population.

Because of the cost of construction and the low incomes, very little housing has been constructed for families of low income resulting in increasing overcrowding, an increasing backlog of deficits, and rumblings of social and political discontent. Assistance for middle income families, alone, would raise socio-political problems.

Some subsidization is needed to permit reaching most families of low income. In the past, in the **Caribbean,** this has taken the form of subsidized rental housing. Subsidies have also been in the form of written down land values.

The CDB has proposed two forms of subsidy: (1) local contributions in the form of land, urbanization, and payment for construction costs in excess of EC$10.00 (US$5.50) a square foot, and (2) a subsidized interest made possible by a concessional loan from AID. In order to control maintenance and facilitate evictions for non-payment, the CDB proposes to use a technique which is wellknown in the British Commonwealth, called "Hire-Purchase". This is a form of rental with option to purchase under which the occupant does not acquire title until the cost of the house has been paid off, but, even in the case of the sale of his interest, still receives some of the benefits from inflation and that part of his "rental" which is attirbutable to amortization. (See Annex II).

Hire-Purchase will result in a higher fixed monthly debt service than outright sale since the CDB proposes to charge a 2% fee on the original sales price over the course of the twenty year amortization period. For the income group involved, however, the CDB feels that this is an essential safeguard.

1. The Housing Need and Demand

The population of the eight territories of Antigua, Dominica, Grenada, Montserrat, St. Kitts/Nevis/Anguilla, St. Lucia, St. Vincent and British Honduras is approximately 650,000 with 150,000 households. Sixty five per cent of the urban population is estimated to fall within the category of low income, that is, incomes of less than EC$200 (US$100) per month. Household growth is now exceeding that of population.

Population and households projected over the next ten years are as follows:

	POPULATION		HOUSEHOLDS	
	1970	1980	1970	1980
Antigua	61,000	72,000	16,000	19,000
Dominica	70,000	82,000	17,000	21,000
Grenada	106,000	126,000	20,000	29,000
St. Kitts	60,000	62,000	16,000	18,000

St. Lucia	101,000	118,000	22,000	28,000
St. Vincent	89,000	100,000	17,000	19,000
Montserrat	12,300	13,000	4,000	3,700
Br. Honduras	119,000	156,000	24,000	32,000
TOTALS	638,000	731,000	135,000	169,000

The housing demand is composed of new household increases, the need for improving or replacing 9000 urban substandard and obsolescent housing and provision for 5000 over-crowded urban families. Household increases denote a total annual need for new housing of 3500 dwelling units, or 35,000 dwelling units over the next ten years. The replacement need has been estimated at 900 a year, or 9000 over a ten year period. The total annual need over a ten year period is, therefore, 4900 of which 3200 are estimated to be families of low income.

Family incomes can be categorized as high, middle and low. Extensive United Nations studies indicate the following average income levels in EC dollars:

	HIGH	MIDDLE	LOW
Antigua	EC$9000 (5%)	EC$4800 (25%)	EC$1300 (70%)
Dominica	5500 (5%)	3000 (35%)	1700 (60%)
Grenada	8000 (10%)	2700 (30%)	1200 (60%)
St. Kitts/N/A	7000 (5%)	3000 (30%)	1000 (65%)
St. Lucia	8000 (7%)	4500 (28%)	1500 (65%)
Montserrat	7000 (7%)	3500 (30%)	2000 (63%)
St. Vincent	5500 (7%)	2800 (30%)	1900 (63%)

The term "low income" has been defined in the U.N. studies as annual incomes of less than EC$2600 in St. Lucia; EC$1900 in St. Vincent; EC$2500 in Antigua; EC$2000 in Montserrat; EC$2700 in Grenada and EC$1700 in Dominica. These can be further sub-divided into high, middle and low low incomes as follows.

Average Incomes

	HIGH	MIDDLE	LOW
Antigua	EC$2500	EC$1500	EC$650
Dominica	1700	1200	600
St. Kitts/N/A	1700	1000	600
Grenada	2700	1350	800
St. Lucia	2600	1800	850
St. Vincent	1900	1200	500
Montserrat	2000	1400	700

In Honduras, a recent study indicates a need for 250 new urban houses a year for families earning between EC$750 - EC$1500 a year.

The middle-income market as defined by the UN and CDB consists of households with a yearly income of EC$3,000-$7,000 (US$1,700 - $4,000), or monthly incomes of US$150 -$325. About 30% of the households in the East Caribbean islands fall in this category. Because of the limited geographic extent of the market areas, the majority of families at this income level live within reach of the urban market area.

The type of unit sought by the middle income group consists of living room 3 bedroom, bath, Kitchen with medium size lot. CDC subsidiaries in St. Vincent, and St. Lucia have been able to offer this type of dwelling at an average cost of EC$17,000 approximately US$9,900.

For purposes of this analysis, if an average house price of US$10,000 is assumed, to be financed by an 80% mortgage at 8% for 25 years, with monthly payments not to exceed 25% of income, a U.S.$10,000 house financed on the above terms would be available to housheolds earning about EC$5,000 (US$2,860) a year or more. Using the above assumptions, a total of 1,125 houses could be financed from the $9 million initial capitalization over the three years of disbursement.

The following table indicates the number of existing families and new household formation at this income level. Based on review of current operations by primary lending institutions in the Eastern Caribbean area, an estimated one-third of those families able to purchase homes at a given price level and not now occupying adequate housing may be considered to be willing to buy and, therefore, will be actually in the market for the estimated three-year disbursement period of the Loan:

Total Estimated Effective Demand - Three Year Disbursement Period
Middle-Income Housing - Eastern Caribbean Area

	(a) New Households 3 yr. period	(b) Number of Families Able to Borrow and Not Now Occupying Adequate Housing	(c) Est. Demand 1/3 of (a & b)	(d) Housing to be Built by CDB Program
Antigua	225	800	400	
Dominica	300	1300	530	
Grenada	675	1000	550	
Montserrat	30	300	100	
St. Kitts/N/A	150	600	250	
St. Lucia	450	1500	650	
St. Vincent	150	1000	380	
Br. Honduras	24	150	50	
TOTALS	2004	6650	2910	1125

Even considering 900 additional units that could be built by the primary lenders, including the CDC, using their own funds, the unmet demand would be about 2000 for the three year period.

2. Housing Cost

The cost of housing in the Caribbean territories is affected by the cost of land and the high cost of materials. Ninety per cent of building materials are imported. Mark-ups on materials are usually more than 100% of the landed cost. Since materials account for 60% of house cost, the reason for the high cost of construction is obvious. A scarcity of skilled artisans further results in higher costs.

Construction costs per square foot presently range from EC$10.00 (US$5.50) to EC$23.00 (US$13.00). For a basic 500 square foot house, therefore, the house alone, without land, would cost approximately EC$5000 (US$2800) to EC$10,000 (US$5500). In comparison, a basic low cost house under an IDB loan in Trinidad and Tobago will cost US$3.76 a square foot. In such Latin American countries as Colombia, Ecuador, Guatemala, Honduras, Nicaragua and Venezuela, minimum IDB low cost housing averages only $3.00 a square foot.

Under the proposal submitted by CDB, a 500 square foot house would approximate EC$6500 (US$3600); Land, EC$500 (US$280); urbanization, EC$500 (US$280); fees and administration EC$500 (US$280); construction, EC$5000 (US$2800). The host territory is expected to contribute land and urbanization, and any costs in excess of EC$10.00 a square foot. Actual construction costs could approximate EC$12.00 (US$6.70) a square foot, but intensive review indicated potential savings of 20%-25% in modified design and construction and reduced square footage.

If centralized purchasing can be instituted, it alone could mean a reduction of construction of 25%. The above cost, moreover, reflects a three bedroom house. The program contemplates a number of two bedroom and one bedroom units so that the average per house is more likely to be 420 square feet or an average cost of EC$4200 or US$2300.

Further economies are feasible through the use of aided self help techniques and cooperative approaches. While initial discussions indicated a resistance to aided self help, it is expected that such methods can be found acceptable during implementation. Cooperatives are a familiar form of institution throughout the islands so that additional savings in both development and maintenance and management are possible through that approach.

Even assuming a cost to the occupant of EC$5000 (US$2800), approximately 2200 dwelling units could be initially constructed. Assuming a return to the CDB of 4% on a US$6 million loan over a 20 year period, this figure could double in the first twenty years.

The United Nations has made very extensive studies, island by island, of the income levels, dividing the levels into Affluent, Middle and Low Income Families and further subdividing the Low Income category into High, Middle and Low low income families. In general, 60% - 70% of the families fall within the category of Low Income, with a wide range within that latter category and with the larger grouping being in the lower categories of low income. It is evident, nevertheless that there is a substantial market for families within the low income bracket who can afford the housing herein contemplated, with the capital subsidies involved, with housing costing no more than 25% of income. Moreover, montly payments for rent now range from 30% - 50% of income. While it would be preferable to limit "debt service" to the standard 25% of income, it is an acceptable practise in the islands to pay the larger amount.

3. Institutions Involved or Potentially Involved in Housing

Throughout the territories there are a variety of public, quasi public and private institutions that are involved in housing and housing finance, or could be involved both as potential sources of funding of low income housing once it has been demonstrated by this project that low income housing is feasible, and as users of a secondary market. Individually, their contribution is limited. Collectively, they could bring to bear substantial human and financial resources.

Antigua:

Central Housing & Planning Authority
Government Savings Bank
Sugarcess Welfare Fund
Cooperative Bank

Dominica:

Central Housing & Planning Authority
Government Savings Bank
Civil Servants Government Housing Loan Board
Cooperative Bank
Building and Loan Association
Mortgage Finance Company (CDC)
Credit Unions

Grenada:

Government Housing Loan Board
Cooperative Bank
Building and Savings Loan Association

St. Lucia:

St. Lucia Housing Authority
Urban Development Corporation
Banana Growers & Exporters Welfare Fund
St. Lucia Mortgage Finance Corporation (CDC)
St. Lucia Cooperative Bank
National Provident Fund

St. Kitts/Nevis/Anguilla:

Central Housing and Planning Authority
Government Savings Bank
Sugar Industry Worker's Welfare Fund
National Provident Fund

St. Vincent:

Government Savings Bank
Building and Loan Association
Cooperative Bank
National Provident Fund
Banana Growers Association Welfare Fund
Housing Finance Company (CDC)

Montserrat:

Government Savings Bank
Civil Servants Housing Loan Scheme
Montserrat Building Society
Employees Provident Fund

In addition to the institutions listed above, commercial banks and insurance companies now sending substantial sums outside the islands exist in all the island territories and are tappable sources of funding. National Provident Funds have recently been established in Antigua, St. Vincent, St. Lucia, Dominica, Grenada and could be additional substantial, increasing sources of mortgage finance. On the other hand, because of the low interest paid on deposits, the Government Savings Banks are losing savings and cannot be considered sources of financing unless rates are raised.

4. Institutional Capacity for Low Income Housing

In most of the territories, Central Housing and Planning Authorities exist (Antigua, Dominica, St. Lucia, St. Kitts, and St. Vincent), but are relatively moribund for lack of capital resources and are generally limited to administering rental housing or developing land. Actually, relative to present construction they often have more personnel than needed. They can also call upon the personnel in the Public Works Ministeries. With technical assistance and increased staffing, the territories could produce approximately 3000 dwelling units in a three year construction period.

The following illustrates the existing public housing bodies:

ANTIGUA:

A Central Housing and Planning Authority was created in 1956 and is presently located within the Ministry of Public Works and Housing. The CHPA has a Chairman, Housing Executive Officer, Building Surveyor, Housing Property Manager, Senior Clerk, Assistant Draftsman/Surveyor and Clerical personnel and an annual budget of EC$83,000 (US$42,000).

On behalf of the Sugar Cess Labour Welfare Fund, about EC$1.0 million has been spent for housing from 1949 - 1970 for 525 houses, for rent, or an average of 25 houses a year. Some 2200 lots have also been developed for sale. Discussions with the CDB and CHPA indicate a capacity to build about 100, 150 and 250 dwelling units in three years if funds are made available.

GRENADA:

Grenada has a Ministry of Health, Housing and Local Government. It does not have a housing staff, although there is a non-technical "housing officer" in the Ministry and there is a basic Public Works Staff which could be used. With the addition of "Quantity Surveyor" and use of the Public Works staff, the construction of 50, 100 and 200 dwelling units in three consecutive years is feasible.

DOMINICA:

A Central Housing and Planning Authority created in 1945 exists within the Ministry of Communications and Works. It has an administrative budget of EC$83,000 (US$42,000) a year and is administering some rental housing. Its activity, however, has been limited by a lack of funds. Nevertheless, it could construct 100, 200 and 250 dwelling units in three year period.

ST. LUCIA:

A Central Housing and Planning Authority created in 1946, and now named the St. Lucia Housing Authority, exists with in the Ministry of Housing, Community Development, Social Affairs and Labour. It is managing 150 houses built by the loans Board and 492 rental houses funded by the United Kingdom. It has, however, been inactive and is being supplanted by the newly created Urban Development Corporation. The latter has a staff of four professionals and operates on a budget of EC$48,600 (US$25,000) but has requested additional staff and a budget of EC$80,500 (US$40,000). It could construct 100, 200 and 300 dwelling units in three years.

ST. VINCENT:

A Central Housing and Planning Authority created in 1946 exists within the Ministry of Housing, Local Government and Community Development. It has a technical staff, consisting of a Secretary and Technical Officer, Executive Officer, Field Technician, Building Inspector/Draftsman and Clerical personnel, and an annual administrative budget of EC$53,000. From 1960 - 1970, it built only 246 houses. It could, however develop 50, 100 and 150 dwelling units.

ST. KITTS/NEVIS:

A Central Housing and Planning Authority (1959) exists within the Ministry of Agriculture, Housing and Labour with a staff capable of constructing 100, 150 and 250 units. Since 1951 it has loaned EC$1.85 million (US$900,000) for new housing and home improvement. It has a capability of 100, 150 and 250 units.

BRITISH HONDURAS:

A Housing Division exist within the Ministry of Education, Housing and Labour with a small staff which is constructing about 30 dwelling units a year. However, it does not have sufficient funds for capital expenditures. Construction of 40, 100 and 150 dwelling units seems possible.

The first year would be a programming period. Discussions with the CDB, the various territories, and a review of their budgets and staffing patterns indicate an ability to produce 500, 1000 and 1500 units in the successive three years of disbursement if properly supported by technical assistance and the Public Works personnel in their respective Ministries, and the CDB, and, if contractor built rather than force account housing is involved. Central purchasing and standard design would also help in the achievement of this goal. While the CHPAS are weak at this point, the legal framework and powers exist and the economic power of the CDB can make this yearly output feasible.

5. Institutional Capacity for Middle Income Housing

a. Existing Institutions

Existing primary mortgage lenders may be divided into two major groups, (i) Cooperative banks and building and loan socieites, and (ii) mortgage finance companies. Some housing finance activity also is undertaken by commercial banks and local pension funds.

(1) Cooperative banks and building and loan societies

About a dozen of these institutions scattered throughout the islands account for something on the order of 35-40% of the volume of mortgage lending. Resources for these institutions must be raised within their own lending areas. Their mortgage lending terms are very conservative - loan/value ratio of 50-60%, term of mortgage only 5-10 years, although, as indicated earlier, the Dominica Cooperative Bank offers 8½% fifteen year mortgages. Face interest rates are 8-10% and are calculated on a quarterly or semi-annual basis, with payments to be made in advance, rather than on a declining balance. Average size of the loans is between \$15,000 - 25,000 E.C. (US\$8,600 - \$14,300). Maximum loans are established by the individual institutions on the basis of available funds.

The conservative lending practices are a result of the unstable savings inflow into the instutions. This instability is accounted for by the following: a) an overall low rate of savings in the economies of the islands, b) a high rate of local inflation, c) the accounts have only recently begun paying reasonable rate of interest (4-6%). Previously, savings rates were on the order of 2½ - 3½%.

A final factor, as indicated by some of the representatives of the associations, is that the savings accounts "churn" substantially, which means that large reserves must be committed against likely withdrawals. On balance, therefore, these institutions are in a very illiquid position and are not in a position to meet the home financing requirements in their local lending areas.

(2) Mortgage Finance Companies

Mortgage finance companies operating in Barbados, Jamaica, Trinidad, Dominica, St. Lucia and St. Vincent have accounted for 50-60% of all mortgage financing since their creation in 1969 by the Commonwealth Development Corporation (CDC), a British government development financing organization. In Barbados and St. Lucia the Governments have some limited capital participation.

CDC borrows from the U.K. Treasury at 6% and provides loan financing to its mortgage companies at $7\frac{1}{2}$%. These funds are reloaned at 8 - ~~$8\frac{1}{2}$%~~ for 20 years by the mortgage companies, plus a 1% commitment fee. Loan/value ratio is 80%, but 90% loans can be made upon payment of a 2 - $2\frac{1}{2}$% fee equivalent to mortgage insurance. The maximum loan is E.C. $30,000 (U.S.$17,000). These companies also sponsor medium-size housing developments. Central management and technical services on a fee basis, as well as personnel for the individual companies, are provided by the East Caribbean Housing, Ltd., a CDC subsidiary based in Barbados. Because of the availability of CDC financing to them, and because CDB wishes CDC to maintain its current investment inflow for housing in the area, the mortgage finance companies will not participate initially in the secondary mortgage facility.

(3) Others

(a) Commercial Banks

The commercial banks are primarily foreign owned - Canadian, U. S. and U. K. Their involvement in lending on real estate activity has recently been increasing due to two factors: a) mounting government pressure to increase mortgage financing, b) increased activity in commercial construction and financing - hotels, tourist facilities, vacation homes.

(b) National Provident Savings Funds

National Provident Savings Funds are local pension funds which are beginning to invest funds in housing through the CDC-owned mortgage finance companies and could be an increasing and very substantial source of home mortgage funds.

