

## Caribbean housing finance discussed in Santo Domingo

**T**HE Caribbean Summit Round Table on Housing Finance in the 1990s, held in Santo Domingo, Dominican Republic, in early March, attracted a distinguished group of national and international participants who endeavoured to assess the impact of the remarkable global economic changes over past months on the situation of the Caribbean island countries.

The need was highlighted for transformation of structures and policies if these countries are to be competitive and provide for the basic needs of their growing populations, especially for housing, shelter and related community facilities and services.

A "Declaration of Santo Domingo" — see below — was adopted, which summarises the main issues discussed and urges concerted action in steps towards shaping the future.

This declaration will be distributed by the Caribbean Association of Housing Finance Institutions, together with a longer Policy Statement and Action Programme for the Association among policy making officials in all countries of the area

and among the public and private sector institutions concerned with housing policy and financing.

The Round Table was convoked by Dr Freddy Reyes, out-going chairman of the Caribbean Association, prior to its annual meeting on 2 March when Carlton Robinson, managing director, Trinidad and Tobago Mortgage Finance Co, was elected as his successor. Leonard Ebanks of the

extension to families in need of shelter improvement.

The Association also sponsors a training and professional interchange programme for its members in agreement with the Federal Home Loan Bank of New York.

Participation in the Round Table and the CAHFI meeting included the following: Tom Scott, president, and Dale Bottom, secretary-general, International Union of Housing Finance Institutions; Alvaro Alberto Barreto, president, and Alfredo Tapia, secretary-general, Inter-American Housing Union; Kenneth Seaton, president, US League of Savings Institutions; Brian Dittenhafer, president, and Donald Wolff, vice-president, Federal Home Loan Bank of New York; Hugo Gonzalez, president, and Julio Escoto, managing director, Dominican League of Savings and Loan Associations; Pedro Romero Confesor, president, and Opinio Alvarez, managing director, National Housing Bank; Joaquin Ricardo, Secretary of State for External Relations, and other officials of the Dominican government and finance institution representatives.

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### *'Shaping the future'*

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Cayman Islands is vice-chairman with Joseph Bailey of Jamaica continuing as secretary-general and Eric Carlson as special adviser. Taking its lead from the International Union of Housing Finance Institutions, the Caribbean grouping also voted to eliminate "Building Societies" from its name.

The Association's membership of 50 remains constant, and new initiatives are being planned, including a pilot project for small-scale credit

### **Declaration of Santo Domingo**

#### **On Caribbean Housing Finance and Shelter Development in the 1990s**

*The Caribbean and the global economy*

THE need for transformation of structures and policies of the Caribbean island countries is essential if

they are to survive, be competitive and provide for the basic needs of their growing populations, especially for housing, shelter and related community services and facilities. The Caribbean situation must be viewed within the global economy marked by radical changes in production, distortion and financing processes. Over the past year, moreover, there have been remarkable developments in the countries of Eastern Europe and the USSR which are leading to a new climate for reconstruction and

building for peace. To mention the events in Panama, Nicaragua, the release of Nelson Mandela in South Africa, the Namibia elections, and other events elsewhere makes it clear that there has been one triumph after another for the concepts of democratic government and institutions to serve the people and meet their basic needs. The full integration of the European community by 1992, the new trade relationships between Canada and the United States and other factors

will also impact on the Caribbean economies.

The Caribbean countries must cooperate and work together towards strategies for development while endeavouring to assure political, economic and social stability as well as environmental protection and enhancement. Governments especially must take all measures necessary to keep inflation under control through sound management of their economies. The present inflationary situation is not sustainable and co-operation and unity among all sectors is essential for effective war on inflationary policies.

#### *Housing finance and national economic policies*

Housing policy and finance necessarily are intertwined with national economic policies. Monetary policies exert important influence on the activity of housing finance institutions. Central banks must become aware of the fundamental differences in regulations and interest rates regarding short-term credit, where the risks and variables can be identified, and long-term credit such as for housing finance. Housing finance in an inflationary context is not viable without a mechanism for protection, whether it be by monetary correction or other means.

#### *'Declaring war on inflation'*

Ideally, loans for housing should be made only under terms and conditions that will assure repayments equivalent in value and purchasing power to the original loan amounts.

#### *Governments as facilitators*

In the 1990s governments will increasingly serve as facilitators for housing and shelter programmes to be implemented by the various forces of the private sector. In their role as facilitators, governments must give special attention to making land available for development at

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reasonable cost if low-income families are to be provided with shelter. In some cases, land already in public control can be assembled for such use, and in others governments should undertake land acquisition to ensure integrated planning, provision of infrastructure and community facilities, etc. Tax incentives can be an effective stimulus for builders and for housing finance institutions.

Governments can help with the leveraging and co-ordination of funding sources from both public and private sector entities in order to produce affordable housing. They can assist housing finance institutions in developing uniform underwriting procedures and standard documentation for mortgage lending and secondary mortgage operations. Such standardisation throughout the Caribbean should be vigorously promoted by CAHFI and its member institutions. CAHFI should also be concerned with practical solutions for the whole context of housing production in order to lower costs and also to benefit from tropical architecture design more appropriate for the region. CAHFI should develop links and collaboration with other Caribbean professional associations such as the economists, architects and engineers, etc.

