

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ECUADOR**

**SOCIAL ENTREPRENEURSHIP PROGRAM**

**EXECUTIVE SUMMARY**

**FINANCING FOR LOW-INCOME HOUSING**

**(EC-S1008)**

This document was prepared by the project team consisting of Fermín Vivanco (SDS/MSM), Project Team Leader; Gerónimo Frigerio (LEG/OPR); and Edgar Carvajal (COF/CEC).

## I. PROJECT INFORMATION

### A. Borrower and executing agency

Borrower: CIUDAD Research Center Foundation [*Fundación Centro de Investigaciones CIUDAD*] (CIUDAD)

Executing agency: CIUDAD Research Center Foundation (CIUDAD)

### B. Amount and source of financing

	IDB US\$	Local US\$	Total US\$
Reimbursable Financing:	400,000	250,000	650,000
Technical cooperation:	<u>125,000</u>	<u>50,000</u>	<u>175,000</u>
Total:	525,000	300,000	825,000

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

### C. Terms and conditions

Execution period:	36 months
Disbursement period:	42 months
Amortization period:	10 years
Grace period:	36 months on principal
Interest rate:	4% fixed
Currency:	U.S. dollars

The grace period will apply to principal, not interest. The loan will be denominated in U.S. dollars and repaid in this same currency.

### D. Statement of no objection

- 1.1 The Bank and the government have agreed that in operations with the private sector and operations similar to the present one, a statement of no objection need not be presented in advance, and may be presented once the project is approved, for information purposes.

### E. The problem to be addressed

- 1.2 **Housing in Ecuador's poor areas.** 60% of Ecuador's population lives in poverty<sup>1</sup>, and this percentage is even higher in rural and urban-fringe areas where approximately 8 out of 10 people are poor (i.e. they do not earn enough to pay for a basic shopping basket).
- 1.3 **Qualitative housing deficit.** There is a qualitative housing deficit that affects 30% of poor households<sup>2</sup>. Furthermore, it is estimated that 76% of poor families<sup>3</sup> in Ecuador have inadequate access to basic services. The supply of new quality housing for the

<sup>1</sup> Data published by the National Census and Statistics Institute (INEC) in June 2006. The INEC basic shopping basket is equivalent to US\$450 for a family of 4 (see [www.inec.gov.ec/](http://www.inec.gov.ec/)).

<sup>2</sup> According to INEC's 2001 Census, there were 521,200 inhabited homes that were inadequate.

<sup>3</sup> According to the same source, in 2001, there were 1,312,968 homes with inadequate services.

- poor is scarce due largely to the limited supply of financing products available to this segment of the population. As a result, the housing of the poor in Ecuador is mainly self-built and of low quality. Such housing is built in phases without financial or technical support as individuals save up enough for materials or labor. This real estate activity is part of the informal economy and does not involve public or private financing. It is estimated that 40% of the 1,800,000 urban housing structures are self-built, but the percentage is higher in rural and urban-fringe areas.
- 1.4 **Quantitative deficit of housing in poor areas.** According to government data, to satisfy the annual demand for housing from new families, Ecuador needs 50,000 additional homes a year in its cities alone, where 60% of the population resides. This situation has caused overcrowding, which according to the 2001 Census, affects 22% of all homes. In poor areas, however, almost 46% of homes are overcrowded.
  - 1.5 **Market for the project.** In Ibarra, 108,535 inhabitants; Tulcán, 47,359; Santo Domingo, 199,827; Cotacachi, 7,489; and Quito 1.4 million, where percentages of poor families, according to official statistics, reach: 77%, 74%, 51%, 73% and 34%, respectively. CIUDAD Research Center Foundation promotes and finances quality low-income housing in these areas, where it has identified considerable unmet demand from families matching the following profile: (i) women heads of household—more than 30% fit this description; (ii) they currently live in overcrowded conditions with relatives, or pay rent of between US\$60 y US\$120 for precarious housing; (iii) their only income is from microenterprise activities (40%), or a combination of microenterprise activity and paid employment (60%); and (iv) their monthly income is practically always below the poverty line (US\$450 per month), but enough for monthly installments of between US\$80 and US\$150, which would allow them to finance a low-cost quality housing solution (less than US\$10,000) with CIUDAD, without having to allocate more than 35% of their monthly income towards housing.
  - 1.6 **Effective demand.** According to studies conducted by CIUDAD, effective demand for quality low-income housing is 53,300 individuals—4,900 in Ibarra, 2,400 in Tulcán, 8,800 in Santo Domingo, 160 in Cotacachi and 37,000 in Quito. This demand for housing loans exceeds CIUDAD's available resources (including both project resources and holdings) and resources available to finance housing developed by CIUDAD, which is channeled through the Quito Chamber of Commerce Saving and Loan Associations [*Cooperativas de Ahorro y Crédito de la Cámara de Comercio de Quito*] and FONVIDA, with which CIUDAD has agreements<sup>4</sup>. To help meet this demand, the project could reach some 720 low-income families over three years.
  - 1.7 The financing required is of the following kinds: (i) microcredits to leverage State subsidies (State housing vouchers) for which families qualify but cannot use without mortgage financing; (ii) demand to leverage savings and thus have access to mortgage loans with savings and loan associations (COACs); (iii) microcredits to supplement loans for larger amounts and thereby increase financing for housing;