(c) Insurance Companies

Insurance companies are primarily Canadian owned and have traditionally withdrawn funds from the islands. Local governments are in the process of enacting legislation requiring a minimum reinvestment of funds in local projects.

PART IV. - FINANCIAL PLAN

While the loan is to one institution, the Caribbean Development Bank (CDB), it is directed at two different income levels and will employ two different techniques. On the one hand, it will engage in a primary market activity and will make sub-loans for housing projects serving low income groups at a reduced interest rate. Income groups will generally be under EC$2600 (US$1400). On the other hand, it contemplates the establishment within the CDB of a secondary market facility aimed at the middle income having incomes averaging above EC$3000 (US$1500) a year and is dependent upon financial institutions such as building societies, cooperative banks, insurance companies, commercial banks and Provident Funds originating mortgages at the primary level.

For the secondary market, there will be a subsidy to the CDB in the form of an AID loan on concessional terms and a CDB equity receiving a limited return. The primary market, on the other hand, contemplates non-repayable contributions from the host territories in the form of land, land development and absorption of that part of the construction cost which exceeds EC$10.00 a square foot.

Both programs have substantial institution building aspects. The secondary market will provide a framework of liquidity for originating financial institutions and a means of tapping and distributing resources not otherwise available, or interested, in home mortgage lending. The primary market will help introduce certain reforms into the manner and cost of materials purchasing, e.g., a central purchasing body can save a considerable part of the 100% mark-up on landed cost of materials, in the reduction of the repayment delinquencies on rental housing (in Barbados, delinquencies approximate EC$4 million (US$2,000,000), throuth the Hire-Purchase technique, in the avoidance of the inefficient practices of the public agencies, and in the reduction of subsidies now being provided.

A. Primary Market

Six million of the $10 million AID loan will constitute a fund within CDB for relending to local public bodies or private non-profit institutions for the development and construction of housing for families earning incomes of less than EC$2600 (US$1400) a year. Sub-loans will be used to cover the construction costs not in excess of EC$5000 (US$2800) per dwelling unit and will bear an interest of 4% a year. Land and land urbanization costs will be a non-reimbursable contribution of the local government which will also be expected to bear any cost of construction in excess of EC$5000. Sub-loans will be repaid over a 20 year period and will be guaranteed as to principal and interest by the local government involved.

While the project contemplates local contributions approximating $2,000,000, the actual burden on the local governments will be blunted by the fact that the land already owned by the local governments will constitute a substantial part of that contribution and that the cost of urbanization can be largely absorbed by their Public Works

Departments. Any subsidy contribution over the estimated cost of EC$5000 per dwelling unit can be reduced by proper design and purchasing of materials. The CDB limitation on its loans should act as an incentive to the local governments to reduce costs.

In addition to the 4% interest and amortization charge, there will also be a 2% per annum fee, based on the EC$5000 loan, to cover costs of construction and maintenance. Since Hire-Purchase is involved, management has the burden of maintenance. Included in administration is collection of "debt service".

B. Secondary Market

The CDB proposes to create a secondary mortgage fund utilizing its own equity, A.I.D. development loan and A.I.D. Housing Guaranty funds, in the following amounts:

SOURCE	AMOUNT	RATE OF INTEREST	TERM
AID Development Loan	$4,000,000	3% (2% during 10 year grace period	40 years (with 10 year grace period)
AID Housing Guaranty	2,000,000	8% a/	25 years
CDB equity	3,000,000	5% (assumed)	---
TOTAL	$9,000,000	4.56% b/	

a/ Includes estimated 7.5% to U.S. investors and 0.5% AID Guaranty Fee.

b/ Approximate cost to CDB.

The CDB will utilize this fund to purchase home mortgages or participations of 75% - 85% in home mortgages from cooperative banks, building and loan societies and other institutions initiating home mortgages. The proceeds will be used by the primary lenders to provide long-term financing for the construction of new housing designed for sale to middle-income families (i.e. families with a yearly income of U.S. $1,200 - 4,000).

The program initially will be made available in the eight territories comprising the lesser developed members of the CDB, i.e. Antigua, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, St. Vincent and British Honduras. After the program has been in operation for a year the CDB will study the advisability of extending it to the larger countries of Barbados, the Bahamas, Trinidad/Tobago and Guyana.

The sales price of the new units to be financed will generally range between U.S. 5,000 and $12,000. Down payments will not exceed 20% of the sales price.

The CDB intends the secondary market operation to function as an integral part of its own operations and not as a separate facility. The mortgage or mortgage participations could then be pooled with other assets of the CDB, against which general obligations would be issued in order to generate new funds.

Interest Rate

An important feature in a program intended to secure self-financing for the secondary mortgage market is the yield CDB will offer to institutional investors purchasing mortgage backed securities or debentures from CDB.

Mortgages to be purchased by CDB from the cooperative banks and building and loan societies over the 2 to 4 year period of the loan will normally have a primary yield of 8%. CDB initially suggested that it would purchase these mortgages at a 6% rate leaving a 2% spread to the primary lending institutions. CDB wanted to build up the capital base of the cooperative banks and building and loan societies and believed that the 2 point spread would permit them to expand their operations by not only providing them with the cost of servicing but permitting them to expand their capital base.

This, however, is not the true concept of a secondary market which assumes a discount by the primary institution to permit the secondary market facility to operate on an economic basis. Mortgages purchased by CDB must provide CDB with a yield, supplemented by CDB fees, sufficient to cover the changing cost of money to CDB, servicing fees and administrative costs. The AID team apprised CDB of other means of increasing the financial benefits to primary lenders participating in the secondary mortgage market-- e.g., including a "fee" or "point" (1%) for loan obligations (CDB subsidiaries now charge this fee), and the purchasing of mortgages on a participation basis thus allowing a portion of the yield to stay with the original lenders. Using these means, primary lenders could sell at a discount and still have an economic justification for selling their mortgages or participations therein.

CDB agreed to the concept of purchasing mortgages (or participations therein) at a discount. The interest spread provided by the combination of an AID concessional loan and CDB equity with a reduced interest rate will enable the CDB to cover its early operating costs when its portfolio is non-existent or small and to establish the necessary reserves. The loan, equity and guarantee funds themselves, will provide the CDB with funds to initiate a secondary market. CDB debentures, or mortgage-backed securities fully guaranteed by CDB, should be attractive enough to result in their marketability to assure further funds for a continuing activity. If it is found necessary for CDB to increase the interest rate paid on its debentures because of market conditions, a general rise in mortgage interest rates in the islands will be sought.

C. Technical Assistance

Technical assistance is needed for both aspects of the project: low income housing and secondary market. A total of $625,000 in technical assistance will be financed over a three year period. Of this amount $325,000 will be grant funded by AID and $300,000 will be financed with loan funds.

1. Secondary Market:

Grant funds in the amount of approximately $75,000 will be provided for technical assistance from U.S. sources to assist the CDB in establishing rules and regulations, techniques and procedures for determining yields and mortgage operations and in devising and implementing the issuance of bonds or other obligations of the CDB in raising funds for a continuation of the program.

2. Low Income Housing:

This part of the program requires a different form of technical assistance on two levels, the CDB and the sub-borrower. The CDB has been advised by the UNDP that it will fund a full time three year resident adviser to advise the CDB at the CDB level on low cost housing techniques, design and project development and to help the CDB expedite and coordinate use of the loan funds. Such a technical adviser would be supported by short term advisers, possibly from FCH Services, Inc. at a cost of approximately $105,000 in the first year, $100,000 in the second year and $45,000 in the third year. These will be AID grant funded.

At the sub-borrower level, the greatest need is for managerial guidance to local bodies in developing and implementing physical projects. It might be preferable to engage one organization under contract to develop and sponsor projects on a regional basis. However, the CDB has proposed operating through local bodies and providing a combination of technical assistance and monitoring to each local authority. If personnel from the Caribbean is used, the cost would be small, EC$24,000 - EC$30,000 (US$13,00 - US$17,000) per territory derived from the following: Salary EC$13,000, local transportation EC$1500, housing EC$2500. For seven such advisers, the cost should not exceed US$100,000 a year. Approximately $300,000 of the AID loan will be used by the CDB for this purpose.

D. Implementation Plan

The Borrower will establish two separate funds, one for the Primary Market and another for the Secondary Market with separate accountability for each. Neither fund will be available for the purpose of the other fund.

1. Low Income Housing (The Primary Market)

Six million dollars ($6,000,000) will be loaned to the Caribbean Development Bank (CDB) for re-lending to qualified local public housing bodies, existing or to be created, or private non-profit institutions such as housing cooperatives. The sub-loans will be repayable to the CDB and will be guaranteed by the territory concerned as to both principal and interest.

The sub-loans will be made on the basis of applications submitted to the CDB containing information satisfactory to the CDB relative to site location, site development, design, cost, method of construction, selection of occupants and financing. Advances for houses construction may be made by the CDB as construction proceeds but all construction will be on a contract basis except where self help techniques are used. Sub-loans will be used to cover the cost of construction only, and will not be used for the purchase of land or land development or construction costs exceeding an agreed upon square foot cost, presently estimated at EC$10.00 (US$5.50) a square foot.

Dwelling units will be either sold to eligible purchasers meeting criteria approved by the CDB on maturities not exceeding twenty years, and at interest rates acceptable to AID, or may be assigned to eligible families on a hire-purchase basis. Eligible purchasers, or those obtaining houses on a hire-purchase basis, will be heads of households with incomes not exceeding EC$50.00 (US$28.00) per week, unless otherwise agreed to by AID. For the manner in which Hire-Purchase works see Annex II.

During the first year of the loan there will be little, if any, construction since that will be the tooling-up programming period. In the second year, it should be possible to construct at least 500 dwelling units, in the third year 1000 dwelling units, and in the fourth year, 1500 dwelling units on the following estimated basis, or a total of 3175 dwelling units as compared to the 2200 contemplated.

	2nd Yr.	3rd Yr.	4th Yr.
Antigua	100	150	250
Dominica	100	200	250
Grenada	50	100	200
St. Lucia	100	200	300
St. Vincent	50	100	150
St. Kitts/Nevis	100	150	250
Montserrat	25	50	50
British Honduras	50	100	100
TOTALS	575	1050	1550

This, however, is the estimated capability. Loan funds will limit actual construction to approximately 2200 dwelling units in the first three years of construction. During the roll-over period of the loan an increasing number of dewlling units could be built.

2. The Secondary Market

a. Organizational Framework

As discussed earlier the secondary mortgage market operation will function as an integral part of the CDB's operation and not as a separate facility. This will allow CDB to pool the mortgage loans purchased from primary lenders with other assets of CDB against which general obligations would be issued, the proceeds of which would be directed for continuation of the secondary market operation.

CDB intends to appoint an experienced professional to coordinate the housing operations and to utilize the talents and capabilities of the staff now working with CDB including architects, engineers, legal counsel and accountants, to support the secondary mortgage operations.

b. Purchase of Mortgages

CDB will purchase home mortgages or participations on the following conditions:

1) proceeds must be used to finance new construction of middle-income housing (price range of US$5000 - $12,000)

2) repayment of new loans will be on the basis of equal monthly payment ofprincipal and interest

3) downpayments on new loans shall not exceed 20% of sales price.

4) all new loans must have hazard insurance.

A forward commitment program may also be made available within the secondary market. This will encourage participating co-operative banks and building and loan societies to undertake development of housing projects and of new subdivisions. During the first year CDB should be able to purchase approximately $4 million from participating primary lenders. The balance of the loan will be disbursed over an additional two years.

2. Monitoring of the Loan

Monitoring of the loan will be by AID/W since there is no Mission in the Caribbean. AID/W will, however, have the assistance of the experts to be provided to the CDB by the UNDP and AID grant.

3. Disbursement of the funds for the secondary market activity will be on a pari-passu basis, with the CDB equity contribution (the $6,300,000 for the low cost portion, however, will be disbursed as needed). A three to four year disbursement period is contemplated.

E. Untying

As established in our first loan of $10 million to the CDB--538-L-01--the proposed AID loan would be untied to Code 941 and all member countries of the CDB. The latter include Great Britain and Canada. This policy is based on the agreement of the U.K. and Canada to permit all funds made available by them to the CDB eligible for procurement of goods and services of U.S. source and orign.

It should be pointed out that the U.K. and Canada have committed themselves to make available to the Bank a total of $29 million in the form of both loans and capital contributions. Given the fact that this loan would increase total AID financing to the Bank to $20 million, the favorable U.S. to U.K./Canada ratio of contributions would continue.

Part IV - Economic Analysis

A. An Overview

The Islands of St. Lucia, St. Kitts, St. Vincent, Dominica, Antigua, Grenada and Montserrat have a total population of nearly 530,000 whose per capita income is among the lowest in the Eastern Caribbean Region. Nearly all of these "countries" (associated states with the UK except for Montserrat which is a Crown Colony) are dependent on export agricultural crops such as bananas, sugar, cocoa, and special products such as nutmeg and arrowroot.

A glance at the main economic indices for this group of islands reveals that export agriculture, the mainstay of their economies, has grown very slowly over the last five years. In some of the islands export agriculture registered a negative average annual rate of growth, and, in at least two of them, Antigua and Montserrat, it is on the verge of extinction as a significant economic sector. Tourism, the construction industry, and to a lesser extent, manufacturing picked up the slack left by the depressed agricultural sectors and recorded relatively hifh rates of growth during the 1965-69 period. The percentage share of the hotel industry in GDP grew in virtually all of these countries and will probably continue its expansion throughout the 70's.

1. Unemployment & Population Pressures

Population pressures are typically strong in these islands due to the relatively high birth rate and limited employment opportunities. This situation has forced many of the people to emigrate to the U.S. and UK in search of better jobs. However, with the tightening of immigration regulations in both of these countries, this "safety valve" is being closed to most of the would-be-migrants and unemployment rates have consequently soared to record levels. In 1961 nearly 11,000 people left these islands to seek employment elsewhere while in 1967 this figure had dropped to 4,500.

While precise data on the rate of unemployment in these countries is not yet available, most knowledgeable observers place this figure at a conservative 15-20% which should probably be increased another 5-10% to include the underemployed youths and school drop-outs. Because of the magnitude of this problem, and its possible political implications, it is now receiving considerable attention from business and government leaders. This was underscored by Sir Arthur Lewis, in his address to the Board of Governors of the Caribbean Development Bank, who singled out unemployment as the main economic problem in the islands and prescribed strong measures to deal with it (see Conclusions).

2. External Factors

Because their economies are primarily exporters of agricultural commodities and because their domestic markets and manufacturing sectors are so small, this group of Islands is highly vulnerable to sudden adverse fluctuations in international prices for their main commodity exports. For instance, four of them, Dominica, Grenada, St. Lucia and St. Vincent, derive a high portion of their export earnings from bananas which are covered by a special marketing arrangement with the U.K. and Geest Co. (import firm). The future of these Commonwealth preferences is, however, now in doubt following the British decision to enter the EEC. Furthermore, the price of bananas on world markets has been in steady decline since 1961 and is not expected to recover in the immediate future. These ominous trends underscore the need for developing a more diversified economy based on more dependable manufactured exports and on tourism.

The structure of imports to the islands also reflects this fundamental imbalance and the lack of local manufacturing. Nearly 25-30% of imports consist of foodstuffs and basic necessitities, and nearly all of the local consumption of manufactured goods and construction materials must be satisfied with imports. Stimulated by increases in income levels and by investments in housing, hotels and infrastructure, imports have risen faster than export earnings over the past decade leading to ever widening deficits in the trade balances of all of these islands.

The openess of their economies also reduces the balance of payments benefits they derive from earnings from tourism since a high portion of each tourist dollar earned must go to pay for imports consumed by the tourist. In some of the islands it is extimated that only 20% of tourist expenditures actually pay for locally supplied goods and services. This balance of payments "leakage" is also strong in the construction industry where nearly 90% of the materials must be imported.

Tourism has continued to expand during the 60's in all of the islands. In 1963 total earnings from tourism were $EC20.8 million, but by 1969 they had more than doubled reaching $EC52.8 million. However, in view of the sluggish growth of the other sectors it will have to continue this rate of growth to avoid economic stagnation unless manufacturing is able to play a more significant role.

Servicing the outstanding external public debt does not constitute a serious problem in most of these countries. However, Antigua, and to a lesser extent Grenada, St. Lucia and St. Kitts, will experience substantial increases in their debt service burdens in the early 70's when they are scheduled to nearly double. The debt service ratios listed in Table II give some idea of the relative seriousness of this problem. The ratio in column I is considered the more meaningful index of their liquidity positions since it excludes earnings from tourism where import "leakages" are strong and indicates their ability to pay off their loan commitments. It is obvious that Antigua faces a more serious debt service problem with nearly 55% of her commodity export earnings absorbed in debt payments in 1969. In 1970 Antigua is scheduled to pay EC$6.3 million on loans used to finance several large scale infra-structure projects such as the harbor, airport and desalination plant.

3. Conclusions and Outlook

While the prospects for continued growth in export agriculture are not very bright, the Windward and Leeward Islands examined here can probably look forward to some improvement in their economic situation. Barring some sudden adverse trend in their external environment, which would set back tourism and/or traditional exports, these countries will continue to grow during the 70's, albeit at a slightly slower rate than in the 60's.

Most observers feel that by far the most serious problem ahead, both politically and economically, is unemployment which is a symptom of some of the fundamental inbalances in their economic structures. The urgency of this economic and social problem will require strong remedial action by the island governments. According to Sir Arthur Lewis, this will have to include possibly a devaluation to attract foreign investment in manufacturing, a realistic import substitution policy for infant industries, technical training to improve labor productivity and a strong incomes policy to avoid spiraling inflation. As high cost, inefficient producers, these islands will face serious problems in attempting to diversify their economies unless they accept some of this strong medicine.

