



Social Entrepreneurship Program

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Inquiries to: Miss Gabriela Torres (extension 2776)

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

SOCIAL ENTREPRENEURSHIP PROGRAM EXECUTIVE SUMMARY

SOCIAL AND FINANCIAL SERVICES FOR EMPOWERING LOW-INCOME WOMEN ON THE ECUADORIAN COAST

(EC-S1005)

LOAN PROPOSAL

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ABBREVIATIONS

AIDS	Acquired immune deficiency syndrome
CAF	Andean Development Corporation
CESI	Committee on Environment and Social Impact
FSO	Fund for Special Operations
HdC	Hogar de Cristo
INECI	Ecuadorian International Cooperation Institute
INNFA	National Institute for Children and the Family
MAG	Ministry of Agriculture and Livestock
MBS	Ministry of Social Welfare
MFI	Microfinance institutions
MIDUVI	Ministry of Urban Development and Housing
NGO	Nongovernmental organization
SBS	Superintendency of Banking and Insurance
STD	Sexually transmitted disease
SWOT	Strengths, weaknesses, opportunities, threats

I. BASIC PROJECT INFORMATION

A. Executing agency

1.1 Viviendas del Hogar de Cristo (HdC)

B. Amount and source of financing

	IDB US\$	HdC US\$	Total US\$
Reimbursable financing:	500,000	300,000	800,000
Technical-cooperation funding:	<u>160,000</u>	<u>106,000</u>	<u>266,000</u>
Total:	660,000	406,000	1,066,000

Source: Net income of the Fund for Special Operations (FSO)

C. Terms and conditions

Amortization period:	10 years
Grace period:	3 years for the principal
Interest rate:	2% annual
Currency:	U.S. dollars
Execution period	36 months
Disbursement period	42 months

D. Statement of no objection

1.2 In official letter 3846/INECI/ORGF/2006 of 27 January 2006, the Ecuadorian International Cooperation Institute (INECI), an agency of the Ecuadorian government, indicated its no objection to the Bank's financing the project.

E. Problem to be addressed

1.3 **The situation of women in the province of Guayas.** Guayas, one of Ecuador's coastal provinces, has a population of 3.3 million, of whom 50% are women. In this region, 25% of all households are headed by women and 31% have a woman as the family's chief breadwinner. However, the social and economic situation of the vast majority of these women is highly vulnerable both economically and socially since, in general, they have migrated from rural areas. Around 70% of them live in low-income urban areas, with inadequate basic services, in precarious housing that is deficient in both quality and size, and only 21% have employment in the formal sector.

- 1.4 **Opportunities for vulnerable women.** In the studies conducted by Viviendas del Hogar de Cristo (HdC) and in the day-to-day social and financial services it provides to its beneficiaries (women faced with poverty and social vulnerability), it has been noted that: (i) very few families receive loans for housing because of restrictions imposed by the costs and demands of programs managed by public and private financial and sectoral agencies; and (ii) self-employment in microbusiness activities is the main source of income for the poorest social segments, particularly women; however, they lack access to funding opportunities due to their scant entrepreneurial experience and limited economic capacity.
- 1.5 Most available housing credit products set requirements that hinder access by the lowest income sectors. Although housing loans in Ecuador grew by 51% over the past year, they only benefited those families with incomes in excess of the basic shopping-basket that can manage a debt of US\$16,000—the average cost of building a home in the country. At the same time, the social housing programs of both the Ministry of Urban Development and Housing (MIDUVI)¹ and the Ministry of Social Welfare (MBS) offer housing solutions at costs of US\$8,000 and US\$2,000, respectively, amounts which are also out of the reach of the poorest families. In other programs, such as the municipal one run by the city of Guayaquil, requirements such as an entry deposit or premium of some US\$900 and stable employment on the part of the applicant pose significant obstacles to access by poorer families. HdC is the only agency in the province that produces and finances housing within the economic reach of those social sectors that live in poverty, particularly women, offering housing solutions at a cost of between US\$500 and US\$1,200, payable in installments over periods of up to four years.
- 1.6 As for funding, although Ecuador has an established microfinancial market with prospects for growth, most microfinance institutions (MFIs) in the country use methods and offer products that fail to take into account the needs and demands of the lower-income segments with less experience in the microbusiness sector, particularly women in conditions of poverty or extreme poverty.² Only a few agencies along the coast, such as Misión Alianza (D-Miró), include the expansion of low-level financial services for microbusinesses among their objectives, but their activities are restricted to the immediate surroundings of Guayaquil and most of their clients are men.
- 1.7 Because of this situation, HdC focuses its actions on poor and extremely poor women, on account of the role they play as role models and in providing stability in the basic social unit that is the family. As a strategy for promoting human