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<sup>4</sup> Assuming each of these 53,300 individual needs financing of US\$8,000 (for 20% of the cost of a US\$10,000-home), the effective demand would be US\$426 million.

- (iv) microcredits for home improvements; (v) loans for regularization of ownership, additions, and other expenses such as utility connections.
- 1.8 **Payment capacity of target population.** A sample of mortgage loans provided by CIUDAD in Quito (see technical file) shows that their clients' monthly payments of principal and interest account for less than 35% of family income, for homes with mortgages of US\$7,500-10,000. This percentage falls within internationally recommended internationally parameters for low-income housing expense allocation (see technical files).
- 1.9 **Problems affecting access to financing for low-income housing.** The reasons financial services suppliers are not financing this kind of housing are: (i) scant awareness of Ecuador's COACs and other microfinance institutions that offer long term financing for microentrepreneurs who cannot document wage income and for low-income women who combine self-employment with unstable employment (most of the population); (ii) the limited supply of new quality housing for low-income families in the formal private sector and an ensuing limited demand for financing for home purchases<sup>5</sup>; (iii) an insufficient supply of financial products available for affordable housing, as a result of the foregoing; and (iv) scarce long-term financing from the COACs, which are financed with deposits of up to one year, to facilitate financing for consumer and microenterprise loans, but not housing. As a result of these problems, the mortgage portfolios of the COACs and other microfinance institutions in these areas are much smaller than their consumer and microenterprise loan portfolios. For example, in December 2006, regulated COACs had US\$293 million in consumer loans and US\$354 million in microenterprise loans compared to just US\$103 million in housing loans. Indeed, the COACs' mortgage portfolios are virtually the same size they were in 2004, in sharp contrast to the rapid growth of their microenterprise and consumer loan portfolios.
- 1.10 **Housing issues and grassroots organizations.** Development of low-cost quality housing in poor neighborhoods far from urban centers necessarily faces a series of different problems to ensure a project's success. Each neighborhood has its own particular problems, but frequently they include several of the following factors: a high level of insecurity and social exclusion, inadequate basic services, roads and access ways in bad condition, scarce and costly public transportation, a dearth of schools, little economic activity and few jobs, and limited health services. To address these problems with neighborhood residents and develop economically viable housing with access to services, which are acceptable to the community, it is necessary to work with grassroots organizations and municipalities. Using this approach, CIUDAD has promoted housing development after entering into agreements with neighborhood associations (in Cotacachi), cantonal assemblies (Ibarra), nascent housing associations (Santo Domingo de los Colorados), as well as civil society assemblies attached to municipal government, and associations of female heads of families (Quito). Nevertheless, these

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<sup>5</sup> The supply of new housing for the poor in the formal economy grew with the Housing Incentive System (SIV), but stagnated after its conclusion.