B. Country Sketches

1. Grenada

After a period of rapid growth in the early 60's, the Grenadan economy has come to a grinding halt as a result of a serious depression in its agricultural sector and construction industry. During the period from 1961 to 1965, stimulated by a buoyant market for its main commodities (nutmeg and bananas), Grenada's export agriculture registered an annual average rate of growth of 10.5% but from 1965-1969 this figure dropped to a disappointing 2.5%. GDP rates of growth reflected this adverse trend falling from 6.5% for the period 1965/61 to only 3.5% for the 1969/65 period.

Construction activity and tourism were the only bright spots on this otherwise dismal economic picture. However, construction, which was stimulated by investments in hotel expansion and infrastructure has tapered off in the last year following the completion of these projects. Tourism continues to expand but at a somewhat lower rate than in the sixties.

The trade and payments position of the island reflects the decline in the economy. Imports averaged increases of 12% from 1963 to 1968 and jumped 25% from 1968 to 1969 while exports lagged. Inflationary pressures are also stronger in Grenada than in most of the other islands, Part of this inflation is imported but most of it is due to increases in government spending. Government salaries were boosted 40-50% in 1970, while wage hikes in most of the other islands were only 30-35%.

Faced with an uncertain future for its main crops, Grenada will have to depend for its growth in the 70's on tourism and its embryonic manufacturing sector.

2. St. Vincent

While its export agricultural sector has registered low rates of growth during the 60's, St. Vincent has experienced a relatively balanced growth of its other economic sectors which has offset the poor performance of its main crops. During the 1965/69 period export agriculture grew at an average annual rate of 0.5% while in construction this figure was 10.0%, in manufacturing it was 4% and in the hotel industry 21.5%. As a result,GDP grew at an average annual rate of 6.5% during this period.

Like most of the islands, St. Vincent suffers from a chronic deficit in its trade balance. However, she has been able to satisfy an increasing portion of her domestic needs for food as the "other agriculture" sector has expanded substantially in the last seven years to the point where some of its products (sweet potatoes, yams and tunias) are now exported to the other islands. As a result, St. Vincent's trade deficit $EC 15 million) in 1970 has increased at a somewhat lower rate than in the other islands.

Tourist expenditures have increased dramatically in St. Vincent jumping from $EC 1 million in 1964 to $EC 5 million in 1970. However, most of the tourists to St. Vincent are from the other islands rather than from the U.S. or Canada and this sector is still in the embryonic stages of its development.

The main foreign exchange earners are still the commodity exports, bananas and arrowroot, but the future of these products is at best uncertain. Copra, another traditional export has experienced a slow extinction and is no longer a significant export.

Inflationary pressures in St. Vincent have been relatively weak. The COL (1964 - 100) had by May 1970 showed an increase of only 29% since 1964, and because of the generally higher level of unemployment here and the availability of a greater supply of locally produced foodstuffs, it is expected that inflationary pressures will be minimal in the immediate future.

3. Antigua

Antigua is the only island in this survey with a significant industrial sector and a relatively unimportant export agricultural sector. Notwithstanding the growth of its manufacturing sector and oil refining industry, Antigua's economy is believed to have recorded little if any real growth during the late sixties. From 1963-67 Antigua registered a relatively high annual growth rate of GDP (8.1%) which was offset by a high rate of inflation averaging 4-5% per year which contrasts with the 2-3% inflation rate found in other Caribbean islands.

Tourism, which earned $EC 23 million in 1969, is relatively more developed in Antigua than in the other islands. However, its rate of growth in recent years has been below the rates recorded in the other islands in this survey. The annual rate of growth in hotel visitors durning 1967-69 was only 1.9%, much below the 16.3% rate achieved during 1963-67.

The trade and payments position of the island reflects some of these economic imbalances. Imports, which grew substantially during most of the 60's, have continued to expand but at a lower rate due to a dampening of construction activity and the completion of the oil refinery. Exports, however, have given a lackluster performance dipping below $EC 500,000 in 1966. Some improvement in the trade balance has occurred in recent years following the opening of the oil refinery in 1968. Re-exported oil now accounts for a larger share of export earnings than the "traditional" exports (sugar, cotton). Sugar production, which ceased entirely in 1969, has subsequently resumed on a limited scale, while cotton production is on the verge of extinction (cotton acreage dropped from 1,927 acres in 1967 to 200 acres in 1970).

Servicing the external public debt poses some serious problems for Antigua due to the profligate economic policies of the previous government which ran up huge budgetary deficits to finance several large scale infrastructure projects. As a result of its foreign borrowing, Antigua now faces a heavy debt service burden. In 1969 $EC 3.1 million were scheduled to be paid to foreign creditors and in 1971 $EC 6.7 million in payments were due to pay off loans used to finance the electricity and desalination plants. This contrasts sharply with a debt service burden of only $EC 1.4 million in 1966. Though there will be a gradual reduction in total annual payments to service the external debt, Antigua will still have to repay $EC 33.0 million from 1971-77.

Inflationary pressures are stronger in Antigua than in the other islands due to the existence of strong labor unions which have succeeded in keeping wages at very high levels. Minimum wages in Antigua are even higher than in Barbados. Inflationary wage increases will continue to be a serious problem to the local government and could become an obstacle to continued growth.

4. Dominica

The island of Dominica relies almost exclusively on the banana export business. Export agriculture grew at only 1% average annual rate of growth from 1965-69 but thanks to healthy increases in the manufacturing, tourist and government sectors, Dominica registerdd a 7% rate of growth of GDP during that period.

Dominica records a persistent deficit in its trade balance which has grown substantially during the 60's reaching $EC 19.2 million in 1969. This gave Dominica the dubious distinction of having the second largest deficit of the islands examined here. This deficit is only partly covered with earnings from tourism as the latter was only about $EC 2 million in 1969.

Dominica, like most of the banana exporters in this region, faces a rather bleak economic future which will hopefully be improved by earnings from tourism, manufacturing and perhaps by external assistance.

5. St. Lucia

St. Lucia is now the major banana producer among the Windward and Leeward Islands. Nearly $EC 9.5 million out of a total export earnings in 1969 of $EC 11.5 million were derived from banana exports. Due largely to the favorable market conditions and successful banana crops, economic growth in St. Lucia was among the highest of the islands rising to 11.5% per annum during the 1969/65 period. Also contributing to this higher rate of growth were substantial increases in construction activity and tourism. The construction industry registered average annual rates of growth of 34% during this period while hotel expenditures in the tourist sector grew at a 21.2% rate. This rate of growth is expected to taper off in the early seventies due to adverse trends in the price of bananas and a leveling off of construction investments.

St. Lucia has a perennial trade deficit which it must finance with tourist earnings, remittances from abroad and external assistance.

Tourism has grown substantially over the past decade as its earnings have jumped from $EC2.9 million in 1964 to $EC 7.2 million in 1969 and it is expected to expand further when new hotels are opened in the 70's.

Inflationary pressures in St. Lucia are minimal due to the high level of unemployment and conservative fiscal policies of the government.

6. St. Kitts-Nevis-Anguilla

The economy of St. Kitts-Nevis-Anguilla is perhaps one of the most depressed of the Windward and Leeward Islands. Its main crops, sugar and cotton, have experienced downward trends which are not expected to reverse themselves in the immediate future. While sugar production was 39,195 tons in 1967, by 1970 it had dropped to 27,163 tons--this is the equivalent of a $EC 2 million loss of GDP in any given year. Cotton production is virtually extinct following a year of severe drought and adverse market conditions. Tourism has grown during this period, but its level of development is still too modest to offset the downward trend in GDP caused by the export sectc .

St. Kitts-Nevis-Anguilla have also one of the highest rates of emigration among the islands. In 1967 nearly 2,800 left these islands in search of employment elsewhere, and it is estimated that from 1965-69 this group of islands recorded a 0.5% population growth rate.

7. Montserrat

With a population of little over 14,000, Montserrat is the smallest island examined in this survey. It depends largely on small scale manufacturing, tourism, the construction industry and government, which alone accounted for nearly 25% of GDP in 1969. The agricultural export sector accounted for only 2.5% of GDP, and it has been in general decline since 1960. So low is the level of production of sugar and cotton that Gust Co. has refused on several occasions to send a boat to pick up the limited quantities because the earnings from these products would not even cover the shipping and handling costs.

The islands's future growth will inevitably depend on tourism, and to a limited extent, on small scale manufacturing geared to international or regional markets in the Caribbean.

8. British Honduras

With a population of 120,000 and a land mass of 8,867 square miles, British Honduras is the largest of the countries to be covered by this loan. Also because it has relatively more cultivable land, the British Honduras economy is more diversified than that of the other associated states which depend heavily on tourism and one or two major tropical products. Belize is primarily an agricultural economy. Sugar, critius fruits, rice and red beans constituted the main crops with cattle raising increasing in importance in recent years.

Sugar production has increased significantly in recent years following a two fold increase in B.H.'s quota to the U.S.; production of this crop jumped from 52,000 tons in 1969 to 64,900 tons in 1971. The sugar industry (including refining) is also the largest employer and accounts for 50% of the country's foreign exchange earnings and 65% of its total agricultural production. The other major crops have experienced a slower but steady growth pattern.

Due to the lack of infrastructure and the dearth of quality hotels, both manufacturing and tourism are relatively insignificant factors in the B.H. economy. The few bright spots in the industrial sector are a new fertilizer plant, a growing fishing industry and a plan for processing meat for export to the U.S.

British Honduras has experienced an adverse trend in it trade balance which recorded a $15.5 million deficit in 1970, an increase of 23% over the previous year. Most of this deficit was financed by capital grants from U.K. and private capital inflows. $12 million (U.S.) was spent by the British on construction of the new capital, Belmopan while most of the private capital inflow was recorded in increases of private bank borrowings abroad as local banks financed the expansion of the sugar industry.

C. Wage and Employment Effects

The effect of the proposed program on the economy in terms of increased wages and related standard of living for families is considerable considering the present level of unemployment and underemployment. (Authorities indicate 15 percent overall unemployment, with as many as 30 percent unemployed in the 17 to 20 age group.) Unskilled labor, watchmen and others would be drawn from those having little or no alternative opportunity for stable, relatively long term employment.

The chart set forth below shows the pattern for a three year program construcing some 2202 dwelling units. Teams of 32 men (including watchmen and casual laborers) are traditionally able, according to local sources, to build one unit per week or a project of 50 units per year. While varying from territory to territory, an average of $EC1,600 per week team is considered an average payroll for a team of this size. On this basis, 1408 man years of direct construction labor would bring the 44 "teams" involved a total of $EC 3,370,000 (US $1,870,000) in wages. This averages $EC 2,500 per year per worker. With an average of five persons per family, as many as 3720 persons per year would be aggected, with an average per capital income of $EC500.

	Year 1	Year 2	Year 3	TOTAL
Units	367	734	1101	2202
Units per week	7.32	14.68	22	
Teams (22 men per team)	7.32	14.68	22	44
Men	234	470	704	1408 man years
Weekly payroll	$EC11,712	$EC 23,488	$EC35,200	
Annual payroll	$EC585,600	$EC1,174,400	$EC1,610,000	$EC 3,370,000 for 3 yr. period.

General stimulus to the economy relative to the proposed program would come from several sources. For example, some 3,303,000 square feet of land would be used in the building lots (plus major circulation and service areas). Assuming an average economic cost per square foot of 50¢ EC with all services in, the cost would exceed $EC 1,651,500. Assuming one third of this amount as labor, in excess of $EC 550,500 would go directly to relatively low income, low skilled personnel.

90% of materials are imported. With some $EC 5,284,800 for materials on site for the 2,202 units, approximately 50 percent of cost, $EC 2,642,400, would be propelled into the local economy in the form of unloading costs, handling and storage, and profit to local dealers.

Purchase of land, local architectural, engineering, survey, legal and other fees would to into the local economy. If local, rather than external contractors are used, profit and all overhead changes would stay in the territories.

Based on normal "human practice," the acquisition of a new dwelling results in a dramatic increase in demand for goods and services which (1) would not have been demanded without the new dwelling or (2) were previously demanded in lesser quantity or quality. By rule of thumb, such increase demand for goods and services average at least 50 percent of the cost of the unit during mortgage period. On this basis, an $EC 10,000,000 mortgage program would generate $EC 5,000,000 over a period of 15 years, or $EC 333,000 per year.

Other areas of benefit would include incentive to local building components manufacturing, increased business for savings institutions, inducement for local skilled labor to remain in the territories, general strengthening of the service industry, increased skills for significant numbers of artisians, a more optimum use of professional staffs on both government and private sectors, and an operational base for continued low cost housing production programs.

Coupled with the proposed secondary market program, the building industry could be greatly strengthened and be opened to a much larger percentage of the population. As the building industry and real estate represents the largest single element in any economy, the proposed program should provide a much needed and very productive element in Eastern Caribbean growth.

D. Balance of Payments Effects of AID Loan

1. Background

The associated states reviewed here are all members of the British sterling area. The parity of the local currencies with the British pound is maintained by currency boards which serve mainly as the clearing house for international financial transactions of the member countries. The discretionary powers of these boards are limited and they have a minimal control over the money supply and interest rates. Contraction or expansion of the money supply is determined by the flow of private and public capital between London and the associated states. An increase in local currency in circulation can therefore come about only through an increase in sterling assets of the boards. This also suggests that balance of payments deficits are largely self correcting in the long run since the money supply will ceteris paribus contract if imports rise faster than exports.

The openess of the banking system, which is dominated mostly by foreign private banks, also implies that large construction projects will be financed mostly by external borrowings from either public or private sources. For instance, if a government or private company wishes to invest in a major project by borrowing from one of the local banks, the latter will probably have to borrow a portion of the funds from its main office in London to obtain the necessary local currency and foreign exchange for the imported materials. Hence, what would have been a local debt is under this system converted into an external debt. The management of the external debt poses few problems for these countries because repayment of principal and interest will lead to a contraction of the money supply which can only be offset by more external borrowing. Hence balance of payments pressures resulting from servicing of the external debt are translated into a reduction of imports.

The states reviewed herein are moving towards greater autonomy and from Britain which will probably result in a revamping of their monetary structures. The currency boards will be given more discretionary powers, with greater authority over the banking system. Such a move would eliminate some of the self correcting features of the present systems.

2. <u>Impact of AID Loan on Foreign Exchange Reserves of Islands</u>

According to the IMF, and AID loan for housing construction would probably result in a net gain in the foreign exchange reserves of the UK since the conversion of the dollars into local currency would be made through the London exchange market and the East Caribbean Currency Authority which would issue the EC dollars against the build up in its holdings of sterling. However since a portion of the AID funds will be used to finance imports from non sterling countries (e.g. Venezuela, Trinidad, Canada and the U.S.) only dollars utilized to purchase local currency - EC dollars - will find their way back to Britain. It is conservatively estimated that about 80% of the construction material will have to be imported and that the latter constitute a very high percentage of total construction costs. Since AID will disburse the funds through a U.S. banking firm the banking fees will partly be repatriated to the U.S. home office in the form of profits.

PART V. Issues

The principal issues considered during intensive review are discussed below.

A. Effect of AID Loan on Housing Operations of the Commonwealth Development Corporation (CDC)

The Commonwealth Development Corporation (CDC) has been active in the housing field in many of the Commonwealth states of the Caribbean through loans to its mortgage finance company subsidiaries. The issue dealt with herein concerns the effect of an AID financed secondary mortgage market facility at the Caribbean Development Bank (CDC) on the continued CDC support of its mortgage companies.

It is the CDB's desire to limit, at least initially, the purchase of mortgages from institutions operating in its less developed member states. These have a combined population of some 635,000 and an estimated effective demand in the middle income area of between 600 and 800 units per year at an average cost approaching U.S.$10,000 per house.

Within the less developed states CDC is currently active in only St. Vincent (population 80,000), St. Lucia (population 90,000) and Dominica (population 70,000). Thus, with a combined population of 240,000 these states account for some 37 percent of the total population of the members to be served initially. Our review of demand within the islands presently served by the CDC mortgage companies leads us to the conclusion, and this is coroborated by the CDB, that, except for Dominica, the CDC is meeting a substantial portion of the middle class housing demand. Local institutions involved in housing finance--Cooperative Banks, Building and Loan Societies, ect.--cannot compete effectively because of high downpayment requirements (usually 50%) and limited amortization periods (usually five years with extensions possible). On the other hand, the CDC companies require a downpayment of between 10 percent and 20 percent with a 20 year amortization period. (These companies receive their financing through the CDC at 7½ percent and relend to their clients at 8 percent so the interest spread is minimal.)

It is in the interest of both AID and the CDB that the A.I.D. loan does not act to replace periodic CDC financing for housing in the Caribbean. The source of such CDC financing is from the British Government so it is in both our interests to encourage a continued flow of outside funds for development purposes in the region. Principally for this reason the CDB has decided that the CDC companies will not be eligible to sell their mortgages to the secondary market facility. Thus, the CDC companies will have to continue relying on outside U.K. assistance plus their own efforts to tap resources from within the islands where they operate.

As part of our intensive reivew, we discussed CDC plans with its managers in Barbados--responsible for the East Caribbean--and in Trinidad. In addition, two members of the project committee met with the General Manager, Sir William Rendell and the Chief of Housing, Edward Burgess, in London. We thoroughly discussed the proposed program of the CDB and indicated that we were not prepared to recommend approval of our loan if it would result in a displacement of U.K. assistance in the Caribbean. At the same time we inquired as to the possibility of the CDC funneling its housing finance through the CDB secondary mortgage market window rather than directly to its mortgage companies. The CDC representatives stated that they had no intention of providing money to the CDB but would continue to channel funds via the mortgage companies based on demand. They further indicated that plans were in process to open mortgage companies in Grenada and Antigua and they were of the opinion that housing demand is such in the Caribbean that their housing investment would continue to increase regardless of CDB's plans to channel funds to competitive local institutions.

