

**Honduras: Housing Rehabilitation in Urban Peripheries III and IV**

**Ex-post evaluation**

<b>OECD sector</b>	24040 – Informal and semi-formal financial institutions	
<b>BMZ project ID</b>	1998 66 575 (PRIMHUR III) 1998 67 060 (PRIMHUR IV)	
<b>Project-executing agency</b>	Fundación para el Desarrollo de la Vivienda Social Urbana y Rural (FUNDEVI)	
<b>Consultant</b>	Not applicable	
<b>Year of ex-post evaluation</b>	<b>2004</b>	
	<b>Project appraisal (planned)</b>	<b>Ex-post evaluation (actual)</b>
<b>Start of implementation</b>	PRIMHUR III: 08/1999 PRIMHUR IV: 09/1999	PRIMHUR III: 3/1999 PRIMHUR IV: 9/1999
<b>Period of implementation</b>	PRIMHUR III: 24 months PRIMHUR IV: 24 months	PRIMHUR III: 33 months PRIMHUR IV: 33 months
<b>Investment costs</b>	no information available	PRIMHUR III: EUR 10.5 million PRIMHUR IV: EUR 6.8 million
<b>Counterpart contribution of the borrowers (and the Honduran state)</b>	no information available	PRIMHUR III: EUR 2.8 million PRIMHUR IV: EUR 1.4 million
<b>Financing, of which Financial Cooperation (FC) funds</b>	PRIMHUR III: EUR 7.7 million PRIMHUR IV: EUR 5.4 million	PRIMHUR III: EUR 7.7 million PRIMHUR IV: EUR 5.4 million
<b>Other institutions/donors involved</b>	none	none
<b>Performance rating</b>	3	
<b>Significance / relevance</b>	3	
<b>Effectiveness</b>	3	
<b>Efficiency</b>	4	

**Brief Description, Overall Objective and Programme Objectives with Indicators**

By granting housing loans and grants the programmes “PRIMHUR III and IV” (Programa Integral de Mejoramiento Habitacional Urbano) are to contribute to improving the living conditions of poor families on the urban peripheries of large towns in Honduras in the wake of the national catastrophe of hurricane Mitch in 1988 (overall objective). The objectives of both programmes are:

- Programme objective 1: Self-help oriented housing improvement for poor families on the urban peripheries of large towns in Honduras.
- Programme objective 2: Establishment of a sustainable and efficient organisation, which will give poor families access to housing finance.
- Programme objective 3: Improvement of the access to housing finance for poor families in the wake of the natural catastrophe (programme extension).

The programme is to benefit poor and very poor families. The target group of PRIMHUR III comprises in particular families that lost their homes through hurricane Mitch. PRIMHUR IV focuses on financing housing improvement measures for poor families. Concrete measures of the programmes comprised the self-help oriented new construction and improvement of altogether about 5,300 housing units (first use of the funds provided) and the construction of about 1,700 further units financed on a revolving basis from the reflows obtained under the PRIMHUR I and II FC programmes. The housing investment measures were financed from counterpart contributions rendered by the beneficiaries, loans on market terms and direct, income-related one-off grants.

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

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.

The project was carried out without any major deviations from the concept described above. 3,095 housing improvement measures were carried out in the framework of PRIMHUR III (planned: 3,300 units, achievement rate: 94%). However, there were reallocations between the components "reconstruction programme" and "regular programme". 1,476 reconstruction measures were implemented for families affected by hurricane Mitch (planned: 2,500 units, achievement rate: 59%). 1,619 measures were carried out in the framework of the regular programme (planned: 800 units, achievement rate: 202 %). 3,545 housing improvement measures were carried out in the framework of PRIMHUR IV (achievement rate: 96 %). However, there were reallocations between the financing under the first use of funds and financing from the return flows. 2,143 housing improvement measures were carried out in the framework of the first use of funds (planned: 2,000 units, achievement rate: 107 %). 1,402 housing finance measures were financed from reflows (planned: 1,700 units, achievement rate: 82 %). Important ancillary conditions of the programme, for instance the income level of the target group, the maximum loan amount or the share of women benefiting from the projects, were all fulfilled. The regional extension of the programme to comprise at least five more towns was also implemented. Towards the end, the programme covered altogether 23 towns.

The total costs of PRIMHUR III amounted to EUR 10.5 million, of which EUR 7.7 million was financed from FC, EUR 1.9 million came from the Honduran government and EUR 0.9 million from the beneficiaries. The total costs of PRIMHUR IV amounted to EUR 6.8 million, of which EUR 5.4 million was financed from FC, EUR 0.8 million came from the Honduran government and EUR 0.6 million from the beneficiaries. As contractually agreed the FC funds were mainly used to refinance housing loans and to a lesser extent to pay for consulting services, equipment etc. for FUNDEVI. The average investment volume per housing improvement measure was EUR 2,400, which we consider as appropriate. We also consider the counterpart contributions made by the Honduran government and the target group as appropriate. They represent one of the major strengths of the programme.

As compared with the previous credit lines (PRIMHUR I and II) the implementation concept was clearly improved. In general, we assess the conceptual approach to finance housing improvement measures with deposits, market-based loans carrying positive (in real terms) interest rates and grants as appropriate. In deviation from the original financing concept, which foresaw an amount of 20% of the investment volume to be provided from savings of the beneficiaries, personal contributions of the beneficiaries were also accepted. These made up around 10% of the investment volume on average. We consider this more flexible handling of the financing concept in the wake of hurricane Mitch as convenient and as a useful adjustment to the local situation.

FUNDEVI uses the return flows received under the programme as a revolving fund. The families that benefit from the housing improvement measures financed from the return flows belong to the same target group as defined in the context of the programmes subject to final evaluation here.

## 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 poor families to obtain access to appropriate housing conditions and, thus, makes a significant 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 project-executing agency. 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 PRIMHUR III and IV programmes have 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. For this reason 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 programme-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 life 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).

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 of all the above impacts and risks we have arrived at the following rating of the programmes' developmental effectiveness:

### Effectiveness

The degree of achievement differs for the three programme objectives. We consider the degree of achievement of programme objective 1 ("self-help oriented housing improvement") and programme objective 3 ("improvement of the access to housing finance") as satisfactory. The achievement of programme objective 2 ("Establishment of a sustainable and efficient organisation of housing finance") is rated as slightly insufficient. In particular the high default rate of FUNDEVI and the lax loan monitoring represent major institutional deficiencies. After weighing the three programme objectives, we hold the view that overall the objectives have been sufficiently achieved (**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 on the urban peripheries. 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 the implementation of the new financing concept with market-based interest rates has given the right impetus, though one cannot speak of a broad structural impact for the time being. 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 of FUNDEVI 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. FUNDEVI 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 as slightly insufficient (**partial evaluation: rating 4**).

In the final analysis, accounting for the above-mentioned aspects, we judge the developmental effectiveness of the programmes 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 at the executing agency and the overall performance, while the real economy objectives should only come in second place. The PRIMHUR III and IV projects, which were evaluated here, do 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 purposes** 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 concept)?
- 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, organizational and/or technical support has come to an end.