# Ex post evaluation – Honduras

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**Sector:** 16040 Low-cost housing
**Project:** “Construction of simple housing in rural areas” (PVMR V), BMZ no.: 2000 65 854*
**Implementing agency**: FUNDEVI (Fundación para el Desarrollo de la Vivienda Social Urbana y Rural)


### Ex post evaluation report: 2020

| | | PVMR V (planned) | PVMR V (actual) |
|---|---|---|---|
| Investment costs (total) | EUR million | 12.30 | 10.02 |
| Counterpart contribution | EUR million | 7.20 | 4.92 |
| Funding | EUR million | 5.10 | 5.10 |
| of which BMZ budget funds | EUR million | 5.10 | 5.10 |

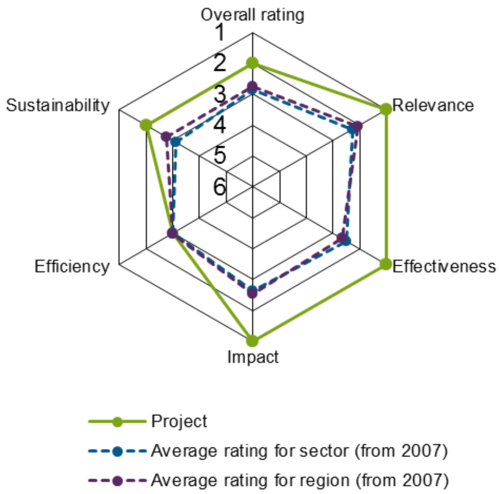
*) Random sample 2019


**Summary:** The PVMR V programme was the fifth and final phase of the social housing construction programme “Programa de Vivienda Mínima Rural” (PVMR) in Honduras and covered measures to improve the housing supply for poor members of the rural population. The implementing agency was a charitable foundation “Fundación para el Desarrollo de la Vivienda Social Urbana y Rural (FUNDEVI)”. The measures were financed by counterpart contributions from the beneficiaries, a loan component, and one-off grants, whereby only the loan components were financed by FC funds. The programme benefited from the long-standing institutional support of the implementing agency by German and Swedish development cooperation, including complementary and consultancy measures to develop the foundation.


**Development objectives:** The FC contribution of EUR 5.1 million was designed to contribute to reducing the qualitative and quantitative deficits in living space and thus to help improve the target group’s living conditions (development objective at impact-level) and to sustainably improve access to living space that meets the needs and financial means of families (programme objective at outcome level).

**Target group:** The project’s target group was the poor and very poor rural population in Honduras in settlements with fewer than 50,000 inhabitants. The indicator of poverty was income measured in relation to the minimum wage.

## Overall rating: 2




**Rationale:** The project was relevant in relation to the core problem of an insufficient housing supply for poor and very poor sections of the population and in the country’s context of reform. The donors’ contributions were coordinated. The pre-formulated indicators for the module objective and other indicators were achieved. The financed small/micro homes are inhabited, maintained and developed by the target group. Inhabitant satisfaction is high. A contribution has been made to the housing supply and proper development of suburban areas. The implementing agency adapted its organisational structure to the requirements of issuing loans without losing sight of the social needs. The loans are reliably serviced, while returned funds are reinvested in loans. The costs for the loans are appropriate and suitable for the market in view of the underlying conditions. Risks to sustainability stem from state promotion for the construction of houses, an area that remains highly politicised.

**Highlights:** The positive project results identified during the evaluation at institutional level (development of the foundation) and at target group level (poverty focus) are remarkable in view of the generally difficult institutional, political and security environment in Honduras, but need to be secured over the long term.

# Rating according to DAC criteria

## Overall rating: 2

### Ratings:

| | |
|---|---|
| Relevance | 1 |
| Effectiveness | 1 |
| Efficiency | 3 |
| Impact | 1 |
| Sustainability | 2 |

### General conditions and classification of the project (for complex projects only)

The PVMR V programme was the fifth and final phase of the social housing construction programme “Programa de Vivienda Mínima Rural” (PVMR) in Honduras and covered construction and improvement measures in residential areas that are home to poor and very poor members of the rural population. The programme relates to projects with overlapping promotional phases in close proximity to the target group; these phases were initially under the remit of a state implementing agency – SOPTRAVI. The early promotional phases attempted to initiate reform in the promotion of public housing construction (sector reform) by means of consulting services and complementary measures and also aimed to create a legal framework to provide poor members of the populations with sustainable access to earmarked grants and small-scale loans.