With the foregoing in mind there is still the question of expected results of the secondary market in those less developed member islands where the CDC is now operating. As stated above, it is possible that the CDC mortgage companies are meeting all but a limited amount of the demand in St. Vincent and St. Lucia. The local institutions could compete by liberalizing their terms and this would be possible with the CDB as an assured source of liquidity. Of course, there would be some substitution but the benefits of competition should more than outweigh the negative aspects to the CDC companies. Furthermore, whatever funds are not utilized by CDC in the islands where it presently is operating could be reprogrammed in new operations or to housing operations in Trinidad, Jamaica, Barbados or Guyana where demand is very heavy.

Even assuming that the CDC will meet all the requirements of the islands in which it is operating, and that assumption should not be made, there should still be an effective demand of some 2,000 units over a three year period or a financial need of $20 million.

B. AID Investment Guarantee Fee

AID policy allows a minimum charge of 1/2% per annum of the outstanding balance, with no devaluation insurance or delinquency reserve fund required when there is a full faith and credit guarantee of the host country government. CDB is, however, a unique case. It is a regional bank whose stock is owned by a number of countries and whose Board of Directors represents those countries. It has financial resources in the form of authorized capital stock of $50 million (see Annex IV). In addition, CDB has a Special Development Fund which may be used to make or guarantee loans of high developmental priority. This fund consists of $22,500,000 of concessional loans and interest free contributions and Colombia and Venezuela have offered to contribute a total of $8 million. In addition to the assets of the CDB and the government backing that would obviously result if the CDB encounters financial difficulties, CDB will have a portfolio of well secured mortgages and mortgage participations. A fee of only 1/2%, therefore, is justified.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

OFFICE OF
THE ADMINISTRATOR

LOAN AUTHORIZATION

Caribbean Development Bank: Low Cost Housing and Secondary Mortgage Market

Pursuant to the authority vested in the Administrator, Agency for International Development, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act to the Caribbean Development Bank ("Borrower") of not to exceed Ten Million Three Hundred Thousand dollars ($10,300,000) for the United States Dollar and local currency costs of goods and services to assist the Borrower in developing a secondary market for home mortgages and making sub-loans for housing for low income families. Up to $300,000 of the loan may be used for Technical Assistance. This loan is to be subject to the following terms and conditions:

1. Interest and Terms of Repayment:

Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States Dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States Dollars on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions:

(a) Except for ocean shipping, goods, services and marine insurance financed under the loan shall have their source and origin in any country included in A.I.D. Geographic Code 941, Canada, the United Kingdom or any member country of the Caribbean Development Bank located in the Western Hemisphere. Marine insurance may be financed under the loan provided, however, that such insurance is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in A.I.D. Geographic Code 941, Canada, the United Kingdom or any member country of the

Caribbean Development Bank located in the Western Hemisphere except the State or Territory of the site of the sub-loan.

(b) United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

(c) Six million dollars ($6,000,000) of the loan shall be used for the creation of a Primary Market Fund for relending to local public or non-profit private bodies for the construction of housing for low income families.

(d) Four million dollars ($4,000,000) of the loan will be used for the creation of a Secondary Market Fund for the purchase of home mortgages or participations therein from eligible institutions.

(e) The Borrower will contribute at least Three million dollars ($3,000,000) in equity to the Secondary Market Fund which amount shall be disbursed pari passu, with funds made available under this loan to such Secondary Market Fund.

(f) Sub-loans made from the Primary Market Fund shall be guaranteed as to the repayment of Principal and Interest by the appropriate member of Borrower.

(g) Prior to any disbursement or the issuance of any Letter of Commitment under the loan for the Primary Market Fund, for other than technical assistance, the Borrower shall formulate rules and regulations satisfactory in form and substance to A.I.D. governing the use of such Fund.

(h) Prior to any disbursement or to issuance of any Letter of Commitment for the Secondary Mortgage Fund, other than for technical assistance, Borrower shall have adopted rules and regulations satisfactory in form and substance to A.I.D. governing the use of such Fund.

(i) Unless A.I.D. otherwise agrees in writing, prior to any disbursement of loan funds for the Secondary Market Fund in excess of $2,000,000 or within 24 months of execution of the Loan Agreement, whichever occurs sooner, Borrower shall establish and utilize to an extent satisfactory to A.I.D. a financial mechanism in form and substance satisfactory to A.I.D. for the purpose of raising and assuring a continuing source of funds for the Secondary Market Fund's operations.

(j) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

____
Administrator

____
Date

Clearances:

GC/LA:Levy____________	Date____________
LA/BR:Schwab____________	Date____________
LA/DR:Schieck____________	Date____________
LA/DR:Kimball____________	Date____________
GC:Gardiner____________	Date____________
AA/LA:Kleine____________	Date____________
PPC/DPR:Kaufmann____________	Date____________
AA/PPC:Birnbaum____________	Date____________
SER/CONT:Flinner____________	Date____________

GC/LA:FJHbeidosa:sb:6/22/72:7/13/72

DRAFT
GUARANTY AUTHORIZATION

Provided from: Investment Guaranty Funds
Section 222, Foreign Assistance Act
of 1961, as Amended

Caribbean Development Bank

Pursuant to the authority in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended ("FAA") and the delegations of authority issued thereunder, I hereby authorize the issuance of a guaranty pursuant to Part I, Chapter 2, Title III, Section 222 of the FAA assuring against loss of a loan investment of not to exceed Two million United States dollars ($2,000,000) and interest by an eligible United States investor or investors acceptable to A.I.D. for the long-term financing of houses to be financed by the Caribbean Development Bank.

The guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The guarantied loan shall provide for the repayment of principal and the payment of interest within twenty-five (25) years from the dates of disbursement of the respective installments of the loan. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investors have been paid in full pursuant to the terms of the loan.

2. Fee: The fee of the United States shall be payable in dollars and shall be one half of one percent (1/2%) per annum on the outstanding guarantied amount of the loan.

3. Interest Rate: The rate of interest payable to the Investor or Investors, with respect to the loan, shall not exceed the allowable rate of interest prescribed by the Administrator pursuant to Section 223 (f) of the FAA (a) as of the date of this authorization, or (b) at any time between the date of this authorization and the date of the execution of the guaranty contract, whichever rate of interest is higher, and shall be consistent with rates of interest generally available for similar types of loans.

4. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem advisable.

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CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1972.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. *FAA § 208; §.251(b).*

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.	The Caribbean Development Bank (COB) places a high priority on agricultural activities.
(2) Creating a favorable climate for foreign and domestic private enterprise and investment.	The COB acts in such a manner as to promote foreign and domestic private enterprise and investment.

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(3) Increasing the public's role in the developmental process.	The Governments of the Caribbean are democratic and concerned about increasing the public's role in the development process.
(4) (a) Allocating available budgetary resources to development.	The COB works with Regional member countries in maximizing budgetary resource allocation to development.
(b) Diverting such resources for unnecessary military expenditure (See also Item No. 16 and intervention in affairs of other free and independent nations.) (See also Item No. 14.)	The Regional members are not diverting budgetary resources for unnecessary military expenditures.
(5) Willing to contribute funds to the project or program.	The Regional members contribute 60% of the Bank's ordinary Capital Resources.
(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.	The rule of law, freedom of expression and of the press exists in the Caribbean countries. Individual initiative and private enterprise are encouraged and stimulated.

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(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.	The Caribbean countries adhere to the principles of the Act of Bogota and Charter of Punta del Este.
(8) Attempting to repatriate capital invested in other countries by its own citizens.	One of the purposes of the Bank is to create a climate which would encourage repatriation of capital for investment in the Caribbean.
(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	The establishment of the Bank itself is a powerful demonstration of the self help measures being undertaken by the Caribbean nations.
3. Are above factors taken into account in the furnishing of the subject assistance?	Yes.

Treatment of U.S. Citizens

2. FAA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	Assistance is not directly to a Government. None of the Regional member Governments, however, is liable as such a debtor or guarantor.

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8. *FAA § 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*

Assistance is not directly to a Government. None of the Regional member Governments, however, have taken the described actions.

9. *FAA § 620(o); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by A.I.D. Administrator?

No regional member has taken such actions.

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Relations with U.S. Government and Other Nations	
5. *FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?*	It is not contemplated that the proposed assistance will result in competition in the U.S. with U.S. enterprise.
6. *FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?*	The Regional members have protected and tried to prevent damage or destruction by mob action of U.S. property.
7. *FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*	No. Many of the Caribbean countries are too small to institute such a program.
8. *FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*	None of the Regional members are in such default.

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9. *FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*	None of the Regional member countries have severed diplomatic relations.
10. *FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?*	None of the Regional members who belong to the U.N. are in arrears.
11. *FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?*	None of the Regional members do so.
12. *FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?*	The Secretary of State has determined that none of the Regional member countries are controlled by International Communist movement.

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13. *FAA § 620(f). Is recipient country a Communist country?*

None of the Regional member countries has a communist government.

14. *FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?*

None of the Regional member countries are so involved.

15. *FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?*

None of the Regional member countries do so.

16. **FAA § 481.** Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

The Regional members have taken steps to cooperate in the prevention of narcotics and other controlled substances being produced or processed in or transported through their territories, or sold illegally there, or entering the United States. These steps are not now regarded as inadequate.

Military Expenditures

17. ***FAA § 620(s).*** What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

Regional member country military expenditures are insignificant.

CONDITIONS OF THE LOAN

General Soundness

18. ***FAA § 201(d).*** Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.

The terms and conditions of the loan are considered reasonable and consistent with the laws of the Regional member countries and the United States.

19. ***FAA § 251(b)(2); § 251(e).*** Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

The activity is considered economically and technically sound and the Bank has submitted an application for the Loan.

20. ***FAA § 251(b).*** Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The Borrower has made an application for such assistance and has provided assurance to indicate that the funds will be used in an economically and technically sound manner. The borrower is considered capable of repaying the loan.

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21. ***FAA § 611(a)(1).*** Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

All necessary plans for the project have been prepared.

22. ***FAA § 611(a)(2).*** If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

No legislative action is required.

23. ***FAA § 611(e).*** If loan is for Capital Assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

This is a regional project for which there is no responsible Mission Director. However, AID concludes that the CDB is capable of effectively maintaining and utilizing the project.

24. ***FAA § 251(b).*** Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

Private sources within the United States will provide partial financing for the project. However, it is not possible for them to provide all required assistance.

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Loan's Relationship to Achievement of Country and Regional Goals

25. *FAA § 207; § 251(a)*. Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntray Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws.	The Bank's proposed program reflects consideration of such needs.
26. *FAA § 209*. Is project susceptible of execution as part of regional project? If so why is project not so executed?	The project is a regional project.
27. *FAA § 251(b)(3)*. Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.	The project is clearly consistent with other development activities in the Caribbean and contributes to reliable long-range objectives.
28. *FAA § 251(b)(7)*. Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.	As reflected in the paper the activity will partially contribute to the achievement of self-sustaining growth.

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29. *FAA § 281(a)*. Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.	The Bank will take such factors into consideration in its sublending programs.
30. *FAA § 281(b)*. Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The Bank will take such factors into consideration in its sublending programs.
31. *FAA § 601(a)*. Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	The Bank's subloans will encourage such efforts.

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32. *FAA § 619.* If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

The Bank is itself a multilateral organization.

33. *FAA § 251(h).* Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

The activity is consistent with the recommendations of the CIAP.

34. *FAA § 251(g).* Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

The Bank's sublending program will take appropriate cognizance of the cooperative movement.

35. *FAA § 209; § 251(b)(8).* Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

This project is one for regional development and for encouraging economic and political integration.

Loan's Effect on U.S. and A.I.D. Program

36. *FAA § 251(b)(4); § 102.* Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

The proposed loan will not have an adverse effect on the U.S. economy or areas of labor surplus. The loan will not adversely affect the U.S. balance of payments position.

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37. ***FAA § 601(b)***. Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private trade and investment abroad will be indirectly encouraged through the development of additional U.S. exports stimulated by this loan, [illegible]

38. ***FAA § 601(d)***. If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

It is anticipated U.S. firms will be so used.

39. ***FAA § 602***. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

The Loan Agreement will contain the standard provisions that U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

40. ***FAA § 620(h)***. Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

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41. ***FAA § 621.*** If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

The loan will finance the procurement of goods and some services from private enterprises on a contract basis. Utilization of the services of federal agencies is foreseen and conclusions asked for have been made.

42. ***FAA § 252(a).*** Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

The total amount of the loan is for an intermediate credit institution. Approximately 40% will be for the use of private enterprise.

Loan's Compliance with Specific Requirements

43. ***FAA § 201(d).*** Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

44. ***FAA § 608(a).*** Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

Not applicable.

45. ***FAA § 604(a).*** Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?	Commodity procurement will be from U.S., Western Hemisphere countries south of Canada except Cuba. Procurement may also be from the U.K., Canada and U.K. territories and dependencies that are Regional members of the Bank.
46. ***FAA § 604(b).*** What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?	The loan agreement will provide for compliance with bulk commodity procurement regulations.
47. ***FAA § 604(d).*** If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?	Yes, as applied to member countries of the Bank.
48. ***FAA § 604(e).*** If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	The project does not contemplate the off-shore procurement of any agricultural commodity or product.
49. ***FAA § 611(b); App. § 101.*** If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?	Not applicable.

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50. ***FAA § 611(a).*** If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?	The Bank will have such a policy in its sublending programs.
51. ***FAA § 620(g).*** What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?	Funds of the proposed loan will not be used to compensate for expropriated or nationalized property.
52. ***FAA § 612(b); § 636(h).*** Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.	
53. ***App. § 104.*** Will any loan funds be used to pay pensions, etc., for military personnel?	No.
54. ***App. § 106.*** If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?	Not applicable.
55. ***App. § 108.*** Will any loan funds be used to pay U.N. assessments?	No.

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61. **MMA § 901.b.** Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	The loan agreement will provide for compliance with the 50 percentum U.S. flag shipping requirement.

56. ***App. § 109.*** Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (A.I.D. Regulation 7).	Not applicable for loan to an intermediate credit institution.
57. ***FAA § 636(i).*** Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?	No.
58. ***App. § 501.*** Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?	No.
59. ***FAA § 620(k).*** If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed $100 million?	No.
60. ***FAA § 612(d).*** Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	No. The U.S. does not own excess foreign currency in the countries in which the Bank will operate.

STATUTORY CHECK LIST

Caribbean Development Bank

Section 223 (a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 223 (f):

The maximum rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223 (a) and (c):

The "investment" and the "eligible United States investors" shall be such that they are wholly within the included definitions.

Section 222 (a) and (b):

The proposed project qualifies as a credit institution housing project as described in Section 222 (b) (2) of the FAA of 1961 as amended in 1969.

Section 222 (c):

The total face amount of housing guaranties issued will not exceed $550,000,000 including this project.

Section 223 (h):

No payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the investor is responsible.

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CARIBBEAN DEVELOPMENT BANK

21st December, 1971

Mr. Frank B. Kimball
Director
Office of Development Resources
Agency for International Development
Washington, D. C. 20523
U.S.A.

Dear Mr. Kimball,

I refer to various discussions and correspondence about this Bank establishing a secondary mortgage facility for residential construction in our less developed member countries, ending with your letter of November 12, 1971.

I enclose a memorandum we have prepared dealing with the present need, and how we would meet it. I also now formally apply to A.I.D. for the following:

(a) a soft loan of $4,000,000

(b) a guarantee of our borrowing from a U.S. financial institution, to the extent of $2,000,000.

If A.I.D. agrees, on acceptable terms, the C.D.B. will itself contribute $3,000,000 from its equity to a mortgage finance fund for this purpose.

I am copying this letter to Mr. Kimm.

With best wishes,

Yours sincerely,

W.A. Lewis
President

CARIBBEAN DEVELOPMENT BANK

ESTABLISHMENT OF SECONDARY MORTGAGE FACILITIES

A. Background

The countries which are to be included in this programme are the less developed member countries of the Bank. These comprise Grenada, St. Vincent, St. Lucia, Dominica, Antigua, St. Kitts/Nevis/Anguilla, Montserrat, Turks and Caicos Islands, Cayman Islands, British Virgin Islands and British Honduras.

All these territories are suffering a growing housing deficit. The low income groups need some form of subsidy; and housing for these groups is provided by the governments, but the deficit continues to grow because the government's funds are inadequate.

The middle income group (US$3,000 to US$5,000) does not need housing subsidies. The main cause of the deficit in this group is the shortgage of long term finance at reasonable rates of interest. This proposal relates only to housing for this group.

Established indigenous mortgage institutions exist in most of these territories. These, however, are mainly Cooperative Banks and Building and Loan Societies which depend on customers' and members' deposits for relending for home ownership. Because these deposits are at call or on short notice, the institutions restrict most of their loans to periods of 5 years or less.

Mortgage facilities are also available from the commercial banks and insurance companies but these tend to be restricted mainly to the high income groups i.e. persons whose average annual income exceeds US$5,000 per annum.

B. Nature of the Project

A secondary mortgage facility would provide the liquidity demanded by the indigenous finance institutions as a pre-requisite for investing in long term obligations. Basically, these Co-operative Banks and Building Societies would continue to make loans with mortgage as collateral security and would be the primary market. The C.D.B. would purchase mortgages from the established and reputable indigenous mortgage finance institutions desirous of obtaining liquidity through the sale of mortgages.

The funds of the C.D.B. which would provide the necessary seed capital would come from:

1. the equity of the C.D.B.
2. a loan on soft terms from USAID
3. a loan from a mortgage finance institution in the United States guaranteed by the U.S. Government.

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The C.D.B. would separate this function from its other operations and would derive its income from the interest on the purchase of participations.

