

Honduras: Low-Cost Housing Construction in Rural Areas

Ex-post evaluation

OECD sector	16220 – Low-cost housing construction	
BMZ project ID	1996 66 199 (PVMR III)	
Project-executing agency	Fundación para el Desarrollo de la Vivienda Social Urbana y Rural (FUNDEVI)	
Consultant	Not applicable	
Year of ex-post evaluation	2004	
	Project appraisal (planned)	Ex-post evaluation (actual)
Start of implementation	April 1997	December 1997
Period of implementation	4 years	5 years
Investment costs	EUR 6.5 million	EUR 6.9 million
Counterpart contribution of the borrowers (and the Honduran state)	EUR 1.4 million	EUR 1.8 million
Financing, of which Financial Cooperation (FC) funds	EUR 5.1 million	EUR 5.1 million
Other institutions/donors involved	none	none
Performance rating	3	
Significance / relevance	3	
Effectiveness	3	
Efficiency	4	

Brief Description, Overall Objective and Programme Objectives with Indicators

The project PVMR III involves the continuation of the programme “Low-Cost Housing Construction in Rural Areas I – II”. The objective was to contribute to improving the living conditions of poor families in rural areas in the wake of hurricane Mitch (overall objective). The specific target of the programme was to improve the living conditions of poor families (3,600 housing units, of which: regular programme: 900 units, reconstruction programme "Mitch": 2,700 units). The overall programme and project objectives can be considered as achieved if upon the completion of the project

- at least 80 % of the 2,600 low-cost houses constructed or rehabilitated are adequately maintained;
- the share of the poor population in the families benefiting from the project is over 80 % and at least 15 % of the families have a female head of household.
- at least 80% of the complementary social infrastructure erected (especially water supply and latrines) are adequately operated and maintained (at least the operating costs are covered).

The target group is the poor and very poor rural population, which lives in problematic social and hygienic housing conditions.

Project Design / Major Deviations from the original Project Planning and their main Causes

Against the background of the severe damage caused by hurricane Mitch at the end of October 1998 to the housing, the programme design originally planned upon the project appraisal was extended to also comprise the reconstruction of damaged and destroyed residential houses.

The programme-executing agency was "Fundación para el Desarrollo de Vivienda Social Urbana y Rural" (FUNDEVI), which was established by decree on December 13, 2001.

Altogether, 3,189 housing construction and renovation measures were implemented instead of the planned 3,600 measures (including the use of funds remaining from phases I and II). This corresponds to a rate of achievement of objectives of 88 %. In addition, complementary measures comprised 2,827 water supply connections and latrines. Due to the fact that demand by the population affected by hurricane Mitch was much lower than expected (because many donors rapidly offered assistance) there was a significant reallocation of funds between the two sub-components of the programme. 1,481 measures were carried out in the framework of the regular programme (planned: 900 housing units, achievement rate: 164 %) and 1,717 units in the framework of the reconstruction programme (planned: 2,700 units, achievement rate: 64 %). The target group was also reached. More than 90 % of the beneficiaries are poor (planned: 80 %) and almost 70 % can even be described as extremely poor. The share of female heads of household who were reached was clearly higher than targeted at 35 % (planned: 15%). At 67 %, the share of newly constructed housing units in all measures implemented was slightly higher than planned (< 62 %).

The houses and the complementary social infrastructure are mostly (roughly 80 % – 90 %) adequately maintained. We consider the achievement of the target indicators in this respect as sufficient (planned: 80 %). Due to the surveys and samples conducted by FUNDEVI it can be assumed that the sanitary situation of the benefiting families also improved. There is a high degree of satisfaction among the beneficiaries. Even after the completion of the construction measure many beneficiaries continued to invest in their home by making modifications or improvements. The houses inspected in the context of the final evaluation are mostly in an adequate and functioning state. Exact statistics about the state of the houses provided under the project are not available to the executing agency.

Key Results of the Impact Analysis and Performance Rating

FUNDEVI is by far the largest supplier of social housing construction in Honduras. The foundation has helped a large number of families to obtain access to appropriate housing conditions and, thus, makes a contribution to improving the housing situation in Honduras. The risks for the sustainable developmental effectiveness of the project are mostly due to the institutional deficiencies of the foundation. This concerns in particular the problem areas of portfolio quality, loan monitoring and information systems. Besides eliminating the existing institutional deficiencies, FUNDEVI needs a clear strategic orientation as a housing finance institution with a transparent lending mechanism. As long as the institutional weaknesses cannot be overcome the sustainability of FUNDEVI as a financial institution is jeopardized. As a result of the deficiencies mentioned above the projects that were subject to final evaluation had only minor demonstration effects or structure-building effects on the Honduran financial sector.

From the viewpoint of the target group the programmes PVMR III has to be judged very positively. The large majority of borrowers and/or recipients of grants belong to the poorest population groups in the country and in fact do not have any access to housing finance in the formal sector. The improvement of their existing makeshift and often dilapidated dwellings or the construction of new housing means a tremendous development progress for the beneficiaries, even if they have to repay the loan over a period of many years, which due to their scarce funds is always connected with hardship. It is justified and sensible that, depending on their income, the beneficiaries also receive grants. We consider the concept of combining personal contributions, grants and loans at market conditions as useful and as an appropriate instrument to improve the living conditions of the poor sections of the population.