Since the involvement of the Honduran government remained below expectations and there was ongoing pressure to serve non-poor groups of clients with German FC, the German and Swedish funds including returns were separated from the implementing ministry and transferred to a charitable foundation as part of a multi-year process. This process extended over several years and project phases and had formally been completed by the start of the PVMR V phase evaluated here. The implementing agency of the programme PVMR V was therefore the newly created charitable foundation “Fundación para el Desarrollo de la Vivienda Social Urbana y Rural (FUNDEVI)”, which was based in Tegucigalpa. The Honduran government is currently attempting to reverse the transfer of assets from the Ministry of Finance to the FUNDEVI foundation, which was completed during implementation phase of the project.

The financing concept for the FC-financed measures envisaged (i) counterpart contributions in the form of saving deposits, material or labour assignments for beneficiaries, (ii) a credit component, and (iii) a one-off, direct and income-dependent grant. The loans for improving the housing supply (primarily through the construction of housing) were financed from FC funds to enable the sustainable issuing of loans via returns even after the FC project had ended, while the grants were due to be financed with counterpart contributions from the Honduran state.

### Relevance

The project was relevant in relation to the core problem of an insufficient housing supply for poor and very poor population groups and in the country’s context of reform. The design of the project appraisal relating to the quantitative and qualitative deficits in homes for these target groups was sound and the concept was well thought through as the available public promotional measures were only tailored to the needs of the middle class throughout their entire term.

The selected concept was appropriate for solving the core problem as the promotional conditions facilitated the construction of shells for habitable, simple micro homes. Requiring residents to provide their own contribution and foregoing the provision of complete interior fittings both saved costs and encouraged the target groups to take their own initiative and become actively involved in the preparation, implementation and improvement of the housing solutions in their own interests.

The definition of “rural area” (promotion criterion), which was refined during the project term, and the increase to the financing volume were reasonable in relation to the general development of income and the actual development of settlements and promotional focus areas for FC's urban housing programme run by the same implementing agency (PRIMHUR). The restriction of the promotion to areas with planning permission made sense in order to avoid building in disaster-prone areas. It was ensured that the majority of beneficiaries were poor during the application stage. Raising and lowering the income thresholds to a limited extent made sense as it allowed exceptional cases to be dealt with.

The cross-phase institutional solution of transferring the implementation units for the PRIMHUR and PVMR FC programmes from the Ministry of Public Works, Transport and Housing to the charitable foundation FUNDEVI was suitable for suppressing the political influence over the use of FC funds within the scope of earmarking. The financing of a complementary measure and the additional selective consultancy services ensured that sufficient resources were available for the institutional transformation without jeopardizing the operational activities of the FC implementation consultant.

The contributions of the donors involved in the sector and those of the implementing agency were synchronised as the FC funds were used to finance cross-phase construction measures for the target group, while the Swedish DC funds were used for infrastructure development. TC was not active in this sector.

From the current perspective, the concept is still up to date even though the proportion of the urban population has increased while the proportion of the poor population has fallen. The majority of the rural population still lives in poverty and the state promotion of public housing construction still primarily serves the interests of the middle class and selected groups of clients.

The implementing agency factors in the needs of urbanisation by systematically working with property developers. Furthermore, the project fills the gap in financing for loans in insecure locations, which is a high-risk area for commercial banks.

The FC promotional contributions spread over ten project phases appeared to be low in relation to the investment requirements identified in the sector. However, the distribution over the total of ten phases was appropriate in view of the political risk. The aim to continuously reuse the FC funds from all phases for the same promotional purposes results in a significant contribution over time. Since the programme responds to demand among potential borrowers, only a limited amount of influence can be asserted over the geographical distribution of the loans.

**Relevance rating: 1**

### Effectiveness

The programme's objective was to sustainably improve access for the target group of the poor and very poor rural population to living space that corresponds to families' needs and financial means. Indicators for the project objective also related to the business model of the foundation, which acted as the implementing agency following the release of German and Swedish funds.

