

1. Project Data:		Date Posted : 06/08/2012	
Country:	Brazil		
Project ID:	P050761	Appraisal	Actual
Project Name:	Br-housing Sector Tal	Project Costs (US\$M):	4.0
L/C Number:	L7338	Loan/Credit (US\$M):	4.0
Sector Board:	Urban Development	Cofinancing (US\$M):	
Cofinanciers:		Board Approval Date:	11/10/2005
		Closing Date:	09/30/2009
Sector(s):	Central government administration (66%); Sub-national government administration (34%)		
Theme(s):	Access to urban services and housing (33% - P); Municipal governance and institution building (17% - S); Social safety nets (17% - S); Regulation and competition policy (17% - S); Land administration and management (16% - S)		
Prepared by:	Reviewed by:	ICR Review Coordinator:	Group:
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2. Project Objectives and Components:

a. Objectives:

Original Objective: to support the implementation, monitoring, and evaluation of the Government reform program .

The original project development objective is stated identically in the Loan Agreement and the Project Appraisal Document (PAD). The PAD further clarifies that the 'program' refers to the government reform program supported by the Programmatic Loan for Sustainable and Equitable Growth : Housing Sector Reform (P078716).

Revised Objective Strengthen the Ministry of Cities' capacity to manage housing and urban development policy and programs at the federal level, and improve capacity for the development of social housing programs at the local level .

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

Yes

If yes, did the Board approve the revised objectives /key associated outcome targets?

Yes

Date of Board Approval: 05/03/2010

c. Components:

Original Components

A. *Supporting the Institutional and Legal Framework for Housing Policy.* Support the Ministry of Cities (MOC) in its internal reorganization, including the consolidation of the National Housing Secretariat (NHS) as the key technical and policy entity for coordinating policy design across the public sector actors . (*Planned:* US\$1.31M; *Actual:* US\$0.39M)

B. *Housing Finance Market Development.* Support the improvement of the legal and regulatory framework for housing loans, including incremental reforms to the existing housing finance system, the future integration of the SBPE (Brazilian Savings and Loan System) in the full market system, and overall strengthening of the market-based Housing Finance System (SFI). (*Planned:* US\$0.29M; *Actual:* US\$0.0M)

C. *Housing Subsidies for the Poor* . Support for the rationalization of the Government's various subsidy programs, and the establishment of effective targeting, monitoring, and evaluation mechanisms . (*Planned*: US\$1.33M; *Actual*:US\$0.0M)

D. *Land and Urban Development* . Provision of Technical Assistance (TA) to (a) strengthen local governments to take the lead in local urban development policy setting and implementation; and (b) the development of a national urban upgrading program. (*Planned*: US\$1.06M; *Actual*:US\$0.00M)

Revised Components

- *Institutional Strengthening and Support for the National Housing Secretariat (NHS)* . Support the elaboration of housing subsidies programs, TA to MOC-NHS, strengthening of knowledge related to construction technology, and the development of methodologies for the collection of real estate market data in Brazil . (*Planned*: US\$0.72M; *Actual*: US\$0.77M)
- *Capacity Building of Urban Development at the Local Level* . Support distance learning programs related to the preparation of local social housing plans, urban upgrading, and the integration of social work in social housing developments. (*Planned*: US\$0.58M; *Actual*: US\$0.53M)

MoC and the Country Director agreed to restructure the project following the Mid -Term Review (MTR), three-and-a-half years after project approval. The restructuring occurred in two stages : (1) in May 2009, the loan amount was reduced from US\$4.0M to US\$1.3M; and (2) in May 2010, component B was dropped, and the remaining three components (A, C and D) were recast into the two revised components listed above .

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

The original project cost was US\$4.0M, to be fully financed by the Bank .The project had a very slow start with a 13 month delay between approval and effectiveness . Approximately two years after effectiveness, less than 1% of the original loan amount of US\$4.0M had been disbursed. By the time of the second restructuring in May 2010, US\$0.39M had been disbursed. The restructuring was necessitated due to a shift in Government focus to two large-scale investment programs under PlanHab; a major urban /slum upgrading program, and the Government's decision not to go ahead with the second housing DPL, which reduced the relative importance of the project . A total of US\$1.3M as per the revised loan was fully disbursed by the extended date of December 31, 2010, fifteen months after the original closing date.