¹ The Housing Incentive System (SIV)—which offers a savings of up to US\$800, a bonus of up to US\$1,800, and a loan of up to US\$5,400—is jointly financed by the Bank through operation EC-0207 (“Support Program for the Housing Sector, Phase II”).

² In Ecuador the poverty line for families is defined as a per capita daily income of US\$2, and extreme poverty as per capita earnings of less than US\$1 a day.

development, HdC concentrates on comprehensively covering the demands of its target group, offering services in four areas: housing, employment, health, and education. Its goal is to provide this social group with access to basic social and financial services until they reach a level at which they can access the services offered by other providers. In the housing sphere, HdC offers very low-cost basic solutions, built with wood and cane, which provide families with a roof over their heads on a temporary basis.³ These homes provide a starting point and a basic level of ownership that could, in the future, assist them in accessing the housing improvement and construction programs described above, designed for individuals a few steps up on the poverty ladder. In the field of microcredits, since July 2002 HdC has been running a program that offers credit through village banks and provides training for female microentrepreneurs with the lowest levels of experience and/or purchasing power. The goal of the program is to allow women entrepreneurs to develop capacities and build on them so that in the future they can have access to the services of other microfinancial institutions that focus on medium- to high-level microbusinesses.

- 1.8 HdC has recently identified new locations in other parts of the Guayaquil urban hinterland and in rural areas along the coast where it could expand the comprehensive services it provides to poor and extremely poor women. At the same time, it has developed a new housing alternative, with a larger surface area and a longer useful life,⁴ that is more environmentally sustainable, offering homes built from cane over a metal frame that will provide longer-term housing solutions with the possibility of upgrading to concrete walls in the future. It is, however, constrained by the lack of the additional capital needed to supply services in those new areas and, at the same time, to continue with its traditional operations, which continue to enjoy sustained levels of demand. In addition, HdC requires institutional strengthening in order to better manage the services it currently provides and needs to adopt proven best practices for services of this kind, so it can enhance its long-term potential for sustainability and continued work.
- 1.9 **Beneficiaries:** HdC will continue with its strategy of assisting women faced with poverty and social vulnerability and, through the project, it will strengthen its ability to provide social and financial services to approximately 2,800 women, of whom some 320 will receive all of the project's proposed services. These beneficiaries are heads of households and mothers of more than two children, with incomes from self-employed microbusiness activities that range from US\$1 to \$2 a day per family member. Under the project, HdC will provide: (i) credit resources for microbusiness activities and for larger homes with a longer useful life, and (ii) preventive health services for the women and their children, provided free-of-

³ The basic housing solution (wood and cane) has an average useful life of three years and covers a surface area of 24 m².

⁴ These metal-frame homes have a minimum useful life of five years and a surface area of 36 m².

charge, thus focusing on the comprehensive development of the target group families as a whole.

- 1.10 **Rationale:** The project meets the criteria of the Social Entrepreneurship Program in that it will provide social and financial services for improving the welfare and living standards of vulnerable population groups—namely, women in conditions of poverty who are currently unable to make use of the services offered by other providers because of constraints imposed by their levels of income and earning abilities. HdC has proven experience in catering for this segment of the population, but it needs to build up its institutional capacity for managing its current portfolio of cane-and-wood homes, where default levels are high,⁵ and to adapt its institutional structure in order to increase the availability of resources for providing new, more, and better services and for improving its operating efficiency. The Bank's support for HdC would have the additional bonus of providing reimbursable funding resources for village banking and metal-frame homes, tied in with concrete results from the agency's institutional reforms, which are to be financed by the technical cooperation in order to strengthen its efficiency in providing services and adopting proven best practices, thereby boosting its long-term sustainability and its ability to assist more women in Ecuador's coastal region.
- 1.11 **Project intervention strategy:** To help reduce the vulnerability of these women, the project plans to begin by providing *village banking credits* and training for microbusiness activities in an attempt to raise family incomes. At the same time, it will provide social services in *preventive health* that will reduce the risk of default due to illness among the women or in their families and will provide the recipients with additional benefits. Once the beneficiaries' incomes have increased—and, consequently, their ability to pay—they will be eligible for housing loans for *metal-frame homes* (with a larger surface area and a longer useful life) during the project's second year.