The achievement of the objective at the outcome level can be summarised as follows:

| Indicator | Status PA, target PA | Ex post evaluation |
|---|---|---|
| (1) Around 4,000 families benefit from by the initial use of the funds from Phase V | Status PA: 0<br>Target value: 4,000 | Partially achieved: 1896 loans from initial use |
| (2) An additional 7,100 or so families benefit from returns from all phases of PVMR and PRIMHUR | Status PA: 0<br>Target value: 7,100 | Achieved: 13,406 loans by the end of 2018 |
| (3) At least 30% of the beneficiaries are women | Status PA: 0 or 30% in predecessor programmes<br>Target value: 30% | Achieved: 39% for borrowers in rural areas (figures for 2018) |
| (4) At least 50% of the families that | Status PA: 0 or 50% in | Achieved: 73.4% of beneficiar- |

| | | |
|---|---|---|
| benefited have (at the time of application) a monthly income below the poverty line[1] | predecessor programmes<br>Target value: 50% | ies with a household income below the poverty line |
| (5) The real capital value of the FC funds is maintained or increased (in relation to inflation, administrative costs, counterparty risk) | Status PA: 0 or < 100% in predecessor programmes<br>Target value: 100% | Achieved: Uniform base rate of 18% [2](inflation of 5%, administrative costs 7.5%, arrears < 3%) |
| (6) By the end of 2006, the return rate is around 90% and the borrowers' late payment rate is 20% or less | Status PA: 18% in predecessor programmes, 2007: 7%<br>Target value: 90% / < 20% | Achieved: Payments overdue by up to 30 days: 7.1%, up to 90 days: 2.2% (figures from 2019) |
| (7) **Added:** Sustainability of strain on income due to loan repayment | Status PA: unknown<br>Target value: sustainable for 80% of the target group (max. 30%), individual solutions for payment defaults | Achieved: Loan costs < 30% of income upon application review |
| (8) **Only documented in the Spanish version of Logframe:**<br>The implementing agency's organisational structure allows demand from the target group to be addressed on a nationwide scale | No explicit base or target value | Achieved: Dense network of branches and ongoing market surveying |

With one exception, indicators chosen at appraisal and an additional one introduced during the evaluation were met or exceeded. The following aspects should be highlighted:

When the FC funds were used for the first time, only 1,896 loans could be issued (instead of the targeted 4,000) due to the long delays in the availability of the associated grants from the government during the original programme period. However, this was more than compensated by the further 13,406 loans issued for the same promotional purposes using the loans from German DC already paid back by the end of 2018 (target value: 7,000). At 39%, the proportion of loans issued to women is significantly higher than the target value of 30% for the rural programme evaluated here. With regard to the borrowers of all FC-financed projects (including the urban programmes), the percentage of female borrowers is as high as 43%.

The intended target group of poor members of the population was reached: 73.4% of the approved applicants had a household income below the poverty line. Taking into account the grant components financed by the government, the burden of the loans was and is acceptable: the loan costs must not exceed 30% of the borrowers' income upon review of the application and over a term of 10–15 years. Advance repayment in the case of a rise in income is possible without any prepayment penalties, which facilitates the assumption of follow-up loans (3 out of 20 borrowers visited have already taken out follow-up loans).

[1] Reference value: double the basic basket (see explanation of minimum wages in relation to the basket in the "Poverty relevance" appendix to the project appraisal report).

[2] Interest rate provided by several other providers of housing construction loans for less-poor target groups: 12.5%. However, this is supplemented by an interest rate subsidy of around 2.8%, which is paid by the Honduran government, contradicting the previous policy of one-off diminishing grants.

The total number of loans issued has continued to rise even after 2018 as the returned funds from both DC programmes and all promotional phases are still used to issue new loans. This process is not completely linear as the terms and loan amounts are negotiated with the beneficiary owners on a broadly individual basis, taking their available income into account.

The implementing agency adapted its organisational structure, staff development and business processes to the requirements of issuing loans without losing sight of the social needs. The implementing agency operates on a nationwide scale: 15 branches operate under 4 regional directorates and cover 138 departments; the continuous prospection of new markets and new products is explored where demand and income allow the granting of loans in relevant numbers. The handbooks and guidelines originally developed by FC consultants are adapted on an ongoing basis. Markets and product ranges were developed in two strategic planning cycles (2014–18, 2019–22).