In 2005 the procurement plan of the existing US\$250 million loan from the Inter-American Development Bank (IADB) to MOC - "Habitar Brasil" was revised to include the preparation of the National Housing Plan (NHP) and other related studies. In addition, funding from the United Nations Development Program (UNDP) was also available to finance reports and studies.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Original Objective

Access to housing and reliable urban services is essential to poverty reduction and economic growth in Brazil . In the years prior to project appraisal, reform in the housing sector emerged as a key component to reinforce the growth agenda, given the impact of housing and housing finance in promoting poverty alleviation and expanding the efficiency of the financial sector respectively . In particular, the Government's flagship Growth Acceleration Program (PAC or Programa de Aceleração do Crescimento) - which attempts to address the issue of slow economic growth through increased public investment in infrastructure and increased public credit - included a focus on stimulating public credit for housing and long-term infrastructure investment. This priority is also reflected in Brazil's 2008 Country Partnership Strategy (CPS) which underlines the need to address the problems of cities under stress, and to improve their fiscal capacity and competitiveness .

However, given the low level of disbursement nearly four years after project effectiveness (and allowing for shortcomings in procurement capacity and process as a reason for this) the country ownership appeared to have reduced significantly relative to the beginning of the project . Further, in 2005 (the year the current project was approved) alternative funding from the Inter-American Development Bank (IADB) became available for the National Housing Plan and other related studies under IADB's loan to the Ministry of Cities for "Habitar Brasil". Against this background, the relevance of the original PDO is rated *modest*.

Revised Objective

The revised objective restricted the project's focus to strengthening MOC's capacity to manage housing policy and programs at the federal level, and to improve capacity for the development of social housing programs at the local level. The revised objective is consistent with the sector's needs and the government's priorities and its relevance is rated *substantial*.

Overall relevance of objectives is rated *substantial*.

b. Relevance of Design:

Original Objective

The project's original components mirrored those of the DPL, which in turn supported the Government's reform program for the housing sector. This design of the project components adequately recognized the inter-connected nature of the housing, financial and urban sectors for a comprehensive housing reform agenda.

However, the project design did not adequately recognize or address the likely challenges that later arose during implementation. Most importantly, the procurement assessment undertaken during preparation identified the "lack of specialized procurement staff in the implementing agency" as a major issue. But this risk was not documented in the Project Appraisal Document (PAD), and no mitigating actions were considered. Given the limited experience of the implementing agency with the Bank's procurement procedures, adopting a SIL (sector investment loan) - with its procurement and supervision requirements - did not prove to be an appropriate choice to achieve the desired outcome. In retrospect, non-lending technical assistance was found to be a better alternative for contributing to the objectives. The SIL proved even less resilient as the Government's policy priorities changed in the housing sector, and alternate sources of funds became available to support the DPL's objectives. Overall, the relevance of the original project design is rated *negligible*.

Revised Objective

Because of the slow progress in project implementation (see section 2d above), the project was restructured in 2009. Component B ('Housing Finance Market Development.') was dropped and pursued separately as non-lending technical assistance (NLTA). The remaining three components (A, C and D) were recast into two restructured/revised components. The two restructured components comprised activities that were directly linked to strengthening the MOC-NHS as the key implementing agency; activities that the MOC was already implementing; or activities that were already programmed for procurement launch to ensure that the remaining funds were fully utilized before the closing date. The NLTA with its restructured objectives was better aligned with the developmental needs of the Ministry of Finance and MOC, and proved to be a better instrument to support the technical background analysis needed for reform while meeting the fiduciary requirements of the Borrower. The Relevance of the restructured project design is rated *substantial*.

4. Achievement of Objectives (Efficacy):

Original Objective

The project made little progress towards its original development objective until it was restructured in May 2009, nearly three years after project approval and two years after project effectiveness. Till then, the Bank's main contribution was to engage the Government in policy dialogue and offer advice to the NHS team during supervision. A study tour to Mexico was conducted for members of the inter-ministerial working group for the housing and urban sectors. The working group exchanged ideas with their Mexican counterparts on housing sector reform. The Bank's dialogue also contributed to the National Housing Plan (PlanHab), PAC and the Minha Casa, Minha Vida (MCMV) or stimulus package program. However, the difficulties in implementing the project prior to restructuring -- largely due to inadequate procurement capacity in the implementing agency arising from lack of government support in this regard -- resulted in practically no progress towards the original project development objective. The Bank team designed and delivered a tailor-made M&E workshop for SNH staff in September 2009, but no progress was made towards establishing a comprehensive M&E system for housing subsidies. Overall efficacy for the original project objective is rated *negligible*.

