

1. Project Data:		Date Posted : 01/31/2011	
PROJ ID : P078716		Appraisal	Actual
<b>Project Name :</b>	Programmatic Loan For Sustainable & Equitable Growth: Supporting Housing Sector Policy	<b>Project Costs (US\$M):</b>	502.5
<b>Country:</b>	Brazil	<b>Loan/Credit (US\$M):</b>	502.5
<b>Sector Board :</b>	UD	<b>Cofinancing (US\$M):</b>	
<b>Sector(s):</b>	Housing finance and real estate markets (47%) Other social services (23%) Housing construction (15%) General public administration sector (15%)		
<b>Theme(s):</b>	Access to urban services and housing (33% - P) Legal institutions for a market economy (17% - S) Social safety nets (17% - S) Other financial and private sector development (17% - S) Land administration and management (16% - S)		
<b>L/C Number:</b>	L7306		
		<b>Board Approval Date :</b>	06/14/2005
<b>Partners involved :</b>		<b>Closing Date :</b>	06/30/2006
<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>Group Manager :</b>	<b>Group :</b>
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## 2. Project Objectives and Components:

### a. Objectives:

#### Overall:

To support the Government of Brazil's (GOB) efforts to improve access of the poor to improved housing and serviced/serviceable land, while maintaining fiscal discipline .

#### Specific:

To support GOB in its efforts to:

- (a) develop a sound national policy and institutional framework for housing and urban development;
- (b) strengthen the housing credit and savings systems, and provide incentives for the housing finance market to expand as well as move "down-market".
- (c) design and implement a unified federal housing subsidy system to address the affordability of housing solutions for the poor.
- (d) reduce the cost of formal land development by strengthening land legislation and regulations and real property registries.

**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Components (or Key Conditions in the case of DPLs, as appropriate):**

(listed as per Annex 2 of the Program Document (PD) under the operation's four policy areas noted there)

Strengthening the housing policy and government institutional framework for the housing sector

1. Elaboration and dissemination of National Housing Plan .
2. Develop and make operational the monitoring and evaluation system for the National Housing Plan .
3. Progressive inclusion of federal subsidies under FNHIS (National Fund for Social Interest Housing).
4. (after the approval by Congress) the Government will have regulated the National Housing Subsidy Fund .
5. Strengthen technical and operational capacities for implementation of the National Housing Plan .
6. Definition of minimum criteria for sub-national entities to access federal housing funds .

Reforms to increase the stability and scale of the housing finance market .

7. Complete standardization of mortgage instruments (with ABECIP - Brazilian Association of Real Estate Credit and Savings Entities)
8. Present proposal to reduce the judiciary [sic] risk in the housing finance contracts strengthening the borrower and lender rights and obligations.
9. Study of the potential for the development of credit insurance .
10. Conduct workshops and seminars to promote awareness in the judiciary system, NGO community and congressional committees about importance of efficient housing finance contract execution .
11. Preparation of Draft Bill to solve legal ambiguity about capitalization of interests [sic] applied to existing portfolios (interpretation of 1933 law).
12. Improve and consolidate the management information contained in the database on housing loans from the main agents in the market, making such information available to the public .
13. Introduce proposal of regulation to allow and expand the use of payroll deductions for housing loans .
14. Improve the legal processes related to the housing rental markets with the objective to expand the alternatives to fill the demand for shelter (review of Law no. 8.245/1991).
15. Adopt revisions in the incentive structures for investment in real (e)state securities as deemed appropriate by MOF.
16. Improve system to collect information on micro-lenders and cooperatives .
17. Preparation of proposals aimed at making housing finance accessible to different income levels .
18. Diagnosis of proposal to improve in the short run the SBPE (Brazilian System of Savings and Loans).
19. Implementation of measures to contribute to expand the number of financial institutions that access FGTS (Workers' Severance Fund -- Fundo de Garantia do Temp de Servico)
20. Other measures to improve the pricing of FGTS credits .

Improve effectiveness and harmonize federal housing subsidies

21. Publication of a plan to rationalize and harmonize subsidy programs .
22. Continuing budgetary resources for the PSH (Social Interest Housing Program), and acceptance of beneficiary contributions in the form of cash and/or self-help contributions.
23. Better design of FGTS up-front subsidy program that broadens lending distribution channels to attract more lenders to low income markets, and harmonizes it with PSH targeting and selection .
24. Creation of a program to prioritize and select PSH and up-front FGTS subsidies beneficiaries, including eligibility verification based upon expected demand excess .
25. Develop and implement a comprehensive monitoring and evaluation system that would ensure that program criteria are respected in a random fashion and establish sanctions when criteria are not met (sic).