The loans are reliably serviced and any arrears are followed up quickly, while returned funds are reinvested in loans for the intended purposes. Following the creation of a systematic warning mechanism, only 2.2% of borrowers in all income groups are more than 3 months behind in their payments compared to 18% in earlier programme phases and a target value of 20%. Any payment arrears are of a transitory nature (7.1% arrears of up to 30 days), which is hardly relevant for the financial sustainability of the project-executing agency. In the case of overdue payments where the borrower is not responsible (e.g. in the event of divorce, illness, unemployment, loss of transfers from abroad), the implementing agency offers individual options to adjust repayment modalities (e.g. temporary reduction of instalments or a suspension in repayments); houses are only returned to the foundation for reuse in a few exceptional cases.

The capital value of the funds is maintained as the implementing agency carefully calculates the loan conditions. To date, a uniform lending rate of 18% has been applied, with an inflation rate of around 5% and overdue payments of less than 3% (see above). In 2018, the administrative costs amounted to 7.5% and had been successfully reduced by two percentage points from the previous 9.5%[3]. This is adequate in view of the scope and quality of the consultancy services. The calculation of a certain additional margin is appropriate with regard to the instable institutional environment and the security risks that exist in many of the project areas. In terms of the social aspects, a uniform interest rate is beneficial since access to the capital market and manageable, stable conditions are more important to the target group than any advantages presented by short-term adjustments to interest rates.

In 2019, the ability to reach very poor target groups was impaired by the loss of public housing construction grants. In response to this, loans were increasingly issued in the upper range of the target group (income above three minimum wages) as the recipients of lower incomes would not have been able to reliably service the higher loans needed to build a new home following the loss of the government's construction subsidies.

In summary, it must be noted that both the indicators motivated by social policy (proportionate addressing of poor target groups and women in particular, number of loans issued, strain on income resulting from repayments) and the indicators for institutional development (branch network, repayment rate, retention of capital stock) were achieved or significantly surpassed. The achievement of some indicators significantly improved in comparison to the promotional phases (e.g. overdue payments). It cannot be determined whether other participants in the market would have achieved better results.

**Effectiveness rating: 1**

### Efficiency

For the efficiency evaluation, the services performed by the implementing agency FUNDEVI in relation to the costs are relevant to begin with.

Production efficiency was optimised because interested applicants were initially offered standard building solutions, which meet a minimum standard in terms of safety, functionality and habitability. The beneficiaries were able to modify these standard models depending on their needs, preferences, time and re-

[3] These values may theoretically change in future. However, they are monitored and the measures taken are moving in the right direction.

sources and/or expand them using their own funds at a later date. The construction costs were low because building services could often be performed by craftsmen in the borrowers' circle of friends due to the simple designs.

The implementing agency's current administrative costs of 7.5% were appropriate for the services performed in return and the extremely fragmented loan business[4]. The range of services went far beyond that of other providers and was adjusted both to the needs of the poor target group that does not always have experience in construction and banking, and also to the requirements of the loan business.

The implementing agency's consultancy and dialogue services included (i) the review of loan applications according to social and financial criteria based on a demand-oriented low-threshold approach including assistance in applying for the necessary permits, (ii) construction planning and supervision, taking the borrower's wishes into account, (iii) loan administration and debt collection (including using an approach oriented towards the individual customer). As part of the strategic plans mentioned above, new financial products were also identified, and then gradually offered and also requested. The aim of these products is to both increase the foundation's total revenue and the velocity of circulation of the capital.

The implementing agency also factored in the need for internal efficiency by pushing forwards IT and staff development as well as developing internal auditing. Thanks to cost-effective multimedia advertising measures (Facebook) and clear sales targets, credit volumes were expanded in relation to outlay and the administrative costs were decreased from 9% in 2015 to a current rate of 7.5%. This was achieved by improving internal processes, continuously reviewing external structures and setting sales targets for field staff. Regular checks are carried out to see whether new branches can be opened or whether existing branches need to be closed. According to the implementing agency's estimates, the areas in Honduras that are located far away from existing branches do not offer sufficient sales opportunities.

At first glance, the interest rate for loans issued by FUNDEVI appears relatively high compared to the interest rates set by other providers for comparable purposes (see above); however, in view of the services performed by the foundation and the safety risks present in some of the locations, this rate is appropriate and therefore suitable for the market segment addressed.

It is not possible to directly compare the credit conditions offered by FUNDEVI and other providers because the foundation addresses a niche segment that is not covered by other providers. Public refinancers such as BAHNPROVI receive an almost 3% interest subsidy on the funds they provide; provision schemes like the RAP only serve selected groups of clients. None of these financial institutions serve unsafe locations. Micro-finance institutions are also represented at unsafe locations but are not active in the area of construction financing.