Revised Objective

The revised project objective was served through distance learning courses as well as financing strategic studies. Distance learning was carried out for 7,849 officials between June 2008 and September 2010, covering three topics: (i) characterizing and analyzing housing market dynamics, an input to determining the housing sector priorities that were eventually agreed in the PlanHab, (ii) updating the housing deficit status of Brazil, a publication that guides policy programs that helps private sector and stakeholders plan investments and actions, and (iii) elaborating an ad-hoc evaluation of the first stage of the MCMV program, the results of which would feed into the next phase policy adjustments in the program, tentatively planned for late 2011. About 83% of participants rated the relevance of the courses as high or very high and 98% rated the quality of the materials presented as good or excellent. According to the ICR, the government counterparts reported that the project had a positive impact through the financing of strategic studies that provided inputs to the design of the MCMV program and the PlanHab, such as the study on the housing market dynamics and provision of consultant expertise. However, there are no indicators or evidence to substantiate the claim that capacity has been strengthened. The efficacy of the project's revised PDO is rated as

Modest.

5. Efficiency:

Original Objective

As a TAL, this project did not require an economic rate of return to be calculated . However, project implementation was clearly delayed, and disbursement levels had reached only 1% of the planned amount even two years after project effectiveness. The efficiency of the original project is rated *negligible*.

Revised Objective: The restructured project met its disbursement and output targets within seven months after the components were revised. The efficiency of the restructured project is rated *substantial*.

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	No		
ICR estimate	No		

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

6. Outcome:

Original Objective: Based on *negligible* relevance, efficacy and efficiency, the outcome rating for the original project objective is rated *Highly Unsatisfactory*.

Revised Objective: Based on *substantial* relevance, *modest* efficacy and *substantial* efficiency, the outcome rating for the restructured project objective is *Moderately Satisfactory*.

Given the relatively low disbursement prior to project restructuring (US\$0.39M) compared to US\$0.91M after project restructuring, the weighted overall outcome rating is *Moderately Unsatisfactory*.

a. Outcome Rating : Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

At a broader level, the Government is committed to reform in the housing sector as evidenced by the development of a medium term policy agenda (PlanHab) and the large investments in the sector (PAC and MCMV). Significant challenges remain at the sector level, especially for establishing a robust M&E system for tracking subsidies. This is important given the large allocations for the MCMV program . The creation of a M&E nucleus unit for MCMV is a positive development, but there is no evidence provided for its effectiveness . In respect of HSTAL-financed activities, NHS has limited capacity to offer distance learning courses in the long -term, and is further constrained by the requirement to procure courses on an individual basis . Alternative arrangements can be considered for this purpose, such as forming a partnership with a suitable entity to implement the distance learning program under NHS oversight.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The development objective and the project components were relevant to the Government 's reform agenda. However, the Bank did not give enough attention to confirming government ownership and in ensuring that the implementation arrangements were fully understood by the implementing agency. The internal procurement procedures within MOC-NHS were not adequately analyzed to ensure consistency between Bank and client procedures. The fact that there was no operational manual prepared for the project until the project was restructured in 2009 is an indication that implementing arrangements received little attention during project preparation. In general, the project design seems to have greatly overestimated the ability of the NHS to conduct reform in the housing finance development component . There was also a failure to involve other key actors in the sector, such as the Ministry of Finance and the CEF (Federal Loans and Savings Bank). These shortcomings

had a detrimental impact on project implementation until the project was restructured .

Quality-at-Entry Rating : Unsatisfactory

b. Quality of supervision:

During the first two years of project implementation the Bank seems to have underestimated the implementation challenges that were causing delays since all Implementation Status and Results Reports (ISRs) reflect Satisfactory or Moderately Satisfactory ratings despite the lack of progress . The learning period for the implementing agency to familiarize itself with Bank procedures was long and difficult and the Bank did not provide timely or effective implementation support In hindsight . The project restructuring should have occurred at an earlier date - as soon as the Bank and borrower realized that the Borrower's priorities had evolved, and no additional DPLs would be requested . The supervision efforts appear to have slackened once it became obvious that no follow-up operations would take place . Despite the recurrent delays in procurement of consultants no specific training was conducted for the project and the Borrower received little implementation support from the Bank's country office . Supervision improved substantially after the project was restructured and the supervision teams were strengthened in respect of procurement experience, though there is no mention in the ICR of project audits and followup.