The secondary mortgage markets depends upon the existence of a primary market and originating institutions. Such institutions exist in all these territories in the form of commercial banks, Co-operative and Savings Banks, Building and Loan Societies and Insurance Companies. Initially, however, in the territories where these exist, the C.D.B. would restrict its activities to the purchase of mortgages from the Co-operative and Savings Banks and Building and Loan Societies, and other such local institutions.

C. The Need

In this area with a population of approximately 635,000 about 20% of the households have incomes which can permit them to buy a house without public assistance. In this group which might be served by a secondary market, allowing for population growth of 2.5% and some bifurcation of households, it has been estimated that an average of 800 units will be required annually over the next ten years.

Because of the high cost of land and building materials which are all imported, the cost of new houses for this group ranges from US$7,500 upwards and the annual cost of 800 houses would be about US$8.5 million.

D. Institutions involved in Housing

a) Public Institutions

Central Housing and Planning Authority

Most of the islands have a housing corporation which looks after providing houses for low income groups at subsidised rents. Their capacity to provide funds and produce houses does not have potential enough even to arrest deterioration apart from growing shortgages numerically.

Sugar Welfare Fund

Since sugar cultivation has been an important occupation in most of the islands Sugar Welfare Funds under the aegis of the governments have been used as part of welfare activity in making loans for building houses up to a maximum of US$750. These funds have been administered by Sugar Welfare Committees which are generally under the control of the Labour Department.

Government Housing Loans Board

Some of the islands also have statutory boards created for making loans to Civil Servants for housing. The funds utilised for this purpose have been borrowed from the commercial banks and the rates of interest at which they are relent reflect the commercial lending rate. Loans, however, could be for as long as 20 years and the loan/value ratio is generally 75 per cent.

Commonwealth Development Corporation (CDC)

This U.K. agency is interested in extending mortgage finance in this area. It currently operates only in Dominica and St. Lucia, but is considering operating in the other territories as well.

b) Private Financing Sources in the Area

The principal sources of mortgage funds in the area are the commercial banks, the insurance companies, the building and loan societies and the Co-operative Banks.

Commercial Banks

The Savings and Fixed Deposits of the commercial banks in the East Caribbean were US$67.5 million in 1970. Loans and advances outstanding for residential building and construction and land development were US$24.6 million.

Insurance Companies

There are about 31 insurance companies operating in the area of which about 12 are Life Insurance Companies. While they do participate in advancing mortgage housing finance, only one has been very active in this field. Some of the Governments in the region, however, have enacted legislation requiring a certain percentage of premium income to be invested in the territories.

Building Societies and Co-operative Banks

There are about 10 of these institutions in the area. These Societies and Banks have a long list of mortgage applications on file which they are unable to process because of lack of capital. Most of the loans are made for periods not in excess of 5 years but in a few instances do extend to 10 years. The rate of interest charged varies between 7 - 9% per annum. Most of the loans made by these institutions are between US$5,000 and US$10,000 but in some instances can rise as high as US$15,000 for upper income housing. Their loan/value ratio ranges between 60 and 80%. Their loans for mortage housing are provided out of their deposits. Aoubt 75% of these deposits are invested in loans of three years or more for residential construction and development. A serious constraint, however, is placed on their lending for periods in excess of 5 years because of the limiation of their ability to compete with commercial banks for fixed deposits. Nevertheless, they have been

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rendering a much needed service to these territories in mobilizing savings and transferring the same in mortgage loans. All of these are indigenous institutions owned and operated by nationals.

The principal* institutions now operating in these territories are shown in the following table:

NAME	Date Established	Financial Data at December 31, 1970 Share Capital US$	Loans Out-Standing US$	Loans made in 1970 US$
**Antigua Commercial Bank Limited	1955	201,700	829,400	309,000
Grenada Co-Operative Bank Limited	1932	182,000	1,413,500	552,700
Dominica Co-Operative Bank Limited	1941	24,000	1,300,000	454,200
Montserrat Building Society	1966	132,000	380,400	99,500
St. Lucia Co-Operative Bank Limited	1937	250,000	1,698,000	415,800
St. Vincent Co-Operative Bank Limited	1945	24,000	641,700	446,900

E. Financial Plan

The proposal is that the seed capital for this project will be financed jointly by the C.D.B., The U.S.A.I.D. and the mortgage finance institution in the U.S.A. as follows:

C.D.B. equity	US $3 million
Loan from mortgage finance institution in the U.S.A. (guaranteed by the U.S.A.)	US $2 million
Loan from U.S.A.I.D. on soft terms	US $4 million
TOTAL	US $9 million

F. Conditions of C.D.B.'s Participation

a) The C.D.B. will purchase with recourse participations in existing first mortgages representing not more than 70% of the principal amount outstanding on the mortgage at a rate of interest to be agreed between the C.D.B. and the institution. (This, if possible, should not exceed 6%).

* Our information for St. Kitts-Nevis is incomplete. British Honduras does not now have one of these institutions.

** Was incorporated in 1955 as a Savings and Loans institution

b) The C.D.B. will also ensure that funds so released shall be ploughed back into residential mortgages on houses built on residential sites approved by the Town and Country Planning Authorities and that the plans for such houses are approved by the appropriate authorities.

c) The C.D.B. will encourage the construction of entire housing projects, with a view of minimizing cost per house. The sale price of the house shall not exceed US$15,000 but C.D.B.'s objective will be that 70 per cent of its loans will be for houses priced at US$9,500 or less.

d) Interest charged on mortgage loans shall not be more than 3% above the rate charged by the C.D.B. to the institution.

e) The mortgage seller must agree to handle collections and remit to C.D.B. its share.

f) The borrower shall be obligated to ensure that the house is insured against fire, and that all rates and taxes on the land and building are paid on the scheduled dates.

DRAFT

BRIEF

on

THE CARIBBEAN DEVELOPMENT BANK

BACKGROUND:

The Caribbean Development Bank was formally established in January 1970.

PURPOSE: was outlined as follows:

"Contribute to the harmonious growth and development of member countries in the Caribbean. . . . .and promote economic cooperation and integration among them, having special and urgent regard to the needs of the less developed members of the region".

FUNCTIONS: To accomplish the foregoing purpose, the Bank has the following functions:

a) To assist regional members in the coordination of their development programs with a view to achieve better utilization of their resources.

b) To mobilize within and outside the region, additional financial resources for development of the region.

c) To provide appropriate technical assistance to its regional members, particularly, by undertaking or commissioning preinvestment surveys and assisting in identifying and preparing project proposals.

d) To promote public and private investment in development projects by aiding financial institutions in the region and supporting establishment of consortia.

e) To cooperate and assist in other regional efforts to promote regional and locally controlled financial institutions and a regional market for credit and savings.

f) To stimulate and encourage the development of capital markets within the region.

In summary, it's stipulated that the Bank shall, wherever appropriate, cooperate with national, regional or international organizations concerned with the development of the region.

Membership in the Bank is open to the states and territories in the region and non-regional states which are members of the United Nations. The following is a list of the membership and subscriptions:

MEMBERS AND SUBSCRIPTIONS

Territories	Subcription in Million US$
Jamaica	11.2
Trinidad & Tobago	7.7
Bahamas	3.3
Guyana	2.4
Barbados	1.4
British Honduras	.5
Grenada	.5
St. Lucia	.5
Antigua	.5
St. Vincent	.5
Dominica	.5
St. Kitts, Nevis, Anguilla	.5
Montserrat) British Virgin Islands) Cayman Islands) Turks & Caicos Islands)	.5
Canada	10.0
United Kingdom	10.0
TOTAL:	50.0

In summary, the financial resources of the Bank are an authorized capital of U.S. $50 million, all of which has been fully subscribed. One-half of the authorized capital has been paid and one-half is callable. The portion of callable capital serves as credit backing for the obligations and liabilities of the Bank.

STRUCTURE: The organizational structure of the Bank is as follows:

A Board of Govenors, Director, President, Vice President and other officers. All powers of the bank are vested in the Board of Governors which can delegate most of its powers to the Board of Directors. The Board of Directors comprise seven Directors, five representing the regional members of the Bank and two, the non-regional members. These Directors are selected by the Governors representing the regional and non-regional members respectively.

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URBAN WORKING CLASS HOUSING SCHEME

I. THE NEED

1. Housing Accommodation

1. This scheme relates only to the less developed member countries of the C.D.B. (British Honduras, the Windward and Leeward Islands, British Virgin Islands, Cayman Islands and Turks and Caicos Islands).

2. The need for housing in these territories is well known, and has been particularly well documented for the Windward and Leeward Islands in a series of reports by the U.N. Housing Adviser, Dr. C. M. Palvia.

3. For example, Dr. Palvia estimates that in St. Vincent in 1970, where the number of households was 17,500, there was a shortage of about 3,000 houses, or 17 per cent; this figure representing the number of houses which existed, but which were by conventional standards not fit for human habitation. In 1960 the St. Vincent Housing Census showed 60 per cent of the population living in dwellings with more than three (3) persons per room; the 1970 Census is not yet available, but the situation has not improved.

4. The present proposal relates only to urban areas, since this is where the population is growing fastest. The urban population of the Windward and Leeward Islands increased by 26 per cent between 1960 and 1970, and will probably grow faster during the 1970's, because several outlets for emigration have been shut off.

5. This is a scheme to build houses for sale, on hire-purchase, so the rent to be paid by the tenant-buyer includes an element of saving, as well as interest on the loan. Substantial subsidy elements are proposed; he will pay interest at 4 per cent, and will contribute nothing to the cost of land, development, planning or architects' fees. Nevertheless, the monthly payment is higher than can be met by the lowest income earners. This scheme is confined to workers earning between EC$20 and EC$50 per week. Exact figures are not available, but it seems likely that about half of the urban population, lies within these limits, a quarter above, and a quarter below. (In our region urban wages are lowest in St. Vincent, where the typical daily rates are : unskilled building labourer $4; truck-driver $7; carpenter $7; automobile mechanic $8).

£60 - 100 per cent

6. The principal reason for excluding the lowest paid workers is to produce a scheme which is financially viable, and therefore capable of indefinite extension into the future. Most other working class housing schemes involve such enormous subsidy elements that in the Caribbean they quickly grind to a stop. It is also expected that a scheme which permits workers to own their houses eventually, or to be refunded savings if they leave in the meantime, will attract stable working class families, encourage them to save more, and stimulate them to maintain the houses in good condition - an element which is difficult to realise in many other schemes.

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7. It must also be remembered that this is only one of many housing schemes now operating in the area. In particular, governments are building for the "less well off," at the cost of very high subsidies. Houses need to be built for every level of income, from the lowest to the highest, so it is not a valid criticism of any particular scheme that it concentrates on a particular stratum.

8. The benefits of the scheme are not confined to the relatively few who will buy houses under it. As each family moves into its new house, it vacates another house which becomes available to some other family. Pressure on rents is also reduced. The "less well off" workers thus benefit from the movement of the "better-off" workers.

9. The urban population of our LDC region is about 150,000 (about a quarter of the whole). At 4.5 persons per household this is about 33,300 households. Assume that our income limits embrace only one-third of these households; say 11,000 households. Assume replacement of existing houses, plus reduction of over-crowding, at 3.5 per cent per annum, and urban growth at 2.5 per cent per annum. The number of houses required is thus 6 per cent per year, or 660 in the first year. In practice many people in this group would want to move out of currently rented accommodation into a hire-purchase house, so it is not inconceivable that this group would buy 800 houses a year. The proposed scheme would finance the building of somewhere between 2,200 and 3,000 houses over four (4)

or five (5) years.

2. Unemployment

10. The value of a housing scheme is not confined to providing accommodation; it also provides work, directly to builders and producers, and indirectly, through the consumption multiplier, to the rest of the population.

11. This latter contribution is as valuable as the former. The need for work in our towns is of the highest urgency. (This is another reason for confining this scheme to urban areas). The exact number of unemployed in our region is not known, but figures around 15 per cent of the labour force are commonly quoted. This unemployment is concentrated in the towns, where it is much above 15 per cent. It is also concentrated among youth; figures of 30 per cent in the age group seventeen (17) to twenty (20) are also commonly quoted.

12. It is hardly necessary to make a case for providing employment. Apart from the waste of resources, and the enforced poverty, which are the direct economic results of unemployment, there is also excrutiating spiritual degradation of the young, whose long term poisoning of West Indian community life cannot now be forecast; as well as the immediate danger of violent political explosion.

13. The long-term remedy is more productive jobs,

especially in import-substituting and in export industries. But house construction is an immediate palliative, which has also the advantage that its product is scarce and highly valuable. House construction also offers the opportunity for raising skill levels. In addition, it will take very careful planning to keep building costs down to or near to EC$10 per square foot, and the demonstration effect of this scheme should be to raise productivity levels throughout the building industry. This aspect is referred to later.

14. Although unemployment is generally heavy, there is a shortage of skilled building workers in some of these territories. There is surplus building capacity in territories where a recent building boom has tapered off (e.g. British Honduras, Grenada); but some strain where other construction work is still heavy (e.g. St. Kitts, St. Lucia). A chain of technical colleges is now being established in each of the Associated States, with British financial and technical assistance. Their initial emphasis is on the building trades. They plan to graduate about 50 craftsmen a year at first, rising to 100-150. This scheme for building urban working class houses will complement the colleges, in that operations will begin just at about the same time as their students begin to reach the market. The islands are in any case subject to wide fluctuations in construction activity, and an effort will be made to time operations in each territory in accordance with other building operations

and the state of the labour market.

II. THE SCHEME

3. Introduction

15. This is a scheme to construct houses for sale on hire-purchase terms to members of the urban working class. A subsidy element is involved. CDB will meet the cost of construction, up to EC$10 per square foot, and hire-purchase terms will be calculated from this base. CDB will also pay professional and management costs. The Government must meet the cost of land, development, and any construction cost in excess of EC$10 per square foot; these costs will not be included in the cost to be met by the working class purchaser.

16. Houses will be sold only to heads of households in regular employment (including self-employment) who earn less than EC$50 per week. Houses will not normally be sold to persons earning less than EC$20 per week, unless they can demonstrate that other household incomes will make it possible to meet the debt charges. Houses will not be sold to persons who already own houses worth in excess of EC$2,000 (the scheme is not for people who will move into these houses only to rent their own houses at exorbitant rentals).

4. The House

17. The modal house will have 3 bedrooms (one each

for marital couple, girls and boys), but some two-bedroom and one-bedroom houses will also be built for families which do not as yet need two separate rooms for children (including families with only one parent in residence). There will also be a living room, kitchen, bath and toilet. Rooms will be about 100 square feet. The modal house will therefore be just under 500 square feet.

18. Houses will be built in new residential estates, about 20 houses to the acre. Each house will stand on 1,000 square feet, leaving half of each acre for communal facilities (including parking space) roads and parks.

19. The cost of building working class houses varies widely in the Eastern Caribbean. Costs are reported at about EC$9 to $10 per square foot in Barbados and St. Vincent, but as high as EC$15 to $20 per square foot in some other islands. The difference in costs seems to be due not primarily to differences in wages but to

(a) materials costs, which carry very high mark-ups in some of the smaller islands; and

(b) very inefficient organisation of the building process, especially in the advance stocking of required materials, which leads to much wasted time.

20 Both these elements can be reduced to some extent by mass production of houses. Hence, under this

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scheme houses will be built on new estates involving not less than three (3) acres with sixty (60) houses (preferably not less than five (5) acres with one hundred (100) houses, to secure greater economies in planning). The houses will be built under contract, but the agency responsible (see below) must satisfy itself, before awarding the contract, that the contractor is fully competent in the logistics of building, is appropriately equipped and has appropriate plans. Materials will be ordered in bulk, and the agency, backed by the government, must ensure reasonable mark-ups.

21. It is not reasonable to expect U.S.A.I.D. to finance inefficient building operations, so CDB finance will be confined to EC$10 per square foot, exclusive of professional fees.

5. Capital Finance

22 CDB hopes to receive a U.S.A.I.D. loan of up to US$6 million (=EC$11 million approx.). If each house were to cost EC$5,000, this would build 2,200 houses on 110 acres of land. If the land cost $10,000 per acre, total cost of land would be EC$1,100,000. Development should cost about EC$10,000 per acre, or a total of EC$1,100,000. Governments will also contribute any cost of construction above $10 per square foot, but this should be small, especially as CDB is paying the professional fees; this item is included here at a token figure of $1.00 per square foot, making a total cost of

EC$1,100,000. The total capital financing of the scheme is then

		EC$
CDB		11,000,000
Government		
Land	1,100,000	
Development	1,100,000	
Construction	1,100,000	3,300,000
		14,300,000

23. The CDB's contribution will be guaranteed by the government as to interest and capital repayment.

24. The less developed territories have a population of around 600,000. If the scheme were operated evenly per head of population, the scheme would yield 367 modal houses per 100,000 of population, and contributions per 100,000 of population would be, from CDB $1,833,333; from the government $550,000 (over say three years). However it is possible that not all governments will wish to participate in this scheme, and the CDB will not be committed to equal expenditure per head of population. The actual number of houses will also depend on the mix of one - two - and three-bedroom houses, so it will exceed 367.

25. The yield of 367 houses per 100,000 of population is the result of the "first round." Actually, CDB has forty (40) years over which to repay the money, but the houses will be sold on 20 year terms. Therefore, if prices were constant, and if the US/EC dollar exchange rate stayed constant, the money could be used to build

somewhat less than twice this number of houses over the first twenty (20) years.

26. Each house will be sold on hire-purchase terms, the tenant-buyer being charged only cost of construction at EC$10 per square foot. Thus he would be charged EC$5,000 for a 3-bedroom house. His annual payment will consist of two parts.

Part A. The sum which over 20 years would repay the cost at 4 per cent interest. For a $5,000 house this sum is $368 per year.

