Uruguay: Low-cost Housing Construction CREDIMAT

Ex post evaluation report

OECD sector	16040 Low-cost housing	
BMZ project ID	(1) 1991 65 473 (investment measure) (2) 1992 70 273 (complementary measure)	
Project executing agency	(1-2) Ministerio de Vivienda, Ordenameinto Territorial y Medio Ambiente (MVOTMA)	
Consultant	(1-2) SUM-Consult GmbH	
Year of ex post evaluation	**2006**	
	Project appraisal (planned)	**Ex post evaluation (actual)**
Start of implementation	(1) August 1993 (2) February 1996	(1) January 1996 (2) February 1995
Period of implementation	(1) 6 years (2) 6 years	(1) 9 years (2) 9 years
Total cost	(1) EUR 15.4 million (2) EUR 1.1 million	(1) EUR 20.0 million (2) EUR 1.1 million
Counterpart contribution	(1) EUR 8.9 million (2) EUR 0.0 million	1) EUR 13.5 million 2) EUR 0.0 million
Financing, of which Financial Cooperation (FC) funds	(1) EUR 6.5 million (2) EUR 1.1 million	(1) EUR 6.5 million (2) EUR 1.1 million
Other institutions/donors involved	None	None
Performance rating	4	
• Significance/relevance	4	
• Effectiveness	4	
• Efficiency	4	

Brief description, overall objective and project objectives with indicators

This project was intended to finance loans to improve housing under a self-help approach for low-income and poor families in the peripheries of Montevideo and cities in the interior of Uruguay (overall objective). As the programme executing agency, the Ministerio de Vivienda, Ordenamiento Territorial y Medio Ambiente (MVOTMA) passes financial resources as revolving loans on to intermediaries, which then issue sub-loans. The implementation unit (Unidad Coordinadora, UC) established at the Ministry manages the CREDIMAT credit line in a similar manner to an Apex institution.

The overall project objective was to improve the living situation of low-income families in the peripheries of Montevideo and cities in the interior of Uruguay. The original programme objective was to improve the living situation of the target group. In March 1995 a new project objective was set – to introduce a self-sustaining system for financing loans to improve housing for families with an income of up to UYU 75. The overall and programme objectives were to be measured in terms of the loans granted by the intermediary institutions. Indicators were 5,000 homes improved/extended with CREDIMAT funds during the first 2.5 years and 22,000 extended/improved homes up to one year after the disbursement of FC resources had been concluded.

Programme design / major deviations from the original programme planning and their main causes

In accordance with the project concept, the Apex institution UC received the FC funds from the central bank as a grant in USD, but handles all transaction with the intermediaries in local currency only. CREDIMAT disburses these funds to the intermediaries on the basis of the model of “inflation rate plus 2 but no more than 3.5 percentage points” (this rate was held constant during the term of the loan) for a period of three years. The intermediaries ask their customers for an interest rate of 15 to 30 percentage points above the CREDIMAT rate. The operating margin of 15-30 percentage points is negotiated between CREDIMAT and the intermediaries. The end-borrowers pay interest rates of between 25% and 45% per annum depending on the intermediary and the current rate of inflation, which is lower than the offers on the financial market (60-100% per annum), to which the target group usually has no access. The sub-loans are for terms of up to three years. The end-borrowers make their interest and redemption payments to the intermediaries, which can use the return flows until the loan is repaid to the UC. The UC, in turn, uses the return flows to grant new loans to suitable intermediaries.

In accordance with the changed project objective, the project measures should have aimed at establishing a sustainable system for the granting of loans for housing improvement measures, but primarily aimed at reaching the target groups and hence the real economic level, as in the original objective.

The project accompanying measure consisted of a long-term advisory service to develop the CREDIMAT department and of short-term advice for the project executing agency and two selected intermediaries.

Key results of the impact analysis and performance rating

On the real economy side, between 1996 until March 2006 – on completion of the pilot phase financed from Uruguayan funds – 30,226 loans refinanced from FC funds with a total volume of USD 14.4 million were granted (including the funds from the pilot phase, 32,716 loans with a volume of USD 16.6 million). As, to an extent, several loans were used for the same improvement measure, approximately 26,000 housing improvement measures were carried out. The precise number was not collected by CREDIMAT. The total volume of investment, including the estimated contribution by the borrowers themselves (on which the intermediaries hold no systematic data), can be estimated at around USD 17 million for the FC financed part. Including the separately recorded investments using the funds provided by the Uruguay government in the pilot phase and the counterpart contributions, some USD 20 million was invested. The utilisation of the funds can be roughly broken down into the categories of housing improvement (73%) and domestic sewage connections (27%); funds for sewage connections were disbursed by the intermediary Obras Sanitarias del Estado (OSE). In the case of housing improvement measures, 64% of the loans were used directly for the renovation of existing properties, 21% of the borrowers carried out extensions to their homes. Around 5% of the borrowers also upgraded and extended the housing and approximately 10% of the borrowers used the funds to build a new low-cost house. Just under 80% of the borrowers own their houses and more than 70% lived in the interior of the country. With regard to the target group, the intended real economic effects were achieved.