Several surveys conducted by the project-executing agency have clearly shown that the beneficiaries are very satisfied with the measures. A central aspect for most beneficiaries is the improvement of their quality of live due to the reduction of the number of persons per home and per floor space. Besides improving the housing conditions it was possible in many cases to also upgrade the sanitary conditions. A reduction in water-induced diseases can be plausibly deduced. Another positive effect from the viewpoint of the beneficiaries is that a large number of them were able to use the extended floor space available to take up an occupation (for instance by using it as a place of production for a small trade).

From the viewpoint of FUNDEVI the basic question has to be asked with regard to microeconomic aspects whether and to what extent it is possible to organise a housing finance programme that fully covers the costs. Due to the fact that the loan decision, the loan administration and the assumption of the default risk are delegated to a commercial bank (Banco de Occidente – BdO) there is a special situation in the case of programme PVMR III. A sustainable institutional solution was not found, which is documented by the termination of the cooperation agreement between FUNDEVI and BdO. In the short-term FUNDEVI was able to achieve full cost coverage in the implementation of PVMR III due to the lower margin of BdO. Given an average interest rate of about 22%, revenues of 17.5% remain after deduction of the BdO's margin (4.5%), and this amount is available to cover the administrative costs and maintenance. With an average inflation rate of 8% to 10% during the last few years (currently 6% to 7%) and a margin of FUNDEVI of roughly 9% this might be sufficient. However, the agreed margin for BdO of 4.5% was not sufficient to cover all administrative and risk costs incurred by the bank. Thus, it is hardly possible for a programme with the given features to achieve financial sustainability unless substantial increases in productivity are achieved and the loan default management is improved. So from a financial perspective and the viewpoint of FUNDEVI we rate the programme PVMR III as successful only to a limited extent.

The main impact of the programme is at the socio-economic level. The creation of additional and better housing helps to satisfy the basic need of dignified housing. This also offers better chances to the poorer sections of the population. Especially families with several children benefit in many ways from the extended and qualitatively better housing. In addition, the programme had temporary employment effects. According to the impact analyses conducted by FUNDEVI, every construction project implemented means approximately three months of employment (1.5 months for a master builder and 1.5 months for unskilled workers). 90 % of the beneficiaries under the programme are poor. Contributions by the beneficiaries and their participation in the planning, implementation and maintenance of the housing measures are a central feature of the programme. The programme clearly contributes to reducing poverty.

In a summarized assessment we have arrived at the following rating of the programme's developmental effectiveness:

Effectiveness

The programme objective of improving the housing conditions of poor families was reached, not entirely, but sufficiently. There were considerable delays in the project implementation and reallocations between the two sub-programmes. But this does not put the achievement of the project objectives in question. The aspects of quality and sustainability, which were defined in the further target indicators, (adequate maintenance of the housing built or rehabilitated, adequate operation of the complementary social infrastructure, share of single mothers in the beneficiaries, etc.) are sufficiently fulfilled. The target group was also reached very well. Overall, we classify the programme's effectiveness as sufficient (**partial evaluation: rating 3**).

Relevance/significance:

The lack of access of the poor to financial services for social housing construction is still a major development bottleneck and an obstacle to the improvement of living conditions of poor families in rural areas. As the market leader FUNDEVI has made an important contribution in this area and, through the reorientation of the financing technology applied, has shown an interesting perspective for social low-cost housing construction. Especially due to the failed cooperation with BdO and the various institutional deficiencies one cannot speak of structural effectiveness of the programme. Moreover, the broad effect is somewhat restricted due to the limited

availability of funds for housing finance grants. Overall, we rate the **significance/relevance** of the programme as sufficient (**partial evaluation: rating 3**).

Efficiency

Due to the limited cost coverage in the lending business and the described institutional deficiencies we rate the production efficiency at slightly insufficient. Due to the high default rates in the loan portfolio we also rate the allocation efficiency as slightly insufficient. Overall, the efficiency of the institution is negatively affected by the described institutional weaknesses with regard to staff management, the lending technology applied and the information systems used. The institution is more successful in implementing market-oriented terms and conditions than in the past and now focuses more strongly on covering costs. However, due to the deficiencies and deficits mentioned, we rate the programme, on the whole, as slightly insufficient (**partial evaluation: rating 4**).

In the final analysis, accounting for the above-mentioned aspects, we judge the developmental effectiveness of the programme as adequate (rating 3).

General Conclusions applicable to other Projects

From today’s point of view, housing projects with a loan component should be designed strictly according to the policy paper “Financial System Development”. The basic principle to be heeded is that the focus should be on the programme-executing agency as an institution and on the revolving use of the funds. The objectives and indicators should primarily be targeted to the executing agency and the overall performance, while the real economy objectives should only come in second place. The PVMR credit line, which was evaluated here, does not consistently and clearly pursue these objectives.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental effectiveness:
Rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of the "developmental effectiveness" of a project and its classification during the ex-post evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project’s microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?

- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities on their own and generate positive results after the financial, organisational and/or technical support has come to an end.