Part B. A sum equal to 2 per cent of the price of the house. For a $5,000 house this sum is $100 a year. This sum is for maintenance and administration.

27. The tenant-buyer of a $5,000 house is thus required to pay $468 a year, which, at $9 per week would be too high for a $20 weekly household, but well within the capacity of a $50 weekly household. The sum is not in excess of current rentals for 500 square foot houses, although it includes an element of saving. The $368 per year divides into $200 for interest, and a sinking fund payment (which from the tenant-buyers standpoint is saving) of $168 per year. A subsidy is a gift from the general body of taxpayers to a privileged few of the under-privileged; in this case the privilege is limited to families which are willing to make a

substantial savings effort to acquire good housing.

28. The agency will collect payments from the tenant-buyer weekly or monthly. It will transfer Part A payments to the CDB at the end of every quarter; any deficiency being owed by the government under its guarantee. Part B payments will be kept by the agency for maintenance and administration expenses.

29. If the government considers that these payments are too high for workers to meet, they can be reduced by subsidy. For example, if the government wishes to reduce the payment on a 500 square foot house from \$9 to \$7 per week, it will undertake to pay the agency \$104 a year in respect of each such house, for the duration of the contract. By varying the subsidy which it pays on behalf of tenant-buyers, the government can reduce downwards the lower income limit of eligible tenant-buyers to any extent whose cost it is willing to bear. In what follows the amount of any such subsidy (the difference between what the annual payment would be on \$10 a square foot and what the tenant will actually pay) is referred to as "the rental subsidy."

6. The Hire-Purchase Element

30. The house belongs to the agency until the final payment is made; but the tenant-buyer's rights as a buyer, investing savings, must also be protected.

31. These houses are not built for speculation. A tenant-buyer will therefore be expected to occupy the house for at least the first five (5) years of his contract, unless unforeseen changes in his work require him to live elsewhere. Subject to this proviso, he may not let the house within the first five (5) years.

32. The tenant-buyer may surrender the house to the agency at any time. He will then get back half of the sinking fund element in his Part A payments. Thus, if he surrenders the house to the agency at the end of the ninth year, he will get back $756 on a $5,000 house. (The other half is retained because of depreciation of the house). The CDB will advance these refunds. (It recoups them out of the extended hiring of the house, which can now be hired for up to twenty-nine (29) years instead of twenty (20); but because the CDB has to repay U.S.A.I.D., the privilege of surrender may have to be discontinued after the first twenty (20) years of the scheme, unless some other source of financing is introduced).

33. The tenant-buyer may acquire full title to the house at any time by paying the current value of all outstanding Part A payments, discounted at 4 per cent. Thus if he wishes to buy the house at the end of the ninth year, he will pay $3,224 for a house whose original price was $5,000. However, in order to discourage speculation, if he wishes to buy the house within the first five (5) years, he must also pay the cost of the land and development. (This is credited to the government).

34. After five (5) years of occupancy, the tenant-

buyer may "sell" the house at any time, by asking the agency to accept a substitute tenant-buyer. The substitute must be a person who would have been eligible to participate in the scheme in the first place, and will be subject to all the restrictions imposed on first tenant-buyers. The substitute tenant-buyer may take over the unexpired period of the contract, or may negotiate with the agency an extension up to twenty (20) years (if this lies within the forty (40) years during which A.I.D. must be repaid). The first tenant-buyer may extract whatever payment he can from the substitute tenant-buyer in respect of payments already made during the previous years of the contract. He may not sell within the first five (5) years of the contract, since the price includes a large subsidy from the government (land and development costs) which would be a windfall gain. In order to discourage speculation, substitute tenant-buyers also may not sell within the first five (5) years of their contracts.

35. If a tenant-buyer is evicted by the agency he will be paid the sum which he would be entitled to receive if surrendering voluntarily; minus any debt to the agency and the cost of any abnormal damage to the house for which he may be responsible. Eviction will be possible only under very limited conditions prescribed in detail in the contract.

36. In all the above it is assumed that there is no rental subsidy. If there is a rental subsidy, this must not be included in the savings attributed to the

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tenant-buyer if he surrenders the house or is evicted, since he has not in fact saved this element. Also, in calculating the price at which the tenant-buyer may buy the house from the agency, the rental subsidy must be added to the Part A payments which he is actually making (unless the government opts to make him a capital gift of money, and pays this to the agency on his behalf).

7. Administration

37. In view of the special nature of this scheme it should be separated from other government housing schemes. One special element is that it is a hire-purchase scheme, involving special rules. Another special element is that the participation of the CDB also brings in special rules, governing procurement, tendering, choice of tenants and so on. Some of these rules derive from conditions laid down by the U.S.A.I.D., and from CDB's understanding with A.I.D. that A.I.D. financed schemes will be administered without "political" elements, a rule which is also laid down in Article 35 of the CDB's Articles of Agreement for all CDB schemes.

38. It is not difficult to separate these schemes in the physical sense, since each scheme will be a separate new housing estate.

39. In each territory the scheme will be administered by a special agency. This will be a company formed under the Companies Act, owned jointly

by the government and the CDB in the ratio 3:2. Thus the company may have fifty (50) shares of EC$1.00 each, of which thirty (30) would be subscribed by the government and twenty (20) by the CDB, with each ten (10) shares carrying the right to elect a director. (These may be civil servants, but not members of Parliament).

40. The government would give the company the land, and undertake to meet the cost of development and the cost in excess of $10 per square foot of building the houses; all in the form of a grant. The CDB would undertake to meet the cost of constructing houses up to $10 per square foot, in the form of a loan for twenty (20) years at 4 per cent per annum, carrying a government guarantee.

41. The Board of the company would serve without remuneration from the company; CDB would meet the expenses of its directors and the government would do the same for its directors.

The Board will hire a full time Manager, who must be a person acceptable to both the government and the CDB. During the first three years, the cost of the Manager's emoluments will be met by the CDB, out of a grant to be made to the CDB by U.S.A.I.D.

42. The Board will also hire such other administrative and secretarial staff as may be necessary. The cost of this and all other administration costs will be met by the company out of the proceeds of Part B payments by tenant-buyers. If these proceeds are in-

sufficient to meet expenditure considered by the company's Board to be necessary, the government must meet the difference. (The government controls the company).

43. For each housing estate to be developed (not less than sixty (60) houses) the company will invite tenders from reputable firms of architects from member countries of the CDB and from the U.S.A.

to plan the development of the land;
design houses;
supervise tendering for contracts; and
supervise the building of the houses.

During the "first round" the cost of these architectural services will be met by the CDB, from a grant to be made to the CDB by U.S.A.I.D. Choice of the architects must follow CDB procedures, and is subject to confirmation by CDB. CDB will also meet, from the same source, the cost of quantity surveying.

44. Tenders shall also be issued for contracts to build, with the same territorial eligibility. It is expected that local tenderers may be the lowest bidders, but there will not be discrimination in their favour. Award of tenders must follow A.I.D. procedures, and will be subject to confirmation by CDB.

45. The company will make arrangements with the chosen contractor to ensure advance bulk ordering of materials, according to CDB procedures, at carefully

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controlled mark-ups.

46. As houses near completion, the company will advertise for tenant-buyers, who will apply to it for houses. Choice of tenant-buyers will be done by the Board of the company, subject to CDB being satisfied, in accordance with Article 35 of the Agreement establishing the CDB, and also in accordanc: with CDB's understandings with U.S.A.I.D., that there is no political intervention in the choice of tenant-buyers. Tenant-buyers will be chosen by lot from a short-list approved by the company's Board. The short-list will include all applicants who meet the tests laid down by the Board; especially that their earnings are within the limits of $20 and $50 per week; that they seem likely to be able to meet their financial commitments; that they do not already own a house worth more than EC$2,000; that there is a stable family unit appropriate to the size of house applied for; etc.

47. The company will not maintain its own staff for collecting rents. The contracts of tenant-buyers who are in employment will provide for wages to be deducted at source. Other tenant-buyers will pay into one of the indigenous "co-operative" or "workers'" banks, to whom the company will pay a collection fee. The company will, however, need an officer to chase arrears.

48 . Legal ownership of the house remains with the company until the tenant-buyer makes his last

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payment or buys the house outright. If his payments fall more than three months in arrears, the tenant-buyer will be evicted, and will be paid the sum then due to him minus his debt to the agency. Political intervention at this point is also excluded by Article 35 of the Bank's Articles of Agreement.

49. So long as the company owns the house it must maintain it; specifically, maintain it structurally, paint it every sixth year, and insure it comprehensively. This can be done by contract. The cost of maintenance will be paid from the company's Part B receipts. The company should also inspect bath and sanitary facilities every six months, effect any necessary repairs, and charge the cost to the tenant-buyer.

50. The company will have to impose various restrictions on the use of the house. The most important are those intended to prevent over-crowding, by taking in too many tenants or bringing in too many generations. If the company does not enforce these restrictions strictly, the property will deteriorate rapidly, and be a nuisance to other tenant-buyers as well as a source of loss to the company. Tenant-buyers who keep destroying the house, or parts thereof, will also have to be evicted (evidence of working class rentals in this region is that maintenance exceeds 3 per cent a year if the owners are not strict with the tenants).

8. Maintenance of Value

51. The CDB loan to the company will be in US dollars, and though it will be repaid in EC dollars, its value in US dollars must be maintained.

52. Since house prices and incomes are likely to rise continually over the next twenty (20) years, there is no reason why the tenant-buyer should not meet the cost of revaluation of the US dollar relatively to the EC dollar. The hire-purchase contract should therefore provide that if the US dollar revalues relatively to the EC dollar, the Part A payments will be increased in the same proportion, or in the same proportion as a general index of money wages in the city has risen since the contract was signed, whichever may be the less. For this purpose the company will have to arrange with the territory's statistical office for a general index of money wages to be maintained for each city in which the company has a housing estate. If the dollar revalues by more than money wages have risen, the deficit will fall upon the government (which has guaranteed the CDB loan in US dollars) until the wage index catches up with the revaluation. If the US dollar devalues, the company will collect more EC dollars than are due to CDB. The difference should be paid to the government, partly because it is bearing the exchange risk, and partly in compensation for its initial investment in land and development.

53. As prices rise, the cost of administration and maintenance will rise beyond the sum originally

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fixed for Part B payments. The hire-purchase contract should give the company the right to increase Part B payments if necessary, by a proportion not exceeding the rise in the money wage index. If this is insufficient, the deficit will fall on the government.

9. Self-Help Building

54. The company should make some part of its resources available for self-help building.

55. One of the weaknesses of self-help building lies in the logistics of organising development, design, purchase, storage and delivery of materials at site when wanted, services of skilled workers, and services of supervisors. These problems are reduced if the self-help building is done on the same estate and at thesame time as contract building. The company's programming of a now housing estate should therefore take into account the requirements of self-help builders at every stage of the building process.

56. Another weakness is that urban workers, fully employed, have very little spare time in which to build their own houses. The house therefore takes a long time to build, and many lose interest and drop out of the scheme. This is minimised by building a part of the house under contract, and leaving the self-help worker only to finish it. One possibility is to build just one room with kitchen, bath and toilet, and leave him to add the other rooms; another possibility

is to build roof, supporting pillars, kitchen, bath and toilet, and leave him to put in the walls. In either case the contractor should build the self-help half-houses at the start of his programme, so that he and his skilled workers will still be around in the early stages of the self-help operation.

57. Self-help housing requires much organisation and supervision. Where a company decides on a large enough self-help programme, CDB will meet the cost of a supervisor, from a U.S.A.I.D. grant.

10. Action Summary

58. The CDB is required to do the following:

(a) Obtain a soft loan of up to US$6 million from U.S.A.I.D. for relending.

(b) Obtain a grant from U.S.A.I.D. towards administration costs; specifically, company managers, self-help officers, architects' fees, quantity surveyors' fees, lawyers' fees. Professional fees average about 10 per cent, or US$600,000. Managers' and self-help officers' salaries depend on whether they are recruited locally, or have to come from the U.S.A. In the former case the cost over three years should be under US$500,000; in the latter case it would be nearer US$1,000,000. The grant over three (3) years would thus lie between US$1,100,000 and $1,600,000; or between US$367,000 and US$533,000 per year.

(c) Participate with governments in the business of the companies administering these schemes.

(d) Oversee: choice of managers and self-help officers; choice of architects and quantity surveyors; choice of suppliers of materials; choice of contractors; choice of tenant-buyers; eviction of tenant-buyers.

59. <u>A government is required to do the following:</u>

(i) Participate with CDB in the business of the company administering the scheme.

(ii) Waive the fees for forming and registering a company.

(iii) Provide land for building, as a grant.

(iv) Meet the cost of developing such land, as a grant.

(v) Guarantee interest and capital repayment on CDB's loan to the company, in U.S. dollars.

(vi) Meet deficits in the administrative budget approved by the company's directors.

(vii) Act in the spirit of Article 35 of the CDB's charter.

CARIBBEAN DEVELOPMENT BANK

STAFF LIST

(1st March, 1971)

President	Professor Sir Arthur Lewis, B.Com.,Ph.D.,M.A.,L.H.D.,LL.D.	(St.Lucia)
Vice-President	Mr. Lorne D.R. Dyke, M.A.,B.Com.	(Canada)
Secretary	Mr. Noel E. Venner, B.Sc.(Econ), O.B.E.	(St.Vincent)
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Treasurer	Mr. M.D. McConnie, A.C.C.A.	(Trinidad & Tobago)
Legal Adviser	Mr. Neville Nicholls, B.A.,Barrister-at-Law	(Barbados)
Engineer	Mr. A.T. Wason, B.A.Sc., O.B.E.	(Guyana)
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Extract from Barall Report

"D. Housing

A report on Caribbean housing problems was prepared for the Study Group by Mr. Harold Robinson of ARA/LA, and is attached as an annex.

As elsewhere in the developing countries, housing in the Caribbean is generally in short supply, much of it is inadequate, new construction fails to keep pace with the rapid increase in population, and there is a dearth of local financial institutions which can attract savings and channel them into housing credit. The cumulative housing deficit is estimated at about 600,000 units and is increasing annually. Fortunately there are known and transferable means for dealing with housing problems which could take root in the Caribbean, where purchasing power is relatively high as compared with other developing regions. One of the first steps should be better organization of institutions and the collection of statistics, notably on effective demand for housing.

Most governments have created some form of national housing agency, supported with budgetary allocations. They have centralized administration and engaged in site acquisition and development, construction of housing, and loans or guarantees. But as elsewhere, they have not been adequate to develop comprehensive programs to deal effectively with the problem, which is both social and economic. Since Caribbean governments have equally pressing needs for investment in other social and economic programs, public resources have fallen far short of needs.

It must be recognized that in the benign climate which prevails in the Caribbean the lack of housing is not fatal. In lieu of low-cost housing, the very poor may get along with no-cost housing. Typically this consists of a one-room, tiny, squatter shack made of strips of corrugated tin, odds and ends of boards or driftwood, flattened out tin cans, with swept soil as a floor and banana or cane thatch as a roof. Amenities such as water or toilets or electricity are no more than faint aspirations. The number of such shacks in the Caribbean is enormous though there may be considerable variation from land to land, generally in direct ratio to per capita GNP. Where cane-cutting is a principal occupation the problem is particularly acute. In some lands where housing appears to be much better than the level of economic activity would warrant, the explanation lies in remittances from abroad, which seem to be applied heavily to housing.

Like other developing areas, the Caribbean has been experiencing accelerated migration from rural to urban areas and it is predicted that some of the smaller islands with high population densities may some day become entirely urban. The following table is indicative of the trend in capital cities. Inadequate housing in urban cities is likely to generate more difficulties than in rural areas, including political problems. Corrective action must also include urban planning and the provision of many services not normally expected in the countryside. Housing cooperatives can be effective where population is dense and the Study Group recommends extension to the Caribbean of AID experience in this field, which so far has been limited to technical assistance in the Dominican Republic and Jamaica. Puerto Rico has had long and satisfactory experience with housing cooperatives. A regional housing organization could do much to support this approach.

Local institutions mobilizing capital for housing already exist in the Caribbean. The English speaking countries of Guyana, Jamaica and Trinidad and Tobago have English-type home building societies, the precursor of U.S. Savings and Loan associations. British Honduras has a small credit union that might be converted into a home-loan institution. The Dominican Republic has a U.S. type savings and loan system initiated with technical and financial assistance from AID. Puerto Rico, of course, has U.S. style S&L associations which, together with public housing programs, have virtually eliminated the extensive slums of shacks visible everywhere only 25 years ago. Those lands with long-term development plans all include a section on housing but the funds allocated are in no case adequate to make a dent in the shortages.

The domestic institutions could be stimulated into more effective capital marshalling and more energetic mortgage lending activity. However, they need a combination of technical and financial assistance to achieve that objective. They also need some form of regional institution which could be a source of protective liquidity and of funding. What would do most good is a Caribbean equivalent of the U.S. Federal National Mortgage Association (FNMA) for assistance to the secondary market for insured and guaranteed mortgages.

In 1965, AID obtained the services of the Assistant General Counsel of FNMA (preceded by an expert from the FNMA Philadelphia office) to devise a secondary market facility for Jamaica. This would have provided a means of generating funds internally and externally but the report was never implemented. The Jamaica Report could be used as the basis of development of a FNMA for the Caribbean."

Mimeographed Studies by the U.N. Housing Adviser to the Governments of the Eastern Caribbean, Dr. C.M. Palvia

1. The Housing Situation in St. Kitts, 1970, 53 pages
2. do. Dominica, 1970, 30 pages
3. do. St. Lucia, 1970, 90 pages
4. do. Montserrat, 1971, 46 pages
5. do. Grenada, 1971, 134 pages
6. do. Antigua, 1971, 80 pages
7. do. St. Vincent, 1971, 82 pages
8. Emerging Roles of Commercial Banks and other Financial Institutions in the Eastern Caribbean Region, 1970, 22 pages
9. Quantification of Housing Standards in the Rural and Urban Areas of the Eastern Caribbean, 1971, 26 pages
10. H.T. Dyer and C.M. Palvia, Low Income Housing: A Study in Economic Design, Cost, Rental and Subsidies, 1971, 10 pages

EAST CARIBBEAN DEVELOPMENT CO., LTD.