Land and urban development.

26. Support to the revision of the Law of Territorial Responsibility
27. GOB launch of national Urban Upgrading Program for major metropolitan areas .
28. Providing federal budget (OGU) resources to 250 municipalities for the development of their participative urban plans.
29. GOB's inclusion in the National Housing Plan of a Program for increasing urban land (sic), which establishes the goals, timing and instruments, incentives to local governments and other agents and concrete policy initiatives for reducing the administrative costs of entry to the market and subdivision of urban land .
30. Establishing a benchmark system to assess the performance of the municipal governments in the process of land

subdivision.

31. Establishment of minimal criteria to transfer resources from the Federal Government to municipalities that abide to the national urban, housing and land policy .

32. Implementation of a national campaign of sensibilization (sic) and mobilization to implement the City Statute (*Estatuto da Cidade*) and local municipal City Plans.

33. Include guidelines of the National Policy of Land Regularization in all housing and urban plans financed with federal funds.

#### **d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

This Housing DPL was a single tranche loan disbursed in May 2006, as planned. This DPL's matrix of Objectives, Key Actions and Outcomes listed 42 Prior Actions for a follow-on Housing DPL planned for 2007. Ten of these Prior Actions were explicitly cited as triggers for the planned follow-on loan. But, owing to a stronger fiscal position in 2007, GOB decided not to request the preparation of this second planned operation. Abandoning a policy program mid-course in this way would normally mean an unsatisfactory outcome. But, in this case, IEG's assessment looks for evidence of the achievement of the program objectives through the Housing DPL alone, without the intended follow-on operation. The expectation of a follow-on Housing DPL also explains why the ICR was prepared two years after the completion of the original operation reviewed here. The ICR was held up in the vain hope that there would be a follow-on operation that it could assess jointly with the earlier operation.

### **3. Relevance of Objectives & Design:**

*Objectives:* are **substantially relevant** to the priorities of GOB, having identified the housing sector as the focus of its new stimulus package to generate employment, attract investment and contribute to growth. But the ICR is not explicit about which *specific* GOB actions or policies it considers that the project objectives were relevant to. IEG deduces that they probably implied those of the Growth Acceleration Plan (PAC) and the recent economic package (unnamed in the ICR), as well as the new "My House. My Life" *Minha Casa, Minha Vida* program. Within the PAC itself housing was allocated R\$ 10.7 billion (the ICR does not specify over what time period). The ICR informs that the objectives are also relevant to "key pillars" of the Country Partnership Strategy (CPS) but does not specify the exact pillars, nor whether the CPS is a current one or an earlier version. In addition, IEG's meeting with the project TTL brought out the unexpected relevance of the objectives of this operation to GOB's economic stimulus packages, that relied heavily upon the housing and urban development sectors to help pull Brazil out of the effects of the current global financial crisis.

*Design:* was **substantially relevant**. While it covered four key areas essential for reforming the housing sector, it stretched the scope of the operation and made the design ambitious. Relevance was highest for the areas of strengthening policy and the institutional framework for the housing sector and for housing finance strengthening and reform. Relevance was lowest as far as land and urban development was concerned. The project design did not include appropriate actions to help achieve the objective of reducing the cost of formal land development, nor did it set any targets or present baselines in this area. Instead, project prior actions focused mostly upon the regularization of property titling on land that was already occupied. Moreover, addressing complex land development reform requires a long time-frame, and the ICR notes that attempting this through a single tranche DPL was an unduly ambitious expectation.

### **4. Achievement of Objectives (Efficacy):**

(a) *A sound national policy and institutional framework for housing and urban development* : **Substantially achieved**: through: (i) the activation of the managing council of National Social Interest Housing Fund (FNHIS); (ii) incorporating housing policy at the heart of two of GOB's most important stimulus packages. (The ICR also cites the completion and dissemination of the National Housing Plan (PlanHab) in 2008 as contributing to a sound national policy and institutional framework, but IEG learned through concurrent work through its Project Performance Assessment Report on this project, that, at this writing the PlanHab has yet to be completed and disseminated. This means that the PlanHab could not have had the policy and institutional impacts attributed to it.) On the other hand, the ICR does not report progress on other key actions noted in the PD that were intended to support the achievement of this objective, such as developing a M&E system for the National Housing Plan, including federal subsidies under FNHIS, regulating the National Housing Subsidy Fund, and defining minimum criteria for sub-national access to federal housing funds. The ICR also reports a "strengthened working relationship between MOF and MOC" that would be consistent with a sound institutional framework, but it does not provide concrete examples or evidence for this. At the local level, the achievement of this objective has been less significant. Only 26 municipalities had completed local housing plans that make them eligible for funding under the FNHIS.