II. THE PROJECT

A. Objectives

- 2.1 The objective of the project is to help reduce the social and economic vulnerability of poor women and their families in low-income semi-urban and rural areas of the Ecuadorian province of Guayas. The project's purpose is to provide around 320 women and their families with access to comprehensive and efficient services that improve their working conditions (income and training), raise their housing standards, and provide them and their families with preventive health services.

⁵ As of 31 October 2005, 52% of its portfolio was in default by 30 days or more.

- 2.2 To attain that objective, the following courses of action have been planned: (i) support HdC in expanding its village banking and training services, setting up new village banks and benefiting the members; (ii) support HdC in providing an improved housing alternative (metal frame), with financial conditions that are in line with the women's ability to pay; (iii) foster the provision of preventive health care for the women and their children; (iv) strengthen the institutional capacity of HdC to improve its efficiency in providing services and adopting proven best practices to assist more women.

B. Description

- 2.3 The project consists of two components: a reimbursable financing component in the amount of US\$800,000 (IDB: US\$500,000 and HdC: US\$300,000) and a nonreimbursable technical-cooperation funding component in the amount of US\$266,000 (IDB: US\$160,000 and HdC: US\$106,000). Both components will be executed by Viviendas del Hogar de Cristo (HdC).
- 2.4 The **reimbursable financing component** will be used: (i) to fund a village banking subcomponent⁶ that will provide resources in the amount of US\$450,000 (IDB: US\$250,000 and HdC: US\$200,000) for working capital loans, using the village banking method tied in with training, and establishing some 190 village banks for the beneficiaries and training approximately 2,800 women; (ii) to fund a metal-frame housing subcomponent, to provide HdC with working capital in the amount of US\$350,000 (IDB: US\$250,000 and HdC: US\$100,000) to supply around 300 metal-frame houses to the beneficiaries by means of loans repayable in three or four years. The local counterpart funding will be provided in cash by HdC.
- 2.5 In addition to these resources, and to ensure comprehensive benefits for the target group, a portion of the net income earned by the reimbursable financing component during execution (approx. US\$50,000) will be used to provide preventive health services (gynecological examinations) for around 35% of the village bank members and preventive care (comprehensive checkups, deparasitizations, inoculations) for their children.
- 2.6 At the same time, the reimbursable financing will start with the village banking and training subcomponent in parallel with the institutional strengthening of HdC and improvements in its services, as set out in the technical-cooperation component. The results achieved with this, recorded by means of specific indicators⁷ reporting

⁶ The village banks comprise an average of 15 women, organized into jointly responsible groups. They access loans on a cyclical basis, beginning with amounts of US\$80 in the first cycle and increasing in steps up to a maximum of US\$350. Each cycle lasts 16 weeks, with weekly payments, and the credit is accompanied by both voluntary and mandatory savings and training in the areas of gender and personal development, technical and handcraft skills, and business management.

⁷ The indicators will cover: operating efficiency, portfolio at risk, and recoveries from the wood-and-cane housing program.