(Subsidary of Commonwealth Development Corporation)

The ECD acts as a management and technical assistance company for homemortgage companies (subsidaries of CDC) located in Barbados, Dominica, St. Lucia and St. Vincent. A fifth company is under consideration for Antigua, St. Kitts and Montserrat.

The Commonwealth Development Corporation obtains funds from the United Kingdom Treasury at 6% and lends to the ECC at 7½%. ECC through the local subsidaries, makes loans at 8%. As of February, 1972, CDC had committed EC$24 million to the ECD of which EC$14.9 million had been disbursed, with the balance of EC$13.1 expected to be disbursed by the end of 1972.

The average loan to a home purchaser is EC$16,000 at 80% of the house value, for 20 years at 8%. The maximum loan made is EC$30,000. There is a finder's fee of 1% and Insurance is paid a year in advance to ECC but ECC makes its payments monthly. The typical 800 square feet house costs EC$20,000 and an 1100 square foot house EC$25,000.

Commitment to CDC Subsidaries

St. Lucia	EC$ 6.32*	million
Dominica	3.6	million
Barbados	10.68**	million
St. Vincent	3.0	million
	EC$ 23.60	million

* Plus EC$0.4 million loaned by GOSL at 7¼%.
** Plus EC$2.74 million GOB equity and National Security Fund loaned at 7¼%.

Reloaned by subsidaries of CDC

St. Lucia	EC$ 5.102	starting in 1968
Dominica	2.3	starting in 1969
Barbados	6.602	starting in 1970
St. Vincent	.950	starting in 1971
	EC$ 14.954 million	

Loans by the U.K. are made on an ad hoc basis to each subsidary through CDC.

ANTIGUA

		1970	1980
I.	Population	61,000	72,000
	Households	16,000	19,000
II.	Housing Need (Over-all)		
	Annual growth	300	
	Deficit	1,000	
	Replacement	1,600	
	TOTAL	2,930	
III.	Annual Construction Based on Three Year Program		
	Annual growth	300	
	Deficit	300	
	Replacement	500	
	TOTAL	1,100	
IV.	Annual Low Income Need		
	New Households (60% of 300)	180	
	Deficit	300	
	Replacement	500	
	15% of 980 = 147	980	

	Income Range (Average)		No. of Families
V.	High	EC $9,000 (5%)	800
	Middle	4,800 (25%)	4,000
	Low	1,300 (70%)	11,200
		2,500 (15%)	2,400
		1,500 (20%)	3,200
		650 (35%)	5,600

VI. Housing Cost (Exclusive of land at EC$1.00 per sq. foot):

Average square foot cost	EC $10.00
One bedroom	EC 3,600 (360 square feet)
Two bedroom	4,200 (420 square feet)
Three bedroom	5,000 (500 square feet)

VII. Institutional Capability

Central Housing and Planning Authority has capability of 100, 150 and 250 houses in each of three years.

DOMINICA

		1970	1980
I.	Population	70,000	82,000
	Households	17,000	21,000

II. Housing Need (Over-all)

Annual Growth	350	
Deficit	1700	
Replacements	1500	
TOTAL		3550

III. Annual Construction Need Based on Three Year Program

Annual Growth	350	
Deficit	500	
Replacements	300	
TOTALS		1150

IV. Annual Low Income Need

New Households (60% of 350)	210	
Deficit	500	
Replacements	300	
TOTALS		1010

15% of 1010 = 150

V. Income Range (Average)

		No. of Families
High	EC$ 5500 (7%)	1220
Middle	3000 (28%)	4900
Low	1000 (65%)	11,350
	1700 (16%)	4380
	1100 (21%)	3600
	600 (28%)	5100

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VI. Housing Cost

Average Cost per square foot EC$	10.00
One bedroom (360 sq. ft.)	3600.00
Two bedroom (420 sq. ft.)	4200.00
Three bedroom (500 sq. ft.)	5000.00

VII. Institutional Capacity

The Central Housing and Planning Authority has a capability for constructing 100, 200 and 250 units in each of three years.

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GRENADA

		1970	1980
I.	Population	106,000	126,000
	Households	20,000	29,000

II. Housing Need (Over-all)

Annual Growth	900	
Deficit	2000	
Replacement	1200	
TOTAL		4100

III. Annual Construction Need Based on Three Year Program

Annual Growth	300	
Deficit	700	
Replacement	400	
TOTAL		1400

IV. Annual Low Income Need

New households (60% of 300)	180	
Deficit	700	
Replacement	500	
TOTAL		1380

15% of 1380 = 207

V. Income Range (Average)

High	EC$5000.00 (10%)
Middle	2700.00 (30%)
Low	1200.00 (60%)
	2700.00
	1300.00
	800.00

VI. Institutional Capability

The Central Housing and Planning Authority has a capability of 50, 100 and 200 dewlling units in each of three years.

MONTSERRAT

			1970	1980
I.	Population		12,300	
	Households		4,000	

II. Housing Need (Over-all)

Annual Growth	40	
Deficit	800	
Replacement	80	
TOTAL		920

III. Annual Construction Need Based on Three year Program

Annual Growth	40	
Deficit	250	
Replacement	80	
TOTAL		370

IV. Annual Low Income Need

New Households (60% of 40)	24	
Deficit	250	
Replacement	80	
TOTAL		354

15% of 354 - 53

V. Income Range (Average)

		No. of Families
High	EC$ 7000 (12%)	300
Middle	3500 (16%)	1200
Low	1230 (64%)	2500
	2000 (10%)	600
	1400 (8%)	800
	700 (5%)	1100

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VI. Housing Cost

Average cost per square foot	EC$	10.00
One bedroom (360 sq.ft.)		3600.00
Two bedroom (420 sq.ft.)		4200.00
Three bedroom (500 sq.ft.)		5000.00

VII. Institutional Capability

The Central Housing and Planning Authority has the capability of constructing at least 50 units each year.

ST. KITTS/NEVIS/AUGILLA

		1970		1980
I.	Population	60,000		63,000
	Households	16,000		18,000
II.	Housing Need (Over all)			
	Annual growth	200 (120 built each year)		
	Deficit	400		
	Replacements	3,000		
			3,600	
III.	Annual Construction Over Three Year Program			
	Annual Growth	80		
	Deficit	130		
	Replacements	1,000		
			1,210	
IV.	Annual Low Income Need			
	Annual Growth (60% of 80)	48		
	Deficit	130		
	Replacement	1,000		
			1178	
	15% of 1178 - 176			

			No. of families
V.	Incomes (average)		
	High	EC $7,000 (5%)	800
	Middle	3,000 (30%)	4,800
	Low	980 (65%)	10,400
		1,700 (15%)	2,400
		1,000 (20%)	3,200
		600 (30%)	4,800

VI. Housing Cost (Exclusive of land):

Average Square foot	EC	$10.		
One bedroom (360 sq.ft.)			EC	3,600
Two bedroom (420 sq. ft.)				4,200
Three bedroom (500 sq. ft.)				5,000

VII. Institution Capability of Public Institution

Central Housing and Planning Authority is capable of building 50, 100 and 150 houses in each of three successive years.

ST. LUCIA

		1970	1980
I.	Population	101,000	118,000
	Households	22,000	28,000

II. Housing Need (Over-all)

Annual growth	600	
Deficit	1,700	
Replacement	3,500	
TOTAL		5,800

III. Annual Construction Need Based on Three Program.

Annual growth	600	
Deficit	500	
Replacement	1,200	
TOTAL		2,300

IV. Annual Low Income Need

New Households (60% of 600)	360	
Deficit	500	
Replacement	1,200	
TOTAL		2,060

15% of 2060 = 310

V. Income Range (Average)

		No. of Families
High	EC$ 8,000(7%)	1,540
Middle	4,500 (28%)	6,150
Low	1,500 (65%)	14,300
	2,700 (15%)	3,300
	1,800 (20%)	4,400
	850 (30%)	6,600

VI. Housing Cost (Exclusive of land)

Average square foot cost	EC$ 10.00
One bedroom (360 sq.ft.)	3600.00
Two bedroom (420 sq.ft.)	4200.00
Three bedroom (500 sq.ft.)	5000.00

VII. Institutional Capability

The Central Housing and Planning Authority, acting together with the Urban Development Corporation, has a capability of 100, 200 and 300 dwellings in each of three years.

ST. VINCENT

		1970		1980
I.	Population	89,000		100,000
	Households	17,000		19,000
II.	Housing Need (Over-all)			
	Annual Growth	200		
	Deficit	3,100		
	Replacement	2,200		
	TOTAL		5,500	
III.	Annual Construction over Three Year Program			
	Annual Growth	200		
	Deficit	1,000		
	Replacement	700		
			1,900	
IV.	Annual Low Income Needs			
	Annual Growth (60% of 200)	120		
	Deficit	1,000		
	Replacement	700		
			1,820	
	15% of 1820 = 273			
V.	Incomes(Average)			
	High	EC $5,500 (7%)		
	Middle	2,800 (30%)		
	Low	1,900 (63%)		
		1,900 (15%)		
		1,200 (20%)		
		500 (28%)		

VI. Housing Cost

Average square foot	EC	$	10
One bedroom (360 sq. ft.)			3,600
Two bedroom (420 sq. ft.)			4,200
Three bedroom (500 sq. ft.)			5,000

VII. Institution Capability of Public Agencies

Central Housing and Planning Authority has capacity for 50, 100, and 150 houses per year.

BRITISH HONDURAS

(Source: FCH Survey)

		1970	1980
I.	Population*	119,000	155,000
	Households (Urban)	9,800	13,500

II. Housing Need

Estimate need for 250 new urban houses a year for family increases and replacements for families earning between US$750-$1500 a year.

III. Incomes

Average income of Belize is US$1000-1500 per year. It has been estimated that 10% of urban families earn between US$900-$1200. The average weekly income of purchasers of housing from the Ministry of Labor is BH$26.80 (US$17).

IV. Institutions

Ministry of Education, Housing and Labour

The Housing Department is composed of a Technical Adviser, Deputy, Building Supervisor, Foreman and 22 workman. It builds 20 houses a year on a Hire-Purchase basis using force account. Monthly payments are BH$22-$25 (US$15-$18) at 4% for 20 years, including taxes and insurance plus a ground rent of BH$15 a year. Waiting list of 800 families for housing costing US$1500.

Reconstruction Development Corporation

Established in 1962 with a hurricane loan from the United Kingdom of $4,300,000. Since its establishment, it has made 1000 loans of average value of BH$2070. In 1969, it received a BH $1 million (US$690,000) loan from the Bank of Nova Scotia at 7% for 16 years and has made 350 loans and has applications for 317 loans. It makes two kinds of loans: BH$5000 (US$3800) on a concrete block house at 8% for 16 years and BH$4000 (US$3000) on a frame house at 8% for 10 years. Loans are for 90% of value (without land) and include a commitment to provide 10% of cost in the form of self help.

Reply Redeemer Credit Union

Has 5000 members and savings of $1,300,000. Makes construction financing available for reconstruction Development Corporation loans at 12% a year on a one year basis. So far it has made 16 such loans. It also has made 30 mortgage loans totalling BH$300,000 (US$200,000) at 12% interest at an average of $6900 for 3-5 years. Has a waiting list of 40 teachers who have requested mortgage loans at an average of BH$5000.

Commerical Banks

Three banks hold 6 - 10 mortgages each at 10% for 15 years on a 40% downpayment basis on housing costing BH$30,000 - $40,000 (US$20,000 - $27,000).

*One third lives in Belize and 50% in towns over 2000.

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DEBT RELATED TO INCOME

EC$10.00 (US$5.50 Per Sq. Ft.)
20 years at 4%
2% for Service

1.	One Bedroom (360 sq. ft.)	EC$3600 (US$2000)	EC$21.60 (US$12)	+	2%	=	EC$28.80 (US$16.00)
2.	Two Bedroom (420 sq. ft.)	4200 (US$2300)	25.20 (US$14)	+	2%	=	32.40 (US$18.00)
3.	Three Bedroom (500 sq. ft.)	5000 (US$2800)	30.60 (US$17)	+	2%	=	39.60 (US$22.60)

Assuming 25% Income For Debt Service

Debt Service	Monthly Income	Yearly Income
1. EC$28.80 (US$16.00)	EC$115 (US$64)	EC$1380 (US$ 768)
2. EC$32.40 (US$18.00)	EC$130 (US$72)	EC$1560 (US$ 864)
3. EC$39.60 (US$22.60)	EC$160 (US$92)	EC$1920 (US$1000)

Low Income Groups

Antigua	-	35% earn averages of EC$1500 - 2500
Dominica	-	37% earn averages of EC$1100 - 1700
Grenada	-	35% earn averages of EC$1800 - 2500
Montserrat	-	35% earn averages of EC$1400 - 2000
St. Kitts	-	35% earn averages of EC$1000 - 1700
St. Lucia	-	35% earn averages of EC$1800 - 2700
St. Vincent	-	35% earn averages of EC$1200 - 1900

Cash Flow Chart (1)

Cash Outflow

U.S. Loans and Bank's Equity (25 years-4.5%)	Debt on debentures or mortgage-backed securities ($7\frac{1}{2}$% 20 yrs. on $9 million)	Management Portfolio (1% outstanding debt)	Total
$600,288	$837,312	$90,000	$1,527,600

Receipts

Selling Debentures and/or mortgage backed securities	Yield from mortgage purchased from primary lenders ($7\frac{1}{2}$% 20 yrs. $9 M)	Total
$9,000,000	$837,312	$9,837,312
	Cash Available	$8,309,712

(1) The above table assumes a year in which full disbursement of funds and a total selling of $9 million in mortgage backed securities or debentures from CDB have accrued. The amount available for the purchasing of new mortgages from primary lenders should be less than $8.3 million in view of the need for funds to be kept for reserve. Cash flow projections will be essential in the secondary mortgage operation. The above illustration only intends to show the feasibility of the program under the general financial conditions established under the terms of the proposed loan.

CDB debentures or mortgage backed securities sold at 7% to $7\frac{1}{2}$% fully guaranteed as to repayment by CDB should be attractive enough at the present time to reasonably assume the marketability of papers related to the secondary mortgage operation. However, it may be essential for CDB to increase the interest rate paid on its debentures according to the conditions of the money market and in this connection a general rise in mortgage interest rates in the islands may be requested.

Yield increases for CDB debentures coupled with a raise in mortgage interest will provide a continuous flow of funds for housing finance and will allow CDB to cover costs as well as to provide some margin for capital build-up by the primary lending institutions. This point will be emphasized by AID during pre-loan agreement negotiations once this loan has been authorized.

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St LUCIA

SOURCE AND COST OF FUNDS - HOUSING MORTGAGE INVESTMENT

Capital	Savings (million EC$)	Operations/Profit (000$EC)	Housing Mortgage
1970: Subscribed and paid EC$250,000 1971: " " " EC$300,000 Operations of the St. Lucia Coopera-tive Bank started operations 1946 Total Shareholders in the Bank 450. as of 12/31/71.	69 - 70 - 71 (Regular) 3.5 3.9 4.4 (3%) (3.5%) (4%) Fixed Deposits (000EC$) 69 70 71 137 90 123 Average 6%	(After provisions for taxes, dividends etc.) 69 70 71 6 2 10	Estimated as of As of Sept. '71: EC$1,119,000 1970: EC$333,000 1971: EC$338,000 Average loan EC$20,000
12/31/70: Fully paid EC$480,000. The company started operations 1969.	Loans From C.D.C. EC$3.3. million (7½% interest in 20 years) (Fully disbursed at the end 1971) G.O. St. Lucia EC$400,000 (7½% interest in 20 years) (EC$100,000 disbursed) Provident Fund has committed EC$250,000 every six months for the next 3 years at 7½% interest. An additional commitment of EC$2 million was made by C.D.C. in 1971.	1969: EC$42,191 1970: EC$56,066	1969: EC$1.8 million 1970: EC$3.4 " As of April '72 the total loans made were estimated at 350.

LENDING POLICY

	Loan/Value Ratio	Interest	Term	Insurance	Delinquency	Fees
1. St. Lucia Cooperative Bank	50/100 - Monthly payment not to exceed 25% of monthly income. No limit on value of loan.	1,000 - 10,000 = 9% p.a. over 10,000-20,000 = 8½%p.a. over 20,000 = 8% p.a. Six months interest in advance is collected on the basis of the outstanding balance calculated every 6 months. Amortization made on equal monthly payments. In case of no payment of advanced interest due, monthly payment to be credited to repayment of interest. Interest charged to mortgagors can be increased at the discretion of Bank. (Maximum interest under the law 10%).	Maximum 10 year Partial or total prepayment are permitted without penalty.	Fire-mandatory Life optional. Cost 4.80/1000. One year premium collected in advance.	Negligible. 2 foreclosures in 1970. No foreclosure in 1971.	Solicitor's fee (Maximum 1½% of loan value) Appraisal's fee (1% of house value).
2. St. Lucia Mortgage Finance Co.	80/100 - This could be increased to 90% provided a 2½% fee of the value of the loan is paid by mortgagor. The fee could be included as part of the total loan. Maximum loan BC$30,000.	8% per annum - Interest can be increased upon approval by the Ministry of Housing. Interest collected on the declining balance.	Maximum 20 years Partial or total prepayment permitted without penalty.	Fire-mandatory Life optional. One year premium collected in advance.	Two mortgages foreclosed in 1971. Six mortgages were in the first stages of foreclosed on April 15/72	Solicitor's fee (Maximum 1½% of loan value. Appraisal's fee (1% of house value). (1% loan value as commitment fee.)

