

PD-AY-953
12/31/87

PROJECT ASSISTANCE COMPLETION REPORT

PROJECT TITLE: BARBADOS PRIVATE INITIATIVES IN HOUSING

PROJECT NUMBER: 538-0081; 538-HG-002

FUNDING PERIOD: 09/06/82 - 12/31/87 [GRANT]

LOP FUNDING: \$10 MILLION HOUSING GUARANTY (HG)
\$470,000 GRANT

IMPLEMENTING AGENCY: MINISTRY OF HOUSING AND LANDS (MOHL)

PACD: December 31, 1987 [GRANT]

I. PURPOSE:

To shift the initiatives for production of housing for low income families to private developers and individuals by the provision of financing for the purchase of modest homes and for home improvements; assist government to move away from the direct production of housing; provide for expanded lot and home ownership by providing partial financing to carry out the Tenantry Purchase Act of 1980.

II. BACKGROUND:

In September 1982, the Government of Barbados (GOB) and USAID entered into an agreement to implement a Housing Guarantee (HG) Project, "Private Initiatives in Housing" designed to improve the availability for low income families for financing the purchase of new homes, home improvements and house spots purchases.*

A \$10 million loan (538-HG-002) and a companion US \$320,000 technical assistance grant (538-0081) were made available to the GOB. The Housing Planning Unit (HPU) of the Ministry of Housing and Lands (MOHL) was responsible for administering the project and agreed to contribute in kind office space and support services to the Housing Advisor to cover costs of the HG Project staff. The purpose of the original grant was to finance technical assistance and training, to support implementation of the HG loan project, to expand the institutional capability of public and private shelter institutions and to assist in the development of a comprehensive national housing policy. The technical assistance was devoted to improving the project management and administrative capabilities of the MOHL and the public and private lenders participating in the HG program.

* House spots are rented lots used solely for chattel houses that tenantry residents live in and own.

In August 1986, an additional \$150,000 was added to the original grant amount increasing the total grant to \$470,000, and the PACD extended to December 31, 1987. The purpose of the increase was to continue supporting the training and technical assistance required for the Housing Guaranty Project. These activities included seminars and workshops for private sector developers and builders who needed assistance in building low cost housing.

The first evaluation of the HG program conducted in May 1985 concluded that the grant was effective in meeting the objectives of the HG shelter program, and recommended additional resources be made available to support continued implementation.

RHUDO/CARIBBEAN was responsible for the overall management and administration of the Housing Guaranty Program and the Office of Housing (PRE/H) was responsible for the management of the technical inputs.

RDO/C was responsible for the administration and management of the Grant Funds and acted as primary liaison with the Office of Housing and the Government of Barbados on the overall program.

III. SUMMARY OF INPUTS AND ACCOMPLISHMENTS

The project was designed to be carried out by existing finance institutions through three types of sub-projects:

1. Home Improvement Loans, (HIL) program provided through five commercial banks, (Royal Bank of Canada, Caribbean Commercial, Nova Scotia, Canadian Imperial and the Barbados National Bank) and three credit unions, (Public Workers, Teachers and Purity) to finance home improvements and additions.
2. Mortgage loans program provided through the Barbados Mortgage Finance Company (BMFC) and the Caribbean Commercial Trust Company to finance low cost new homes.
3. Tenantry lot purchase program provided through the Barbados National Bank (BNB) to support the Tenantries Freehold Purchase Act (TFPA) of 1980.

The original allocation of the proceeds of the US\$10 million loan and the quantitative goals established for the project were:

A.	<u>Loan Component</u>	<u>Budget Allocation</u> ((\$000s)	<u>Component Goal</u> (Number of Loans Expected)
	Home Improvement Loans	5,000	2500
	Mortgage Loans	3,000	500
	Tenantry Lot Purchase Loans	<u>2,000</u>	<u>1000</u>
	Total	10,000	4000

B.	<u>Grant Component</u> (000)	<u>Original Grant Budget</u>	<u>Grant Amended Budget</u>	<u>Total Grant Budget</u>	<u>Total Disbursement</u>
	Technical Assistance	237	105	342	337
	Training	61	40	101	106
	Commodities	<u>22</u>	<u>5</u>	<u>27</u>	<u>27</u>
		320	150	470	470

Attachment 1 includes the detailed allocations of the US\$10 million Housing Guaranty Loan. Revision of budget allocations and planned outputs made during implementation are also illustrated.