- the performance of the housing program portfolio that the agency currently manages and its institutional efficiency, will determine the subsequent release of Bank resources to fund the metal-frame housing subcomponent. Disbursements for this latter subcomponent are expected to begin during the second year of project execution.
- 2.7 The sequencing of the services delivered to the beneficiaries will be as follows: initially they will be supported by improvements in their working conditions and income (through the loans from the village banks and through training) and by preventive health services for them and their families; subsequently, they will have access to larger and longer-lasting housing units.
- 2.8 The **technical-cooperation component** will finance: (i) an institutional reengineering study, to be complemented by change facilitation, skills-building for staff, and optimization of its computer systems in a second phase, in order to strengthen the governance, institutional structure, operational processes, and systems of HdC as a means of raising operating and financial efficiency in service delivery; (ii) actions to improve its principal services (housing loans and village banking), consisting of a diagnostic assessment of the process of managing housing loan allocation and collection; a plan of action to enhance performance, whose implementation and ultimate success (as measured by the specific indicators described above) is one of the project milestones and will trigger disbursement of the Bank financing for the metal-frame housing subcomponent; the systematization of experiences with village banks and the sharing of information on experiences in other countries in order to learn about best practices in village banking and new products to complement housing loans; and (iii) project monitoring, evaluation, and audits. The technical-cooperation plan of operations describes this support in greater detail.
- C. Sustainability and results of the financial analysis**
- 2.9 In terms of the benefits, the project's sustainability stems from two elements: (i) the women will have access to larger and longer-lasting housing solutions, which they will be able to make improvements in the long run, with the metal-frame houses serving as the foundation for their homes; (ii) the credit services they receive will allow them to start businesses and create a payment culture for subsequent access to services provided by other MFIs. In terms of the sustainability of the services provided by HdC, attaining the financial and operational sustainability of the project's village banking and metal-frame housing programs will enable HdC to secure financing from other sources or to earmark part of the resources from its current housing program; and, finally, as regards the sustainability of the institution, the actions set out in the technical-cooperation component for its strengthening will allow it to enhance its ability to continue its work in the long term, using its resources for more and better services on the basis of its proven financial and institutional solvency.

- 2.10 Projections for the project indicate that it will become viable starting in the second year, based on the income earned through the operations of the two subcomponents—primarily the metal-frame housing program, which accounts for approximately 60% of the positive results. Although services will expand during project execution, it has been estimated that to continue that growth HdC will have to contribute greater resources in the years following project completion.
- 2.11 Traditionally, HdC has not sought reimbursable funding for its operations, and so its financial cost is 0%. It is aware, however, that in the future it will need to place more reimbursable loans. The Bank's preferential rate (2%) is justified because it will allow HdC to begin to create a culture of institutional borrowing that will enable it to access other sources of financing in the future. In addition, the income from the difference between the rates HdC charges the beneficiaries and the rate the Bank charges will be used to provide free health care services for the women and their families.

D. Credit risk for the Bank

- 2.12 Although HdC currently has proven financial solvency and it is expected that this will strengthen in the future, there is still a credit risk for the Bank associated with the possibility of the institution failing to abide by its financial obligations because of delinquency by its beneficiaries or the lack of a culture of borrowing within HdC. Two factors have been considered to mitigate that risk: (i) the technical cooperation's support for improving HdC's performance in credit management will consolidate the concrete results achieved in implementing appropriate credit and recovery mechanisms to reduce the potential for default by the beneficiaries; and (ii) HdC's interest in maintaining its standing and reputation and, primarily, in demonstrating that it can work with reimbursable financing, which will in the future ensure its access to other international cooperation agencies or to the Bank itself.

E. Expected results and capture of benefits

- 2.13 The direct benefits of the Bank financing will accrue to some 2,800 women and their families in conditions of poverty and vulnerability, who will receive access to: (i) funding for their microbusiness activities; (ii) preventive health services for them and their children; and/or (iii) housing with long-term financing at rates that are in line with their personal economic condition. Some 320 of these beneficiaries will receive the three services and will thereby enjoy reduced social and economic vulnerability.
- 2.14 With these services, the women will see a 43% increase in their incomes over the project's baseline; they will be living in larger homes with a longer useful life; and they will have access to preventive examinations for cervical cancer, general checkups, immunizations, and other services for their children. In quantitative terms, it is expected that approximately: (i) 2,800 women will receive loans and training; (ii) 330 will receive metal-frame homes and 26 of them will improve those

units with brick walls; (iii) 980 women will receive annual pap tests; (iv) 2,940 minors (the children of village bank members) will receive comprehensive medical examinations (checkups, examinations, dentistry, deparasitization, vitamins, immunizations, and nutrition at school).

- 2.15 **HdC** will ultimately be strengthened as an institution. This will be reflected in improvements in operating efficiency, with operating expenses declining from 32% in September 2005 to 20% by project completion, and in changes in its institutional structure and operating procedures, and its systems will be optimized. Additionally, HdC will have 40 officers trained in management skills who can perform their duties appropriately, and it will be able to learn about other village banking experiences in both Ecuador and Bolivia and about Colombia's housing material banks, which will enable it to implement best practices (at least two or three it is estimated). Other expected results of the technical-cooperation component include: (i) a reduction in the level of its wood-and-cane housing portfolio at risk at 90 days from 35% to 21% in the third year; and (ii) an improvement in budgeted annual recoveries from 80% to 87%.