(b) *Stronger housing credit and savings systems with incentives to expand and move housing finance "down-market"* : **Substantially achieved** : An overall favorable macroeconomic environment led to lower interest rates, thereby increasing lending for housing that became more affordable. Mortgage loans awarded per year rose seven-fold between 2004 and 2008 from R\$5.4 billion to R\$39.1 billion. The expansion of Brazil's Savings and Loan System's (SBPE) mortgages accounted for 80 percent of this growth. A key action of this operation had been to

Improve SBPE performance in the short run by requiring that a fixed percent of savings held by a financial institution be allocated for housing. The share of all lending going to low-value properties increased from 3.2 percent in 2006 to 8.6 percent in 2008, a modest indication of housing finance moving down market. On the other hand less FGTS lending went to lower income beneficiaries after this operation than before. On the other hand, the mean size of mortgage loan increased in real terms over the 2004-2009 period. Mortgage backed securities, albeit on a smaller scale, have increased their contribution toward housing finance, rising from US\$ 2.1 billion in 2005 to US\$4.9 billion in 2008. Housing finance growth overall has been driven by the public sector, with little expansion of private sector housing finance for lower income groups. The operation did not succeed in expanding the number of financial institutions accessing the FGTS. No new lenders came into the market. The PD foresaw several other key DPL actions to achieve this objective, but they do not figure in the ICR. They include: the complete standardization of the mortgage instrument in Brazil, a study of the potential for credit insurance, draft legislation on capitalization of interest due, regulations to allow mortgage loan payoffs through payroll deductions.

(c) design and implement a unified federal housing subsidy system to address the affordability of housing solutions for the poor. **Modestly achieved**: The main achievement cited by the ICR was GOB's preparation of a comprehensive housing subsidy policy through the National Housing Plan, but this was much broader than a unified federal housing subsidy system for the poor, a result that is not guaranteed by the Plan itself. The result that most closely matches this project objective was the incorporation of transparent subsidies within the *Minha Casa, Minha Vida*, although this alone does not attain the scope intended by the design of this DPL. Nevertheless, an important achievement was the introduction of up-front lump-sum subsidies--widely considered to be the most efficient--through the FGTS for the first time. IEG's meeting with the project TTL brought out the significance of this FGTS change in Brazil. A main weakness candidly highlighted by the ICR is the failure to develop a M&E system, even though a conceptual design had been prepared.

(d) reduce the cost of formal land development by strengthening land legislation and regulations and real property registries. **Negligibly achieved**: There is no evidence of reductions in the cost of formal land development. The operation focused particularly upon the regularization of property titles in existing areas, especially of informal settlement such as favelas, which would have only a minor impact upon the cost of formal land development that the operation aimed to see reduced. While the ICR reports progress in initiating the regularization of informal settlements in 2,578 settlements in 387 municipalities by 2009 through direct and indirect support by the *Programa Papel Passado*, it presents no evidence of baseline and lower after-project costs of land development that would be needed to demonstrate that a reduction had taken place. Low income urban upgrading increased significantly, with GOB investment increasing from R\$1.1 billion during 2003-2005 to R\$8.5 billion during 2006-2008, but again, the ICR makes no claim that this action is connected with lowering formal land development costs. The Urban Land Subdivision Bill, first drafted in 1999, may eventually help cost reduction after it is approved, but it is still under discussion in Congress. Other prior actions proposed by the PD to achieve this objective that were highlighted, including the establishment of a benchmark system to assess the performance of municipal governments in the process of land subdivision, and the establishment of minimal criteria of municipal compliance with housing and land policy for eligibility to receive federal resources, were not reported in the ICR.

#### 5. Efficiency (not applicable to DPLs):

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

\* Refers to percent of total project cost for which ERR/FRR was calculated.

#### 6. Outcome:

The operation substantially achieved two of its four relevant objectives (housing policy and housing finance), modestly achieving a third (a unified subsidy system) and negligibly the fourth (reducing land development costs). The relevance of objectives was substantial and the relevance of design was modest.

a. **Outcome Rating**: Moderately Satisfactory

#### 7. Rationale for Risk to Development Outcome Rating:

Housing reform and policy changes have been mainstreamed into GOB actions where they are likely to remain, although the end of the Lula administration in 2010 can be expected to trigger some changes of priorities within the sector. But there is a small risk that CEF's expanded mandate under *Minha Casa, Minha Vida* could stifle some incentives for the private sector to invest in housing for low-income beneficiaries.