A Housing Credit Fund (HCF), staffed with five persons, was set up within the MOHL to implement the project. Rather than relying on reflows to repay the HG loan, the GOB decided to use the loan proceeds to capitalize the HCF as a revolving fund for housing and to repay the loan from general revenues.

Eligible project beneficiaries were limited to households earning less than US \$8,000 (the median income). Initially, to assure the low income character of the program, home improvement loans could not exceed US \$4,000 and mortgage loans could not exceed US \$12,000 and the value of houses financed could not exceed \$17,500. These requirements were modified to reflect the maximum loan affordable to a family at the median income, based on underwriting criteria that financial institutions used. The new requirement was that the house be valued at less than US \$25,000.

As of December 31, 1987, HCF lending totalled US \$10 million of which about \$8.2 million was from loan proceeds and US \$1.8 million from reflows.

The grant was used to fund a full-time PSC to the MOHL to assist for 2 1/2 years in the implementation of the HG project and a variety of technical assistance and training activities.

Besides financing the full time PSC, the grant funds have been used for, provision of developmental assistance to the HCF; computerization of HCF and MOHL financial and research data; technical assistance to credit unions, the Barbados Credit Union League and the BMFC; training seminars for builders and lenders; training of GOB staff, particularly staff of the MOHL; and preparation of research papers on housing problems in Barbados which were used in the development of the National Housing Plan.

HG Loan and Grant Accomplishments

The HG Project has made an important contribution to the expansion of financing for low income householders. More than US \$8 million has been made available to almost 3,700 lower-income borrowers to buy or build new homes or improve the homes of existing home owners. A large percentage of borrowers earn less than 80 percent of the median income. Lender experience with repayments has been good. HG borrowers repayment rates are similar to those of lenders of regular borrowers.

1. Mortgage Loan Component

A total of \$3 million dollars was initially allocated to the mortgage component. Based on an average loan of \$11,000, this amount would have financed 273 loans over the life of the project. On December 31, 1987, the Project Assistance Completion Date, a total of 237 mortgage loans were disbursed. 143 loans were disbursed from the Housing Guaranty escrow funds totalling \$4.2 million and 94 loans totalling \$4.4 million from recirculation of funds. HG funds have been lent to two entities, the Barbados Mortgage Finance Company (BMFC), the subsidiary of the Barbados National Bank, and the Caribbean Commercial Trust (CCT).

2. Home Improvement Loan Component

Five million dollars was allocated to this sub-component and a goal of 2,500 loans over the life of the project was established. HG funds have been on lent to five commercial banks, three credit unions and the Barbados Credit Union League.

Since the program began, 3407 loans have been disbursed mainly by the Commercial Banks totalling \$6.2 million.

The large scale of the program and the generally positive attitude of lenders to the program suggests that there is a large pool of low income homeowners who are interested in improving their property and who are good credit risks. A study completed in the middle of 1985 showed that borrowers represented a broad cross-section of the low income population. More than 90 percent of the loans went to borrowers earning less

than US \$7,000 (the median is US \$8,000) and more than half of the loans went to borrowers who earned less than \$5,000. Over 44 percent of loan applicants were classified as service workers. The second, third and fourth most common types of employment were skilled workers (15%) clerical workers (11 percent) and agricultural workers (10 percent). Amounts borrowed were \$1,500 - \$2,500 and only 5 percent of the loans were under \$500.

3. Tenantry Loan Component

Initially U.S \$2 million was allocated to this component which was not used to the extent contemplated. This is primarily due to the low cost of purchasing plantation tenantry lots and the priority given by the MOHL to promoting the purchase of low cost plantation plots versus higher priced lots located in urban areas. Over the life of project some 1400 households have purchased their plantation house spots for cash at an average of about \$300 (land is sold at \$.05 per square foot) and the use of the borrowing mechanism proved unnecessary. As of 31 December, 1987 about 200 house spot loan applications for lot purchases in urban areas were being processed by the Barbados National Bank.

While the component has not been active, the objective of the Tenancies Freehold Purchase Act have been achieved and many of the recipients of home improvement loans financed by the HCF have bought their house spots with the proceeds of these loans.

IV. DEVELOPMENT IMPACT

The final evaluation of the project (February 1988) stated that a significant number of the benefits accruing would not have been made without the project. Some of the developmental impact resulting from this program to Barbados are:

1. Physical benefits of about 3,400 home improvement loans and 237 new houses were completed with HG funds.
2. A National Housing Plan was developed. The Ministry of Housing adopted this plan and the Government of Barbados plans to incorporate it in the overall five year plan.
3. The commercial banks did increase their loan activities to the lower income segment of the market and found the default rates to be modest and acceptable. Due to this positive exposure the commercial banks increased lending with their own funds to low income borrowers. The banks have built up the historical record to continue to deal with this new group.