F. Bank strategy and related operations

- 2.16 The project goal is consistent with the Bank's November 2004 strategy with Ecuador (document GN-2338-1), which focuses on two priority areas: (i) to help lay the foundations for energizing the productive structure (structural dimension), and (ii) to promote social development and the protection of the most vulnerable groups (social dimension). With respect to the structural dimension, its approach to nurturing market efficiency, particularly an efficient financial market, through the development of alternatives for improving access to credit by the most vulnerable groups, is directly related to the proposed project activities and, with respect to the social dimension, improved access to housing for low-income families is similarly related to the project.
- 2.17 Additionally, this project is related to the Housing Sector Support Program II (EC-0207 – Loan 1416/OC-EC) in that it will assist the efforts of the Housing Incentive System (SIV) set up under the aegis of that program, providing housing for people at the lowest income levels who are unable to obtain those subsidies. Practically all available resources of the EC-0207 program have now been committed to the SIV, and there are no plans for new social housing initiatives in the immediate future.

G. Cooperation with other international cooperation agencies

- 2.18 In recent years, other donors have been expanding their activities on the Ecuadorian coast. Agencies including the CAF, AECI, and USAID are providing funding and technical assistance to support foundations and private financial corporations in the microfinance area that work with populations whose level of poverty is less extreme than those served by HdC. The Bank's resources will expand the supply of

credit available to these segments of the population and, eventually, support the emergence of women beneficiaries able to access those resources in the future. At the same time, other donors—such as USAID with its SALTO project—are supporting Misión Alianza on the coast with specific and targeted technical assistance that is being coordinated with the Bank’s project, financed for the same agency and supervised by COF/CEC.

H. Summary of environmental and social review

- 2.19 The Committee on Environment and Social Impact (CESI) reviewed this operation on 14 October 2005 and requested that the project analysis give consideration to illiterate women and study the impact of the housing construction, with HdC’s proposed mitigation measures and evaluation of environmental procedures. The measures adopted in connection with these issues and the planned mechanisms are described in Annex VI of the technical files and have been incorporated into the project’s Credit Regulations for Village Banking and Operational and Credit Regulations for Metal-Frame Housing.

I. Special conditions

- 2.20 Prior to receiving the first disbursement of the **reimbursable financing** for the village banking subcomponent, HdC must have demonstrated that: (i) the Management Board has approved and implemented the Credit Regulations for Village Banking; (ii) the process of cleaning up the portfolio of the wood-and-cane housing program in the amount of at least US\$215,000 has been completed as of 14 October 2005; and (iii) a policy of gradual measures for its housing program, based on a classification of its portfolio at risk has been established and approved. HdC’s compliance with these latter two conditions will indicate its willingness to commence the institutional changes intended to improve the performance of its housing program and to incorporate best financial practices into its administration.
- 2.21 Prior to receiving the first disbursement of the **reimbursable financing** for the metal-frame housing subcomponent, HdC must have demonstrated that: (i) its Management Board has approved and implemented the Operating and Credit Regulations for Metal-Frame Housing, and (ii) it attained the following indicators and institutional goals in the immediately previous period (year): (a) operating efficiency of 27%;⁸ (b) 90-day portfolio at risk in its wood-and-cane program⁹ at 29%, and (c) meeting 83% target of recoveries in its wood-and-cane housing program.¹⁰

⁸ Measured as: total operating, administrative, and financial costs/total income (excluding donations).

⁹ Measured as: balance of principal of outstanding loans more than 90 days late/total gross portfolio.

¹⁰ Measured as: value in US\$ of effective recoveries / 2006 portfolio corporate budget (original) as approved by the Board.

- 2.22 As a condition precedent to the first disbursement of the **technical-cooperation funding**, HdC must have presented the terms of reference for contracting the consultants to be charged with: (i) the institutional re-engineering study, and (ii) the diagnostic of the process of credit allocation management and the housing program portfolio recovery.