Quality of Supervision Rating : Moderately Unsatisfactory

Overall Bank Performance Rating : Unsatisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The Government's commitment to housing sector reform was strong at the outset, and even gained momentum during the project implementation years . However, the focus of government action was narrowed from the initial all-encompassing approach supported by the DPL (which included institutional reform, housing finance, subsidies and urban interventions) to targeted interventions in the areas of urban /slum upgrading and housing subsidies, which are the two main areas of housing policy that benefit from Federal financing . These new priorities were derived from the National Housing Plan (PlanHab), which was prepared during 2008, and became the guiding instrument for the policy actions in the sector . As a result, Government focus shifted to operations implementation of two large-scale investment programs under PlanHab; a major urban /slum upgrading program under the PAC with an allocated budget of R\$ 10.7 billion - making it in effect the largest slum upgrading program in the world, and the housing subsidy program MCMV with an allocation of R\$ 34 billion. The decision of the Government not to go ahead with the subsequent DPL (the second housing DPL and the fourth in the Growth DPL series) reduced the relative importance of the project. Given these changes in scope and focus of the broader program to which this project was aligned, the Government should have been more proactive on re-aligning the project to their new priorities and implementation capabilities by seeking an earlier restructuring .

In May 2009 the Borrower requested Bank's support for a non-lending technical assistance to support housing sector reform and the implementation of the MCMV Program . This request - in the midst of a poorly performing project - suggests that the borrower valued the technical assistance provided by the Bank, but did not find the SIL instrument - with its implementation challenges – an adequate instrument to obtain it. Many of the tasks that were identified during project preparation were actually undertaken, albeit using other sources of funding, with important positive results. Government performance after restructuring is rated moderately satisfactory . As mentioned before, the procurement procedures were not even explained in an operational manual making compliance more difficult. By the time of restructuring, these issues were resolved by focusing on activities that the NHS was already undertaking, preparing an operational manual and also by the fact that NHS had become somewhat more familiar with Bank procedures. There was no financial reporting by the Borrower during the first years of implementation as there was practically no disbursement . Only after the restructuring and with the Bank staff providing hands-on implementation support in procurement and financial management, did the Project implementation improve..

Government Performance Rating Moderately Satisfactory

b. Implementing Agency Performance:

MOC, and in particular NHS - which was responsible for the day-to-day operation of the program - lacked familiarity with the Bank's fiduciary procedures and requirements . Procurement was a major challenge for project

implementation until the project was restructured . This was the main reason for the slow pace of implementation until the project was restructured . At the time of appraisal, NHS was a small unit without dedicated procurement staff and with limited procurement responsibilities or experience - as it mostly acted as a policy-making entity . The situation was particularly compounded by the difficulties faced in hiring local consultants (requiring proof that no MOC staff has the skills to implement the specific task) and international consultants (as it must be proven that no Brazilian consultant is capable of performing the task), which proved cumbersome and extremely time-consuming .

Procurement procedures were not explained in an operational manual making compliance more difficult . By the time of restructuring, these issues were resolved by focusing on activities that the NHS was already undertaking, preparing an operational manual and also by the fact that NHS had become somewhat more familiar with Bank procedures. There was no financial reporting by the Borrower during the first years of implementation as there was practically no disbursement . Only after the restructuring and with the Bank staff providing hands -on implementation support in procurement and financial management, did the Project implementation improve .

It was only at the time of restructuring that the implementing agency was able to line up the necessary resources to support procurement and other aspects of project implementation . An operational manual was prepared and NHS had become somewhat more familiar with Bank procedures . With support from Bank staff, procurement and financial management improved . It is unclear if there was sufficient monitoring of fiduciary issues .The ICR states that, in hindsight, MOC should have been more proactive on re -aligning the project to their new priorities and implementation capabilities, through an earlier restructuring .

Implementing Agency Performance Rating : Moderately Unsatisfactory

Overall Borrower Performance Rating : Moderately Unsatisfactory

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

a. M&E Design:

The outcome of the original objective was proposed to be measured in terms of triggers for subsequent DPLs - which this project accompanied - and successful monitoring of the DPL program . The triggers were more in the nature of output or intermediate outcome indicators . The broader outcomes of the project would have been revealed through the outcome of the programmatic DPL itself . The outcome of the revised objective was to be measured in terms of improved capacity at MOC for housing policies and programs . This outcome indicator is admittedly difficult to measure in the short run .