The results of the project measures to develop an efficient sustainable instrument to provide loans for building low-cost housing in Uruguay are poor. Only a very limited impact was achieved. The newly defined project objective (shifting from a real economic view to the financial sector) was not given enough support with measures. On the one hand, not enough importance was placed on ensuring that the Apex structure was adequately institutionally integrated and was therefore not furthered. On the other hand, a sustainable two-stage system to finance housing improvement measures requires a critical mass of intermediaries with an appropriate amount of financial sector skills. However, this is not yet in place – even after the economic crisis in Uruguay in 2002. In the case of the project measures, not enough attention was paid to the creation of efficient intermediaries (setting up new institutions or upgrading existing ones).

The fact that 27 intermediaries participated in the programme but that only 12 intermediaries are still in operation today and of these only two institutions are actually relevant active partners (90% of all loans outstanding, 70% of the loan volume of USD 1.6 million outstanding at the end of March 2006 at the level of the intermediaries) makes the problem clear. If to this is added the fact that one of the two institutions is OSE (27% of all loans granted), the state-owned water supply and sewage disposal company, which for the past three years has still not presented a final balance-sheet and quite clearly does not consider lending to be one of its core business activities, the weaknesses of the conceptual approach of the project become clear.

At the level of the UC, defects have been revealed in the actual conduct of the operational process. The specific ability to deal with the evaluation of financial intermediaries is insufficient. There are also deficiencies in the technical design of the loan fund for a programme which is intended to have a long-term impact. Although CREDIMAT has a simple evaluation and monitoring process, there are deficiencies in the evaluation model (e.g. no systematic evaluation of the open currency positions and no strict separation of the operational costs of lending and the other activities of the intermediaries) and it is used too little to actively manage the fund. This is ultimately a consequence of the inadequate institutional integration, insufficient professional support on the part of the accompanying measure and the fact that CREDIMAT was managed by a person who is not a financial sector expert and who was dependent on the support provided through the accompanying measures in all specifically financial questions.

The problems at the level of the Apex structure and the intermediaries are also apparent from the low absorption of the funds and the poor quality of the loan portfolio. At no time in the past four years was the lending rate at the level of the apex structure more than 50% (CREDIMAT could therefore have always lent at least twice the volume to the intermediaries). The lending rate at the level of the intermediaries was on average only 50%. In fact, in the past four years the target group therefore had access on average to only 25% of the funds that could have been provided through the FC contribution. Therefore, on 31 March 2006 the intermediaries' portfolio of loans outstanding to end-borrowers amounted to USD 1.6 million. The intermediaries, however, received USD 3.2 million from the Apex institution CREDIMAT. The Apex structure itself has USD 2.5 million in liquid funds which have not been used. A negative assessment is given to the very poor quality of the loan portfolio (portfolio risk around 24%) and the losses of around USD 2.1 million which occurred as a result of the depreciation of the Uruguayan currency.

Overall, the impact of the accompanying measures was insufficient. From today's perspective, the cost-benefit ratio is not acceptable. The very poor impact of the accompanying measure was caused primarily by the failure to adjust the measure to the changed project objective. The consulting company which carried out key parts of the feasibility study was awarded the contract for long-term advisory services but did not have the required knowledge of the financial sector. The long-term consultant actually took on operational management functions throughout the entire period. The consulting company's lack of expertise in matters relating to the financial sector led to the present instruments used to evaluate intermediaries, a core competence of the Apex structure, being developed not by the consulting company but – not until the consulting services have been completed – by the CREDIMAT employees. A similar assessment was also made when the social indicators were reviewed. Work was begun on the project software to be developed by the consultants but it was never completed. The consultancy services provided in subsequent years by short-term experts were better suited to the project because, on the one hand, adequate professional input for the work of the Apex institution was delivered and, at least to an extent, an effort was made to work at the level of the intermediaries. However, there were scarcely enough funds still available for the necessary furtherance of the intermediaries, which meant that these assignments could not be expected to make a significant contribution to improving their business activity.