**a. Risk to Development Outcome Rating** : Negligible to Low

#### **8. Assessment of Bank Performance:**

*Ensuring quality-at-entry:* During the two-year preparation of this project, the Bank team worked closely with the Borrower to better understand Brazil's housing and urban land sectors and to identify the specific reforms needed to improve access to housing by the poor. The Bank was able to mobilize international and domestic expertise to deploy on the sector reform. This established a strong foundation for sector dialogue between GOB and the private sector involved in housing. After a strong beginning, however, the Bank - Borrower dialogue waned when it became clear that there would not be a follow-on loan to this one. In one important respect, Bank performance during the design phase of this operation was weak. The Bank did not provide for an adequate M&E system to monitor the operation's progress in achieving its objectives. Particularly weak in it was the lack of indicators or data on the cost of urban land development, the reduction of which was one of this operation's four key objectives.

*Supervision:* A single tranche DPL like this one is typically light on supervision, the Bank launched two large supervision missions in 2006 that doubled as preparation an expected follow-on loan. When that did not transpire, no more Bank missions were fielded.

**a. Ensuring Quality -at-Entry:** Moderately Satisfactory

**b. Quality of Supervision** : Satisfactory

**c. Overall Bank Performance** : Moderately Satisfactory

#### **9. Assessment of Borrower Performance:**

*Government:* GOB displayed strong ownership of the operation, supporting it through instituting major policy changes to enhance the proposed reforms. The fact that two of GOB's largest investment programs over the past four years have focused upon the housing sector is an important indicator of that commitment.

*Implementing Agency:* The ICR provides little assessment of the performance of the implementing agencies--MOF, MOC and CEF--limiting itself to noting that they participated in the operation and that their close collaboration with the private sector laid an important foundation for the implementation of housing sector reforms.

**a. Government Performance** : Satisfactory

**b. Implementing Agency Performance** : Satisfactory

**c. Overall Borrower Performance** : Satisfactory

#### **10. M&E Design, Implementation, & Utilization:**

*Design:* Although the DPL design included performance indicators, most of them lacked baseline data and targets. M&E responsibilities were not clearly assigned in the PD, so the respective roles of the MOF and MOC were not evident. Furthermore, no specific organization or coordinated effort was in place to consolidate collecting and processing the information needed from different sources. The M&E included many different indicators, several of which appeared to have little or nothing to do with the goals of the program. Even so, the M&E design provided for no cost indicators, or even baseline data, making the measurement the operation's progress toward achieving its key objective of reducing the cost of formal land development possible.

*Implementation:* The very little that was actually done suffered significant delays because of the lack of consultants in Brazil with the necessary expertise. This resulted in disbursement delays on the related studies that were part of the companion housing technical assistance loan (HTAL).

*Utilization:* In effect, there was no working M&E system to use.

**a. M&E Quality Rating** : Negligible

**11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):**

<b>12. Ratings:</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Satisfactory	Moderately Satisfactory	While relevance was substantial, there were moderate shortcomings in the operation's achievements in the areas of subsidies and urban land development. See sections 3-5.
<b>Risk to Development Outcome:</b>	Negligible to Low	Negligible to Low	
<b>Bank Performance:</b>	Satisfactory	Moderately Satisfactory	Particularly in considering that the M&E lacked indicators and data on the cost of urban land development, the reduction of which was a key objective of this operation.
<b>Borrower Performance:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR:</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**

Linking housing construction to macro-economic stimulus plans is an effective and politically palatable means of spurring housing construction for specific income groups.

- The use of the trust deed in housing finance instead of the traditional mortgage has proven to function extremely well in a context like Brazil's, where they generate fewer foreclosures than traditional forms, such as a mortgage. It provides a strong incentive to pay off a loan since title is only transferred when the loan is repaid in full.
- DPLs with reform agendas requiring specific actions by the private sector, need to identify tools to stimulate an open public/private sector dialogue during implementation.

**14. Assessment Recommended?**  Yes  No

**Why?** To learn more about how to best use a DPL instrument to achieve sector reform in housing and urban development.

**15. Comments on Quality of ICR:**

This ICR lays out well the implementation experience of the operation and assembles material to illustrate the results obtained. It is also candid about the limitations faced by the operation, particularly as far as the weaknesses of M&E are concerned. On the other hand, the ICR's report of the completion of Brazil's National Housing Plan in 2008 and its purportedly positive effect upon the strengthening of housing policy, is not consistent with IEG findings. IEG's related PPAR work in Brasilia found the plan still incomplete in December 2010. From later contact with MOC (in June 2010), IEG learned that the said Plan is likely to be posted on MOC's external website at the end of June 2010, and published in hard copy shortly thereafter.

**a. Quality of ICR Rating:** Satisfactory