The consultancy services financed using the programme funds laid a strong foundation for improving business processes and internal efficiency through the development of procedural handbooks. Furthermore, the successful release of the foundation's assets from state administration contributed to the foundation being able to concentrate fully on the internal consolidation during the programme period (initial use) and the earmarking of the funds was guaranteed. The two strategic plans – partially financed with SBF funds – contributed to the expansion of the financial services on offer and thus supported the adaptation to a market situation shaped by more competition, and improved the efficiency in the market segment relevant here.

The following factors impair efficiency:

The years of delay to the programme's implementation – caused by delays in the provision of the grants committed by the Honduran government – meant that around 2,000 potential beneficiaries (members of the target group with applications eligible for approval) could not be reached in the intended period during the initial use of the FC funds, but only several years later. The non-use of the FC funds during this period and the loss of welfare gains on the part of the target groups reduce the efficiency. However, this negative effect was balanced out in quantitative terms by the returned funds being used to issue new loans for earmarked purposes, and the total number of these new loans exceeding the number of loans during the initial usage cycle.

[4] FC partners who are purely building developers apply margins of 5%, for example, with a much lower volume of services.

In theory, the delays to implementation also impaired the efficiency of the consultancy services because the implementation consultant had already been contracted and was also active for the implementing agency during the stagnation period up to the end of the contract. However, the efficiency losses that resulted from this can in fact be disregarded since multiple FC programmes and programme phases were implemented at the same time and the programme was also transferred to the newly established foundation during the period in question. Since this transition process was legally very complex and required a great deal of liaison, it was generally helpful to have the consultants on site during the foundation's establishment phase and this input contributed – independently from PVMR V – to getting the foundation off on the right track.

More serious adverse effects on efficiency stemmed from the ever-worsening safety situation in Honduras over the years. The increasing level of organized crime resulted in a rise in the risks involved in providing in-depth support to borrowers in some locations and also increased the logistical and staff expenses. The foundation is forced into a balancing act here. Other market participants have already withdrawn from many regions with safety risks or are said to pay large sums of protection money ("impuesto de la guerra"). Thanks to its good reputation, the foundation has been able to avoid this so far, but has to coordinate its operational activities closely with all relevant stakeholders in high-risk areas.

A further weakness is the foundation's relatively high level of liquid assets, currently just short of 42%, which are invested in time deposits. This relatively constant figure of "dead capital" indicates that the foundation is designed to address a niche market that cannot simply be expanded under the current underlying conditions[5]. As a result of the strategic plans, new financial products are being developed with the goal of counteracting this issue, though these products have to be tested and marketed first. The high sum of cash entails the risk of encouraging state bodies to want to confiscate the foundation's assets.

**Efficiency rating: 3**

### Impact

The project's overarching objective is to contribute to reducing the qualitative and quantitative deficit in living space for poor and very poor members of the rural population (target group) and therefore to also help to improve their living conditions. No indicators were formulated for the overarching objective during the project appraisal. The overarching objective is deemed to be achieved if the project objectives are achieved. Some indicators were added for the purposes of the EPE and verified during the field visits.

The achievement of the objective at impact level can be summarised as follows:

| Indicator | Status PA, target PA | Ex post evaluation |
|---|---|---|
| (1) Condition and use of the homes by the target group | Status PA: Not relevant<br>Target value: 80% | Achieved (for the random sample)<br>100% of homes inhabited |
| (2) Users' satisfaction with the space concept and design | Status PA: Not relevant<br>Target value: 80% | Achieved (for the random sample)<br>18 of 20 borrowers completely satisfied |
| (3) Sustainable earmarking of funds: use of loan repayments to issue new loans | Status PA: Not relevant<br>Target value: not defined | Partially achieved: Process compliance and earmarking ensured, but high level of liquid assets |

The following aspects should be highlighted with regard to the achievement of the development objective:

All of the homes visited during the EPE were inhabited by the borrowers and associated family members, including many single mothers. There was no evidence for distress sales or overcrowding caused by in-

[5] This high amount of liquid funds and funds available at short notice is only slightly below the 2011 value, when 45% of assets were invested in bonds and time deposits according to the joint reports.

formal sub-letting arrangements. Most of the cases related to initial owners because the overwhelming majority of loans are issued for the construction of new small/micro houses. Applicants often provided the purchased land as their own contribution[6].