A long list of indicators were proposed for the outputs and intermediate outputs under the original objective, which were appropriate and broadly measurable . The output indicators were appropriately revised after restructuring . Collectively, the output indicators related to dissemination of knowledge and information through workshops; preparation of a draft law for the National Housing Policy; distance learning and other training; establishment of an M&E system for subsidies; completion of specific studies and preparation of toolkits; collection of housing market data. However, there were no intermediate outcome indicators that might have tracked capability in developing strategy and in preparing manuals, financial management, personnel management, control of operating costs, effective coordination between different entities etc .

b. M&E Implementation:

Prior to restructuring, there was little scope to implement any M&E . After restructuring, output indicators - relating to the number of persons trained through distance learning and other means; data collections; and various studies - were routinely captured and updated .

c. M&E Utilization:

Given the implementation problems faced by the project, the monitoring framework was not utilized during the first three years, until the project components and indicators were restructured . The revised indicators appear to have been used to monitor progress in a routine manner .

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:

According to the ICR, no safeguards were triggered under this project .

b. Fiduciary Compliance:

Fiduciary issues remained a challenge until project restructuring, particularly in respect of consultant procurement . Initially, there was no operational manual prepared for procurement procedures, making compliance difficult . By the time of restructuring, these issues began to be resolved by focusing on activities that the NHS was already undertaking, commencement of work on an operations manual, and increasing familiarity on the part of NHS with the Bank's procedures. The project restructuring also added the sole source selection method, helping to simplify procurement to some extent. There is insufficient information on financial management issues and audits -- the ICR indicates that procurement and financial management improved after restructuring, but there is no specific information on the extent of improvement or whether project audits were undertaken and if they were qualified or unqualified.

c. Unintended Impacts (positive or negative):

None reported in the ICR.

d. Other:

12. Ratings :	ICR	IEG Review	Reason for Disagreement / Comments
Outcome:	Moderately Satisfactory	Moderately Unsatisfactory	Prior to restructuring, progress towards meeting project objectives was negligible leading to an outcome assessment of highly unsatisfactory . For the restructured project, there is no clear evidence that the supported activities strengthened federal capacity to manage housing and urban development policy and programs at the federal level, or improved capacity for the development of social housing programs at the local level . With substantial relevance and substantial efficiency the outcome of the restructured project is assessed as moderately satisfactory . Given the proportion of disbursements made before and after restructuring, overall outcome is rated moderately unsatisfactory .
Risk to Development Outcome:	Negligible to Low	Moderate	Significant challenges remain for establishing a robust M&E system for the reform program; NHS continues to be constrained in providing training due to procurement issues and insufficient capacity and experience .
Bank Performance :	Moderately Unsatisfactory	Unsatisfactory	Underestimated implementation capacity and challenges; supervision process was slow to react to lack of progress in implementation and to changing Government priorities . There is insufficient information on financial management issues and audits -- the ICR indicates that procurement and financial management improved after restructuring, but there is no specific

			information on the extent of improvement or whether project audits were undertaken and if they were qualified or unqualified.
Borrower Performance :	Moderately Satisfactory	Moderately Unsatisfactory	Failure to line up sufficient resources for implementation; the Borrower was not pro-active in seeking project restructuring as government priorities changed; unclear if there was sufficient monitoring of fiduciary issues .
Quality of ICR :		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:

Establishing the relevance of an operation to the Borrower's priorities is of primary importance . In this project, the low relevance to the Borrower's priorities resulted in scaling down the project down drastically and major restructuring.

A sector investment loan (SIL) may not be an appropriate instrument (compared to, say, non-lending technical assistance) when the primary project objectives relate to policy dialogue and sector reform . This is because the relatively higher process and supervision requirements of a SIL may distract from the main objectives at hand .

Even in middle-income countries (MICs) with fairly advanced institutions, capacity for procurement and other process requirements in the implementing agency should not be taken for granted, and arrangements must be made to improve capacity where required. In this project, the lack of familiarity of the implementing agency with the Bank's procurement processes was a major reason for nearly three years of stagnation in project implementation, especially since the project design did not provide for sufficient mitigating measures .

An under-performing project should be restructured sooner rather than later . In this case, the supervision process gave inadequate signals for more than two years on the lack of progress in implementation . Had the project been restructured earlier - and an action plan to speed up implementation put in place - the cancellation of a large portion of the loan might have been avoided or at least reduced to some extent .

14. Assessment Recommended? Yes No

Why? To verify the ratings and document the lessons learned .

15. Comments on Quality of ICR:

The ICR is written in a clear and comprehensive manner but there is a significant gap between the analysis and ratings. It could have been made more concise especially in respect of details relating to the DPL and its background. There is insufficient discussion of financial management issues and audits (whether they were conducted and if they were qualified or unqualified).

a. Quality of ICR Rating : Satisfactory