Basically, the project has the potential to improve gender equality (gender-neutral lending in the context of CREDIMAT, with women comprising some 50% of the customers) but it was only partly developed because of the lack of specific measures. Improving the environmental situation was not one of the programme's objectives. In the case of the projects to finance sewage connections, to an extent a positive impact (orderly sewage collection) was observed. No environmental damage worth mentioning occurred. The project was not designed to improve participation or governance. The project targeted poorer sections of the population. Roughly half of the borrowers have an income which is below the national poverty line. By granting housing loans, the project made a direct contribution to improving the living conditions of the target group. The target group participated through its own contributions and by repaying the loans.

We rate the developmental effectiveness of the project as follows:

- The project did not meet the originally agreed target indicators within the planned period. Instead of 5,000 projects in the first 1.5 years, only around 2,500 were carried out. Instead of 22,000 projects up to one year after the disbursement of funds, around 19,000 were carried out. Measured in terms of a target system typical for the financial sector, it is evident from the inadequate institutional development of the Apex institution, its failure to achieve financial sustainability and serious weaknesses at the level of the intermediaries (very high credit default rates, low absorption capacity) that the project objective of establishing a sustainable system of housing finance was not achieved. We classify the project's effectiveness as insufficient (sub-rating: 4).

- The hypothesis of contributing to improving the housing situation of low-income families by granting loans to poorer sections of the population is essentially plausible if poorer sections of the population can be reached over the long term (relevance). With regard to the evidence of the impacts at the level of the overall objective, the programme definitely made a substantial contribution at the level of the real economy real economic level (financing of, in all, some 26,000 housing improvement measures). However, the significance is very limited because sustainable financing of housing improvement measures for poorer sections of the population was not achieved by developing a corresponding segment of the financial sector. We therefore evaluate the overall relevance/significance of the programme as insufficient. (sub-rating: 4).

- Overall, at the level of the real economy the cost of the housing improvement measures can be assessed as appropriate. As the funds were not made available to the end-borrowers in terms of cost in hard currency and the funds were turned round just under three times during a ten-year period, the programme demonstrated low efficiency at the financial sector level. Relatively high direct lending costs at the level of the intermediaries (15 to 30% compared with under 10% in the case of best practice), a credit default rate that was too high overall (on average 24%, best practice below 3%) and the low rate of lending to end-borrowers clearly show the efficiency problems at the level of the intermediaries. The efficiency of the Apex institution with administrative costs of 2-3% is clearly far from the best practice benchmark (approximately 1%). The fact that the volume of funds could not be sustained in real terms had a negative impact on allocation efficiency. We classify the project's overall effectiveness as insufficient (sub-rating: 4).

Because effectiveness, significance/relevance and efficiency were not achieved, we judge the developmental efficacy overall as insufficient (rating: 4).

General conclusions and recommendations

The low-cost housing construction CREDIMAT project very clearly shows a quite frequent clash between real economic and financial sector objectives. If the real economic perspective is predominant during project planning, there is a high risk of the impact on the financial sector being insufficient. The failure to comply with critical conditions of a financial sector project such as the institutional consolidation of an Apex structure, critical consideration of whether a supported Apex structure is at all able to achieve the required minimum operational size and detailed analysis of whether efficient intermediaries exist are matters which require precise analysis and must always be examined during project appraisal.

With regard to both lending and the selection of the consultants, accompanying measures for a project of this kind must be carried out primarily with regard to needs from a financial sector perspective. A key success factor of the consultancy service is that the consultants are not primarily active in management functions, thus replacing staff of the project executing agency or intermediaries, but that their core activities focus on providing institutional and process-oriented advice.

If a major change is made to the target system in an ongoing project, the whole project concept must be reconsidered in the light of the changed objectives. If substantial conceptual risks are apparent, a decision must be taken as to whether it is possible to redesign the project completely in order to incorporate the changed objective. If this is not the case, it may make more sense to terminate a project that is conceptually defective than to continue its implementation.

Assessment criteria

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

Performance evaluation criteria

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

- Have the **project objectives** been achieved to a sufficient degree (project **effectiveness**)?
- Does the programme generate **sufficient significant developmental effects** (project **relevance** and **significance** measured in terms of the achievement of the overall developmental 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 appropriate** with a view to achieving the objectives and how can the programme's microeconomic and macroeconomic impact be measured (**efficiency** of the programme design)?
- To the extent that undesired **(side) effects** occur, can these be tolerated?

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