The condition of the homes is good; many of the buildings have been developed or expanded further. Typical development measures include the plastering of walls, painting of interior walls, tiling on the floors, securing of open kitchens through the addition of external walls, or securing of the property through additional external walls[7]. The observations from the spot check of households visited are in line with appraisals of FUNDEVI field staff.

The inhabitants are extremely satisfied with the new living situation. In the discussions, ownership of a house on privately owned property and land was explicitly named as making a huge contribution to improving living conditions and the vast majority of beneficiaries would not have been able to finance this otherwise. For many young families, the small/micro homes are their first ever home, and for others the repayments on the loan are lower than their previous rent. In addition to the practical improvements to living conditions, the concept and the implementing agency's contact with customers were rated as fair and transparent; the higher interest rates are seen as justified and as a "stable underlying condition".

In addition to the direct objective of the German promotion, the implementing agency was able to establish cooperation models with private investors (developers) in the real estate sector, which directly or indirectly benefit poor members of the population (transitional financing for developers for purchasing and developing the first properties in a development area, selling a piece of land in new settlements at affordable prices).

Possible negative effects on living conditions, such as the over-development of land and the resulting increase in costs for development measures, have not arisen because the majority of credit applications relate to the construction of housing (or less frequently, the purchase of land) in sub-urban or small municipal agglomerations. Only a small number of applications relate to homes in stand-alone locations in rural areas. On the one hand, this is the result of settlement development in Honduras on the whole, though on the other hand, the foundation advertises in areas that offer a significant number of potential customers in a manageable space in its own interests (see above).

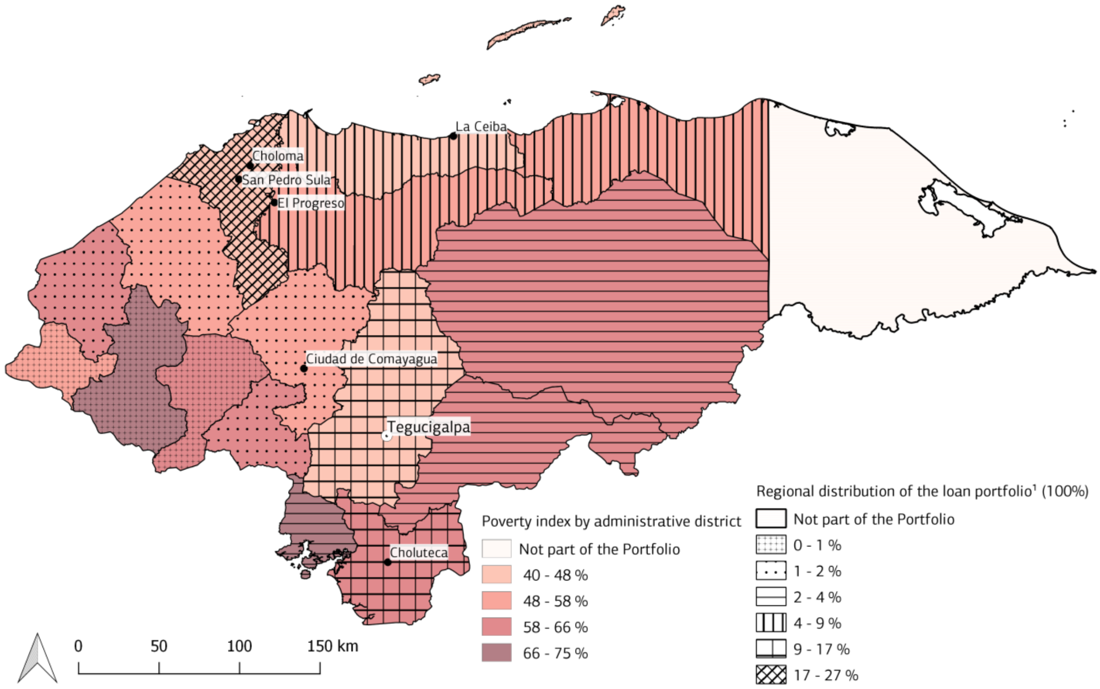
Using the financial contributions from the Swedish cooperation and beyond, it has also been possible to ensure a good (power) to sufficient (water supply, access roads) supply of basic infrastructure in the majority of new settlements, which also had a positive effect overall on improving the target group's living conditions. There is room for improvement in the area of water supply both in new and consolidated settlements, though the local authorities are responsible for this. Some of the beneficiaries of PVMR V – along with other inhabitants of the same settlements – currently use a significant portion of their income for purchasing water.