ST. VINCENT

SOURCE AND COST OF FUNDS - HOUSING MORTGAGE INVESTMENT

Capital	Savings	Operational Profit	Housing Mortgage Investment (Total)
Total Shares: 1969: EC$375,700 1970: EC$407,620 1971: EC$417,759 The total number of Shareholders in April '72 was 726. The organization started operations 1941.	Being a building society no authorized capital is needed. Shares (Force Savings) with a penalty for late payment pays a 3% dividend calculated on the balance at each quarter. Average maturity of shares 13 years.	1969: EC$3,256.78 1970: EC$40,617.32 1971: No information available.	1969: EC$794,800 1970: EC$765,800 1971: EC$747,400 Average loan EC$26,000
Authorized capital: Capital paid as of 12/31/70: EC$96,000 Company incorporated in 1969.	Loans Total C.D.C.'s loan: EC$3 million Total disbursed as of March 31/ '72: EC$1,156,000 rest cost: 7½%	1970: No operations 1971: No information available	Total loans for new housing: 56 For purchasing of old houses: 4 For repairs: 2 The above figures do not include 42 mortgages in the development called Annesville built by the company and that has confronted serious marketing problems.

LENDING POLICY

	Loan/Value Ratio	Interest	Term	Insurance	Delinquency	Fees
The St. Vincent Building and Loan Association	66/100 - No limit in the value of loans - Loans only made to shareholders.	8% per annum calculated on quarterly basis. Interest can be increased upon approval by the Government. (Maximum 10% under present law).	Maximum 10 years. Repayments are permitted without penalty. Level of prepayment increased considerable in 1971 and the amount prepaid was higher than amount lent.	Comprehensive insurance require (fire, earthquake, tidal wave, riot, etc.) It has a cost of EC$4.80 per thousand.	Six foreclosures since operation started. 2% of interest due as penalty. For the first month in arrears, 1% of the interest due plus penalty thereafter - 25% monthly income to monthly payment ratio.	Solicitor's fee (1½% of loan value as a maximum)
The St. Vincent Housing Finance Co., Ltd.	80/100 - This ratio can be increased if a 2½% of the loan value is paid as an additional commitment fee. The fee has to be paid prior to the making of the loan. Maximum loan value EC$30,000. Loans made to qualify mortgagors.	8% per annum calculated on the declining balance.	Maximum 20 years. Prepayments are permitted without penalty	Fire insurance mandatory-Life insurance optional.	No late payment. Penalty 33% of monthly income to monthly payment	Solicitor's fee Appraisal's fee (In loans for construction EC $25 per visit by construction inspector).

ANNEX III
Exhibit 12-B

GRENADA

SOURCE AND COST OF FUNDS - HOUSING MORTGAGE INVESTMENT

Capital	Savings	Operating Profit	Investment in Mortgages for Housing
Share Capital 1969: EC$565,000 1970: EC$656,051 1971: EC$744,621 **Dividend paid: 10%** **Maturity: 8 years**	The Association has developed a source of capital through the Special Deposits Account:- 1969: EC$643,000 1970: EC$746,000 1971: EC$890,000 Fixed deposits can't be for less than 6 months and interest is paid at the rate of 6% (calculated at the end of each semester) in deposits of EC$10,000 or less and 6½% over EC$10,000.	1969: EC$6,980 1970: EC$3,129 1971: EC$1,670	1969: EC$1,294,974 (outstanding) 1970: EC$1,477,491 " 1971: EC$1,574,819 " <u>No. of Borrowers</u> 1969: 235 1970: 227 1971: 221
Authorized at the end of 197 : EC$1 million. **Capital issued: EC$365,000**	<u>Savings</u> (regular) (millions EC$) 1969: 2.3 1970: 2.6 1971: 2.7 **Fixed deposits were started in 1971 and the amount accumulated was EC$82,000**	**1969: EC$52,600** **1970: EC$44,700** **1971: EC$46,500**	**Total number of loans as of April/72** EC$10,000 and under 90 (new houses) over $10,000 to 20,000-47 EC$20,000 to EC$30,000 11 EC$30,000 to EC$40,000 9 EC$40,000 to EC$50,000 4 over EC$50,000 6 Total 167 **Total mortgage investment in housing finance in 1971 EC$491,900 with a total of 25 loans.**

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LENDING POLICIES

	Loan/Value Ratio	Interest	Term	Insurance	Delinquency	Fees
Grenada Building and Loan Association	60/100 on rare occasions 66/100. Maximum loan determined by availability of funds. No advances for construction are made. A letter of commitment is issued to mortgagor after loan is approved to facilitate obtention interim financing.	10% per annum. Interest payment made on quarterly basis (on the balance at the end of one quarter). Principal repayment made on equal monthly payment but can't be less each year than 5% of the total principal due. Interest can't be increased during the first five years of mortgage.	No more than 5 years. Association normally allows the refinancing of outstanding balance at the end of the 5 years period. It seems that a mortgage balloon arrangement is used. Prepayments are permitted with a 3 months interest penalty.	Comprehensive fire, hurricane earthquake. Cost around EC$4/1000	One of two cases of foreclosure per year. Penalty 1% of monthly amount due.	Legal cost for the Association (no more than EC$40). Solicitor's fee (Maximum 1½% of loan value). EC$25 for each appraisal.
Grenada Co-operative Limited	60/100. Maximum loan determined by availability of funds. No advances for construction.	10% per annum calculated on quarterly outstanding balance.	Open end mortgage Amount due to be repaid on demand by the Bank.	Comprehensive fire, hurricane, earthquake.	No data available from Bank but late payments have increased considerable in the last months.	Solicitor's fee. Appraisal fee.

CARIBBEAN DEVELOPMENT BANK

ORDINARY RESOURCES

STATEMENT OF SUBSCRIPTIONS OF CAPITAL STOCK AND VOTING POWER

DECEMBER 31, 1971

EXPRESSED IN UNITED STATES (1969) DOLLARS (NOTE A)

MEMBER	AUTHORISED CAPITAL			PAID UP CAPITAL
	Shares	Percent of Total	Amount	Amount
Regional States & Territories				
Jamaica	2,240	22.4	11,200,000	5,600,000
Trinidad & Tobago	1,540	15.4	7,700,000	3,850,000
Bahamas	660	6.6	3,300,000	1,650,000
Guyana	480	4.8	2,400,000	1,200,000
Barbados	280	2.8	1,400,000	700,000
Antigua	100	1.0	500,000	250,000
British Honduras	100	1.0	500,000	250,000
Dominica	100	1.0	500,000	250,000
Grenada	100	1.0	500,000	250,000
St. Kitts/Nevis/Anguilla	100	1.0	500,000	250,000
St. Lucia	100	1.0	500,000	250,000
St. Vincent	100	1.0	500,000	250,000
Montserrat	25	.25	125,000	62,500
British Virgin Islands	25	.25	125,000	62,500
Cayman Islands	25	.25	125,000	62,500
Turks & Caicos Islands	25	.25	125,000	62,500
Non-Regional States				
Canada	2,000	20.0	10,000,000	5,000,000
United Kingdom	2,000	20.0	10,000,000	5,000,000
	10,000	100.0	50,000,000	25,000,000

*In accordance with Article 3 Section 4 of the Agreement Establishing the Bank, these territories are considered as a single member of the Bank.

CARIBBEAN DEVELOPMENT BANK

ANNEX IV
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ORDINARY RESOURCES

STATEMENT OF SUBSCRIPTIONS OF CAPITAL STOCK
AND VOTING POWER
DECEMBER 31, 1971
EXPRESSED IN UNITED STATES (1969) DOLLARS (NOTE A)

AMOUNT RECEIVED OR TO BE RECEIVED					VOTING POWER	
In Convertible Currency	In Currency Of Member	In Non-Negotiable Interest-Bearing Demand Notes	In Non-Negotiable Non Interest-Bearing Demand Notes	Callable Portion of Authorised Capital	Number Of Votes	Per Cent Of Total
1,008,000	—	—	1,008,000	5,600,000	2,390	19.52
693,000	693,000	—	—	3,850,000	1,690	13.80
297,000	—	165,000	132,000	1,650,000	810	6.61
216,000	—	216,000	—	1,200,000	630	5.14
126,000	70,000	—	56,000	700,000	430	3.51
45,000	45,000	—	—	250,000	250	2.04
45,000	45,000	—	—	250,000	250	2.04
45,000	25,000	—	20,000	250,000	250	2.04
45,000	45,000	—	—	250,000	250	2.04
45,000	45,000	—	—	250,000	250	2.04
45,000	25,000	—	20,000	250,000	250	2.04
45,000	45,000	—	—	250,000	250	2.04
11,250	—	6,250	5,000	(62,500		
11,250	11,250	—	—	(62,500	250*	2.04
11,250	11,250	—	—	(62,500		
11,250	11,250	—	—	(62,500		
900,000	500,000	—	400,000	5,000,000	2,150	17.55
900,000	500,000	—	400,000	5,000,000	2,150	17.55
4,500,000	2,071,750	387,250	2,041,000	25,000,000	12,250	100.00

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CARIBBEAN DEVELOPMENT BANK

ORDINARY RESOURCES

BALANCE SHEET DECEMBER 31, 1971

EXPRESSED IN UNITED STATES (1969) DOLLARS (NOTE A)

LIABILITIES, RESERVES AND CAPITAL

		1971	1970
LIABILITIES			
Accounts payable and accrued expenses ..	21,204		11,432
Accrual for Bank's contribution to pension scheme	—		10,000
		21,204	21,432
RESERVES			
Ordinary reserve (Note G)	14,514		—
Reserve against losses on loans and guarantees and from currency devaluations, less amount utilised ..	64,485		—
Exchange equalization reserve	—		69,032
		78,999	69,032
PENSION SCHEME FUND (Note E)		30,420	—
CAPITAL			
Capital Stock (Note F)			
Authorised — 10,000 shares of $5,000 par value each	50,000,000		50,000,000
Less: Callable shares (5,000 shares) ..	25,000,000		25,000,000
Paid up shares (5,000 shares)	25,000,000		25,000,000
Less: Subscription instalments not due ..	16,000,000		20,000,000
	9,000,000		5,000,000
Advance payment on subscription ..	896,000		448,000
	9,896,000		5,448,000
Net income (Note G)	10,485		14,514
		9,906,485	5,462,514
		$10,037,108	$ 5,552,978

ASSETS

		1971	1970
CASH IN BANKS AND DEPOSITORIES			
Commercial banks	129,038		32,757
Government depositories	522,798		69,143
		651,836	101,900
INVESTMENTS			
Government securities, at cost (face amount $1,652,160)	1,533,697		1,162,541
Time deposits and certificates of deposits ..	4,622,704		3,326,694
Accrued interest	97,836		59,494
Share holding	2		—
		6,254,239	4,548,729
ACCRUED CHARGES ON LOANS ..		2,750	—
RECEIVABLE ON ACCOUNT OF PAID UP CAPITAL			
Non-negotiable, non-interest bearing demand notes (Note B)	2,411,899		560,000
Non-negotiable, interest bearing demand notes (Note C)	358,939		289,566
Accrued interest	26,102		10,472
Amount required to maintain value of currency holdings (Note D)	195,616		—
		2,992,556	860,038
DEBTORS AND PREPAYMENTS		39,037	19,618
LAND AND BUILDINGS, at cost			
Purchase of land and building	44,106		4,308
Rehabilitation of building	6,526		4,324
	50,632		8,632
Less: Provision for depreciation	1,266		—
		49,366	8,632
OTHER ASSETS, at cost	20,798		15,143
Less: Provision for depreciation	3,894		1,082
		16,904	14,061
PENSION SCHEME ASSETS (Note E) (Segregated and held in trust)			
Investment, at cost	27,525		—
Cash in hand	2,895		—
		30,420	—
		$10,037,108	$ 5,552,978

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CARIBBEAN DEVELOPMENT BANK

SPECIAL DEVELOPMENT FUND

BALANCE SHEET AS AT DECEMBER 31, 1971

EXPRESSED IN UNITED STATES (1969) DOLLARS (NOTE A)

ASSETS	
5% Fixed Deposit at Bank of Nova Scotia Toronto (Can. 1,008,750) ..	$927,373
Accrued Income on Fixed Deposit Account	28,329
TOTAL ASSETS	$955,702
LIABILITIES	
Special Development Fund (Note B)	$927,373
Reserve against losses on loans	24,278
Due to ordinary resources	4,051
TOTAL LIABILITIES	$955,702

CARIBBEAN DEVELOPMENT BANK
ORDINARY RESOURCES
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31, 1971
EXPRESSED IN UNITED STATES (1969) DOLLARS (NOTE A)

			1971	1970
INCOME				
Income from investments			406,331	210,849
Income from interest bearing demand notes ..			36,266	14,672
Income from loan — Commitment charge ..			2,750	—
			445,347	225,521
EXPENDITURE				
Administrative expenses				
Board of Governors	7,198			13,421
Board of Directors	16,028			7,598
		23,226		21,019
Staff				
Salaries	169,764			86,000
Contributions to staff benefits	20,819			13,246
Allowances	31,742			20,730
Travel	27,710			48,912
Consultants	7,078			465
		257,113		169,353
Other administrative expenses				
Supplies and equipment	9,151			3,792
Communications	11,124			5,137
Publications and printing	9,567			2,903
Office occupancy	3,245			800
Depreciation	4,078			1,082
Insurance	843			235
Other expenses	12,540			6,686
		50,548		20,635
Contribution to United Nations Development Programme cost		40,000		—
		370,887		211,007
Less: Allocated to:				
Canadian Agricultural Fund	11,325			—
Special Development Fund	4,051			—
		15,376		—
			355,511	211,007
			89,836	14,514
Reserve against losses on loans and guarantees and from currency devaluations			79,351	—
NET INCOME			$10,485	$ 14,514

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CARIBBEAN DEVELOPMENT BANK
SPECIAL DEVELOPMENT FUND
STATEMENT OF INCOME AND EXPENDITURE
FOR THE PERIOD FEBRUARY 17, 1971 TO DECEMBER 31, 1971
EXPRESSED IN UNITED STATES (1969) DOLLARS (NOTE A)

Income from Investment		$28,329
Less: Proportion of administratve expenses	4,051	
Transfer to Reserve against losses on loans	24,278	
		28,329
		—

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Loan Commitments Made By The Bank During 1971

Country and Purpose	Borrower	Amount US $ +	Rate p.a.
	(i) ORDINARY RESOURCES		
BAHAMAS			
Water Supply	Government	650,000	8%
DOMINICA			
Agriculture	F. A. Laville Plantations Ltd.	97,012	8½%
Agriculture	Armour (W.I.) Ltd.	175,685	8½%
GRENADA			
Agriculture	W. and J. Branch	59,975	8½%
JAMAICA			
Beach reclamation road	Government	1,202,400	8%
ST. VINCENT			
Hotel	Sunset Shores Ltd.	136,000	10%
	(ii) SPECIAL DEVELOPMENT FUND		
BRITISH HONDURAS			
Electricity	Government	1,528,320	4%
DOMINICA			
Industrial Estate	Agricultural and Industrial Development Bank	110,500	4%
Small industry loans	Agricultural and Industrial Development Bank	150,000	4%
MONTSERRAT			
Small industry loans and industrial estate	Development Finance and Marketing Corporation	100,000	4%
ST. KITTS-NEVIS-ANGUILLA			
Small industry loans	Development and Finance Corporation	125,000	4%
Industrial Estate	Ditto	81,135	4%
ST. VINCENT			
Small industry loans	Development Corporation	250,000	4%
Industrial Estate	Ditto	83,000	4%
	(iii) CANADIAN AGRICULTURAL FUND		
DOMINICA			
Farm Improvement	Agricultural and Industrial Development Bank	250,000	4%
GRENADA			
Farm Improvement	Agricultural Bank	250,000	4%
MONTSERRAT			
Farm Improvement	Development Finance and Marketing Corporation	100,000	4%
ST. KITTS-NEVIS-ANGUILLA			
Farm Improvement	Development and Finance Corporation	250,000	4%
ST. LUCIA			
Farm Improvement	Agricultural and Industrial Bank	250,000	4%
ST. VINCENT			
Farm Improvement	Agricultural and Cooperative Bank	250,000	4%

+ Of 1969 parity; US$1 = E.C. $2

ADMINISTRATIVE BUDGET

FOR THE FINANCIAL YEAR 1972

ANNEX IV
Exhibit 7
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(expressed in United States dollars)
US $1 = EC $2

	Financial Year 1971 Budget	Financial Year 1971 Actual	Financial Year 1972 Budget
I. BOARD OF GOVERNORS	12,000	7,198	9,000
II. BOARD OF DIRECTORS	15,000	16,028	15,000
Travel	14,000	16,028	14,000
Staff Services	1,000		1,000
III. STAFF	357,750	257,113	413,975
Salaries	230,000	169,764	263,000
Contributions to Staff Benefits	33,750	20,819	45,000
Allowances	49,000	31,742	43,225
Travel	44,000	27,710	57,750
Consultants	1,000	7,078	5,000
IV. U.N.D.P. PERSONNEL	40,000	40,000	20,000
V. OTHER ADMINISTRATIVE EXPENSES	55,950	50,548	66,500
Supplies Equipment	7,000	9,151	9,500
Communications	8,000	11,124	9,000
Publications & Printing	15,000	9,567	16,000
Depreciation	4,850	4,078	5,000
Office Occupancy	6,600	3,245	11,000
Insurance	500	843	1,200
Other Expenses	14,000	12,540	14,800
TOTAL	480,700	370,887	524,475

February, 1972

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