J. Reports, evaluations, audits, etc.

- 2.23 **Reports.** HdC must submit progress reports to the Bank's Country Office within 60 days of the close of each six-month period. These reports will record progress with the project objectives and performance indicators, problems arising during execution, the steps taken to overcome them, the main activities planned for the following six-month period, and comments on the validity and relevance of the performance indicators. They will also include, at the very least: (a) **for the reimbursable financing:** information on: (i) the status of each subcomponent's portfolio, with financial performance indicators, (ii) the number of banks created, the communities benefited, and the service expansion areas, (iii) number of beneficiaries, and the areas in which they were trained, (iv) information on HdC interest rates and those in the microcredit market, (v) number of homes produced and installed, and costs of those dwellings, (vi) the number and type of health-care interventions given to women and their children, (vii) the steps taken to ensure the beneficiaries comprehensive services, and the measurement methods used, and (viii) the mechanisms being used to meet and monitor the CESI's recommendations during project preparations; and (b) **for the technical-cooperation funding:** information on: (i) the results of the reengineering and its implementation, (ii) professional staff training (who and what), (iii) improvements in the performance of the housing budget portfolio (reduced accounts past due, meeting recovery budget, increased operating efficiency), and (iv) exposure to experiences with village banking and with the housing material banks.
- 2.24 **Evaluations:** The project provides for two evaluations, to be carried out by individual consultants selected and hired by the Bank's Country Office in Ecuador, using resources from the technical-cooperation funding. One midterm evaluation will be performed 18 months after the first disbursement under the project or when 50% of the resources have been disbursed, whichever occurs first, and a second one will be performed 36 months after the first disbursement. The first evaluation shall assess, at the very least: (i) the project's response to the originally identified problems that gave rise to it, (ii) progress in meeting the project objectives and performance indicators, (iii) attainment of the institutional improvement goals and indicators, (iv) lessons learned and recommendations for improving the project, and (v) the institutional capacity of the executing agency.
- 2.25 The final evaluation will measure and document, in addition to the topics indicated for the first evaluation: (i) the project's impact on the target group, (ii) the results of attaining the project objectives, (iii) lessons learned, and (iv) the sustainability of the project.

- 2.26 **Audits:** Viviendas Hogar de Cristo (HdC) will commission annual audits of the reimbursable financing component, complying in full with applicable Bank policies. The audits will be paid out of the technical-cooperation funding. HdC will also cover the costs of preparing a final financial report, examined by independent auditors and acceptable to the Bank, showing the way in which the technical-cooperation was used.
- 2.27 **Revolving fund.** A revolving fund of up to 20% of the loan amount will be established for project disbursements. This percentage is justified by the funding required to place the village bank credits and the sequence and amounts involved in the technical-cooperation activities.
- 2.28 **Recognition of expenses.** The Bank may recognize expenses paid out of the local counterpart for the technical-cooperation component to a maximum of US\$40,000 incurred after 1 October 2005 for the development and implementation of its computer system (HiperK) to support the institution's strengthening and compliance with the project objectives.

K. Project risks and mitigating factors

- 2.29 **Assistance-based image of HdC and payment culture among the beneficiaries:** The institution is currently perceived by its beneficiaries as a social assistance agency, with no business objectives, which accounts in parts for the high level of payments past due in its housing program. Although mitigating this risk could take longer than the project execution period, with the Bank's support, HdC is expected: (i) to introduce elements to improve its portfolio's performance by means of an emergency recovery plan and strategy and by applying best practices in its credit allocation, collection, and recovery systems, and (ii) to implement institutional reengineering actions, addressing internal communications (organizational culture) and external communications (with its beneficiaries), which will help bring about changes in that perception.
- 2.30 **Stable prices for housing materials.** Over the past year, prices for zinc and galvanized iron cladding used to build the metal-frame homes have risen significantly, increasing the cost of the houses supplied by HdC. Although this risk is difficult to mitigate, the institution has taken steps, such as importing zinc from Colombia to reduce its costs and using cheaper cladding, which has enabled HdC to keep increases in the cost of its homes to a minimum. To partially mitigate this risk, the project includes a budgetary provision for price hikes (approx. 4%) in the metal-frame housing subcomponent, and this will enable it to minimize any future price increases.

L. Exceptions to Bank policy

- 2.31 None.