The implementing agency operates nationwide and issues loans in all municipalities and areas where the safety situation allows staff to work and where there is demand from a target group with purchasing power. This is not the case in very poor agricultural areas. This disadvantage is compensated for by the fact that people from these areas migrate to more economically powerful regions on the Caribbean coast, where they find employment and receive loans to build houses. The Caribbean coast is one of the focus areas for the provision of loans by the foundation. These observations are reflected in the distribution of FUNDEVI's historic loan portfolio as depicted in Figure 1 and the regional incidence of poverty.

[6] In individual cases (one of the households visited), refurbishment measures were financed too, such as a replacement roof for an existing home.

[7] In individual cases, the front parts of buildings are also used for semi-commercial purposes. However, commercial usage is generally less common than in FC-financed urban housing construction programmes.

**Figure 1: Loan portfolio and poverty incidence**




Data source: Instituto Nacional de Estadística Honduras: Censo Nacional de Población y Vivienda 2013 [Online]. Available at: https://www.ine.gob.hn/V3/censo-de-poblacion-y-vivienda/.
Portfolio Data source: Fundación para el Desarrollo de la Vivienda Social Urbana y Rural (FUNDEVI) Database.
[1] The percentage figures refer to the number of clients.

Over the long term, it will only be possible to make a quantitatively and qualitatively meaningful contribution to reducing the shortage of living space for poor and very poor members of the rural population if the earmarking of the repaid funds and process compliance in the relevant business processes can be assured. Both have been assured so far. Business processes used to efficiently handle the issuing and administration of loans have been reinforced and the loan portfolio has grown enormously. The institutional prerequisites for continuing to contribute to an improvement to living conditions have thus been established.

As already mentioned, the system of income-dependent, one-off grants for the loan components influences the extent to which the very poor target groups can be reached. Without these grants, population groups with an income of 0.5 to 2 minimum wages cannot finance small/micro homes.

The positive results of the EPE both at institutional and target group level are remarkable in view of the generally difficult institutional, political and security environment in Honduras. The model can theoretically be replicated, though the dimension of improving living conditions depends on the availability of one-off grants. If no grants are available, the poorest members of the target group cannot be served and the floor area of the financeable homes shrinks.

A contribution is made to the housing supply and the proper development of suburban areas without any negative side effects, which is highly valued by the primarily poor target groups. As has always been the case, FUNDEVI's offerings are the only options that are aimed at poor and very poor members of the population, that do not serve a political clientele, that are loan-based and that are also accessible in areas with security issues.

**Impact rating: 1**

## Sustainability

As already discussed, the financed buildings have proven to be resistant to wear and weathering regardless of how much time has passed since completion (two to ten years). The structural sustainability of the buildings is positively affected by the high level of motivation among inhabitants to maintain and improve the condition of their homes.

The implementing agency's internal business model is sustainable and relevant processes have been significantly improved in recent years. It is ensured that the target group receives adequate support and that the loans are repaid with low default rates so that more loans can be issued.

Risks to the sustainability at institutional level and to the ability to reach poor and very poor target groups arise from the changing environment of state promotion for the construction of houses. This remains heavily influenced by politics and has a tendency to favour client groups on the basis of less transparent or less relevant criteria. Institutional risks stem from efforts to bring the foundation's assets back under state control.

The ability to reach poor and very poor target groups is restricted in particular by new state interest subsidies for the middle class and by the unreliable availability of building cost subsidies, without which the poorest members of the target group cannot afford a loan. As such, the poverty focus of the programme and its follow-up measures (reuse of repaid FC funds) is limited. These circumstances are beyond the control of the implementing agency.

**Sustainability rating: 2**

## Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

| | |
|---|---|
| **Level 1** | Very good result that clearly exceeds expectations |
| **Level 2** | Good result, fully in line with expectations and without any significant shortcomings |
| **Level 3** | Satisfactory result – project falls short of expectations but the positive results dominate |
| **Level 4** | Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results |
| **Level 5** | Clearly inadequate result – despite some positive partial results, the negative results clearly dominate |
| **Level 6** | The project has no impact or the situation has actually deteriorated |

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

**Sustainability is evaluated according to the following four-point scale:**

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).