#### *Informal sector priority*

Governments at all levels, and housing finance institutions, must devote priority attention to assisting the informal sector in meeting shelter needs, achieving legal tenure status, and community integration. The Affordable Housing Councils established by the 12 regional Home Loan Banks of the USA provide one type of approach for identifying credit requirements and organisational capacities for extending and managing loans for low- and moderate-income families.

#### *New technologies and efficiencies*

The spread of new technologies

has been fundamental to the transformation and dynamism of the global economy. They also affect the efficiency and possible survival of the society's institutions. Caribbean institutions should strive to maintain an up-to-date application of advanced technologies for management of their resources.

The specialised housing finance institutions of the Caribbean have been characterised by responsible and successful performance. The 1990s, however, may produce situations in some countries where such institutions are vulnerable to merger or absorption by larger commercial or universal banks. This is part of a

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#### *'Caribbean success'*

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world-wide phenomenon which has not yet run its course. Inevitably, there will be new linkages with long-term investors such as pension and insurance funds.

The financial institutions and their regulatory agencies should be aware of the problems that other countries are having with their savings and thrift institutions. This will require new steps for the preparation of personnel in the auditing and examining departments and their training to cope with the eventualities that may emerge in specific situations. Here the Caribbean institutions can take advantage of the sister institutions programme of the Federal Home Loan Bank of New York under which training for auditors and examiners and other important courses are available. The Office of Thrift Supervision of the USA also has different schools for its examiners and may be able to accommodate personnel from Caribbean countries in such courses if properly requested through the secretary-general of CAHFI.

Debt-equity conversion strategies

48 →

← 47

have been relatively small. The earliest to reject the Soviet model was Yugoslavia. Yugoslav housing construction relies almost entirely on enterprise housing fund accumulation and population savings.

(b) In a few countries, especially Hungary, there is a very complicated system balancing the socio-political considerations with economic objectives and using increasingly varied instruments.

(c) Housing finance since the late 1970s reflects the growing efforts of the state to mobilise the resources of the population. In countries with ongoing economic reforms subsidies are increasingly being shifted from the supply side and focused on households in need of assistance.

(d) Heavy subsidies, both general and individual, of indirect and direct character, prevail for state, co-operative and the individual sector.

The reduction of stock maintenance

finance subsidies can be accomplished mainly in three ways, that is, increasing rent levels, increasing the share of co-operative and individual housing in new construction, and

## 'Decline in subsidies'

encouraging the sales of public housing to individual households. All three methods have been used. The last one has long been an important part of housing provision in Yugoslavia, but Hungary is the only other country in which it plays a more significant role.

### Conclusion

It is difficult to say how fast and how effectively the economic reforms will change the current dis-

couraging trends in the centrally planned economies' housing production to any significant degree. If reforms continue in the same direction, the important issue for the housing sector will be the co-existence of the state and market systems within the sector. The volume of subsidy should decline as more market housing becomes available.

However, the development of the prosperous private housing market will rely heavily on the restructuring of the financial institutions and the introduction of financial intermediation which so far is taking place only in Hungary. ■

*Structure and Performance of the Housing Sector of the Centrally Planned Economies: USSR, Hungary, Poland, GDR and Yugoslavia*, by Hanna Matras, The World Bank Policy, Planning and Research Staff, Infrastructure and Urban Development Department, Report INU 53, October 1989.

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hold considerable promise as potential funding sources for housing sector investment. Caribbean countries should monitor such potentials. New voluntary private funding to assist self-help building, community-based efforts for savings and lending to individuals and families also holds considerable promise for application in the Caribbean countries.

### International aid for housing

International aid for housing in today's environment is inadequate. For example, the Housing Investment Guaranty programme of the US Agency for International Development is currently limited to \$100 million world-wide. While the World Bank has increased its volume of lending for urban sector and housing, only a few countries are beneficiaries of project loans, many of which are for amounts of over \$100 million. The regional banks have yet

to make a significant contribution to this sector. The UN Development Programme is studying a new focus for assistance for urbanisation and housing questions. There are few other major sources of aid for this sector.

### Housing finance in the 1990s

Housing finance in the 1990s should include the promotion of a specialised World Housing Bank, International Housing Finance Corporation, or other type fund or financial services facility. Such an entity could assist countries by providing practical housing finance information exchange, advice on funding sources, marketing of mortgage securities, and establishment of investor-consumer contacts and relationships. More donor countries should establish housing investment guaranty programmes comparable to those of the US-AID for the benefit of developing countries.

### Shaping the future

The 1990s will provide new perspectives and opportunities for civil construction. The challenge will be to work constructively for the bright future which lies ahead. There will be many levels for new thinking and action, bearing in mind the phrase "Think globally, but act locally."

CAHFI can help shape the future through concerted recommendations, promotion, action, education and participation in discussions, meetings and conferences in national, regional and international contexts. The Third International Shelter Conference in April 1990 and the United Nations Conference on Environment and Development to be held in Brazil in 1992 will both result in recommendations for action and institutional reform, including for the basic problems of the built environment, shelter, housing and their financing. ■