4. A highly professional cadre of trained personnel has been developed at the HCF which will have a long term impact on housing policy. This is a major institutional development of this project. The HCF was developed as the GOB housing finance facility, the organization responsible for allocating the original HG funds and reflows among the project sub-components. Its success has led to GOB decision to turn it into a statutory body.
5. RDO/C has built up the capability and acquired the experience in assisting the OECS region in strategic planning for possible AID assistance.

V. RECOMMENDATIONS FOR CONTINUING MONITORING

The Housing Credit Fund (HCF) of the Ministry of Housing and Lands continues to supply RDO/C and RHUDDO/CAR with quarterly reports of its activities. RHUDDO continues to support the evolution and implementation of the institutional and policy initiative started under the HG project. These include (a) targetting GOB housing assistance to low income groups, (b) promoting and expanding the role of the private sector in the provision units and financing for low income groups, (c) improving the Barbados housing finance system particularly through expanding the role and effectiveness of the HCF, and (d) improving the capability of the MOHL and other housing agencies to make optimum use of available resources, design and implement programs and monitor the sectors performance.

The final 1988 evaluation results will be used by AID's Office of Housing and Urban Programs (PRE/H), the Caribbean Regional Housing and Urban Development Office (RHUDDO/CAR) and the Regional Development Office for the Caribbean (RDO/C) as inputs into future project designs and decisions about new housing programs in the Caribbean. It also provides useful information for other donors considering shelter assistance to Barbados. The evaluation recommended continued technical assistance to HCF as its long term influence on housing policy will be important.

VI. LESSONS LEARNED

1. Government controlled financial resources (e.g. BMFC, HCF, NHC) should be directed only at those beneficiaries below a specified level.
2. Government subsidies should only flow to those beneficiaries at the bottom of the income spectrum.
3. Government should focus principally on planning and providing financial inducements to private sector builders and not on constructing sales or rental activities or on joint venture programs. There are, however, areas where the private sector will not build and where Government operated programs, sites and services or core units will be necessary. The Government should consider a turn-key approach in providing assistance.

4. Home improvement loans should form an important component of any program as a cost effective way to improve housing stock. Only a very small number of units are not salvageable and, properly administered a home improvement loan program, can be a rapid and easy way to move money through the private sector.
5. Adequate economic motivation should assist to induce the private sector to enter the low income market which is perceived to be risky and less profitable.
6. The project design was appropriately simple with a limited number of key actors who provided continuity during project implementation.
7. The evaluation report states that the Technical Assistance component was "well justified" and "cost effective" and very instrumental in the success associated with this project.
8. Housing finance was not the only constraint to expanding the role of the private sector in low cost housing development, other constraints included buyers' down payment, unavailability of small low cost lots and a general reluctance to build modest units.
9. Barbados Mortgage Finance Corporation gained experience in lending to low income home owners, particularly those building chattel houses.

ATTACHMENT 1

PROJECT ACCOMPLISHMENTS

BARBADOS PRIVATE INITIATIVES IN HOUSING
538-HG-002 - \$10 million LOAN
538-0081 - \$470,000 GRANT

<u>Loan Components</u>	<u>Original Budget Allocation</u>	1982 <u>Original PP Outputs¹</u>	<u>Revised Budget Allocation</u>	<u>Revised Planned Outputs</u>	<u>Actual Outputs 31/12/87</u>	<u>Actual Disbursements from Escrow 1/31/87</u>
	(\$000)	(No. of loans) to be made	(\$000)	(No. of loans) to be made	(No. of loans) made	(\$000)
1. Home Improvement Loans	5,000	2660	7,000	2000	3407	6,000
2. Mortgage Loans	3,000	400	3,000	230	237	4,000
3. Tenantry Lot Purchase Loans	2,000	1000	2/	1000	1414	2/
TOTAL	10,000	4060	10,000	3230	5058	10,000
BENEFICIARIES ³	--	16,240	---	12,920	20,232	---

1. Based on the medium income, the figure illustrates the number of loans likely to be financed under the budget allocation.
2. \$7 million allocated to Home Improvement Loans was also expected to support the tenantry program.
3. "Beneficiaries" or calculated as four persons per household benefitting from each loan.

68