- organizations, and other similar ones, have limited capacity to manage housing development for the poor in their neighborhoods and need technical support.
- 1.11 **Quality housing financing for the poor.** After the recent completion of the Ecuadorian government's housing program, financed in part by the Bank's successful operation: "Support Program for Housing Sector" (SIV<sup>6</sup>), the new administration has announced a second phase that will also double the voucher amount to US\$1,800, but it is still not known how it will be executed. It is noteworthy that the CIUDAD housing development schemes work either with or without vouchers. In the former case, the voucher is used to reduce the loan balance and thereby reduce monthly payments or the life of the loan, to make home improvements, or to build additions. These are all normal options envisioned under the housing voucher program.
  - 1.12 With the conclusion of the program's first phase, and given the difficulties of accessing financing indicated in paragraph 1.8, the supply of new quality low-income housing is down sharply. Nevertheless, it could be given a boost with projects such as those CIUDAD has developed, which include partnerships with private actors (a construction company and several finance companies) and civil society organizations (grassroots organizations). Specifically, CIUDAD's projects have made it possible: (i) to develop quality housing solutions by working with grassroots organizations; (ii) to implement 17 housing programs, which included work with a well-known real estate developer, the purchase of land, quality design and construction, division of property titles, sale and development of affordable financing arrangements for the target population; and (iii) to provide financing directly some 700 quality low-income housing solutions or to channel the financing through two COACs.
  - 1.13 **Lending for quality low-income housing.** In Ecuador, in addition to CIUDAD, there are also other organizations, such as the Mariana de Jesús Foundation, the Pichincha Mutual Aid Society, the Benalcázar Mutual Aid Society, Banco Solidario, and the Hogar de Cristo Foundation that is only in Guayaquil). The requirements that the clients of the mutual aid societies and the Banco Solidario must meet are such that their loan portfolios have grown very little. The two foundations, together with CIUDAD, are the three lenders that have experienced the largest growth among the low-income segment of the population.
  - 1.14 **CIUDAD's Paso a Paso program.** CIUDAD's multi-staged financing arrangement for expandable homes works in the following manner<sup>7</sup>: (i) families save for several months for the initial payment (for example US\$500); (ii) they receive an initial loan of US\$800 from CIUDAD—to show their ability to save and to supplement the initial payment—to be paid over a 6- to 8-month period with maximum monthly payments of 35% of family income, for example US\$120; (iii) after paying off the initial loan,

<sup>6</sup> The Housing Incentive System (SIV), financed partly by the Bank, has been successful, and provided more than US\$40 million in financing for 40,700 families for home construction or home improvements in rural and urban-fringe areas.

<sup>7</sup> Example of a US\$7,500 two-bedroom home, with 53 m<sup>2</sup>, which can be expanded to three bedrooms and around 75 m<sup>2</sup>.

- CIUDAD provides a 12- to 14-month “bridge” mortgage until construction is completed; and (iv) around month 24 the completed home is delivered with two financing options available: extension\* of the mortgage loan with Ciudad for up to 60 months, or financing channeled through one of the COACs previously mentioned. During the entire life of the loan, the beneficiary families’ monthly payment is the same as the initial payment, around US\$120, as in the example given above. The technical files show the loan regulations and documents used by CIUDAD.
- 1.15 **Financing arrangement used by CIUDAD and the role of the builder.** The process begins by working with grassroots organizations, which leads to an agreement between CIUDAD and a builder<sup>8</sup>. This agreement stipulates the final price to ensure the project’s social benefit. Land is purchased whenever it becomes available to avoid speculative increases in land prices. To expedite the process, CIUDAD is able to purchase land with its own resources, on occasions on behalf of grassroots organizations or even the beneficiaries, if they have already been identified. At times, architectural firms purchase land with their own resources after arranging with CIUDAD and the beneficiaries to do so.
- 1.16 Beneficiaries are initially provided with a short-term loan, (to date around US\$800, for 6 months). This loan serves two purposes—to verify during several months clients’ ability to make monthly payments, and to supplement the initial payment (to which borrowers contribute with their own savings). Then, during construction, a “bridge” loan is provided, which is guaranteed by a mortgage. Finally, when construction is completed, a long-term mortgage loan is provided to purchase the home, with payments based on clients actual confirmed ability to pay. The amount of the client’s monthly payment remains the same from the beginning to the end of the process.
- 1.17 **Need for technical cooperation.** So that CIUDAD’s PASO A PASO program can meet the goals set forth, it will receive funding for technical cooperation, which will be allocated to cover: (i) national and local workshops on housing-related issues for leaders and members of grassroots organizations; (ii) promotional and informational workshops, and related materials; (iii) workshops for organizational development and internal strengthening; (iv) procurement and development of housing document management software; and (v) procurement of hardware and computer equipment for project implementation. The technical cooperation plan of operations and detailed budget (technical files) describe the activities, contracting, and procurement.
- 1.18 **CIUDAD’s suitability as executing agency.** CIUDAD, with its PASO A PASO program, is an ideal executing agency because: (i) it offers on a sustainable basis several services necessary for access to low-income housing: land purchase, construction, titling, and sale and financing of quality housing for low-income families not fully covered by other organizations; (ii) it has been increasing its operating capacity with fast, efficient, cost-effective processes and credit

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<sup>8</sup> ECO & Arquitectos’ fine performance so far has made it the only firm.

technologies that work<sup>9</sup>; (iii) the quality of the housing and the financing it facilities is evident, and the model is being replicated in several cities across Ecuador and it serves as an example that other organizations can adopt to maximize the number of beneficiaries they reach; (iv) it has efficiently and effectively managed the proceeds of counterpart loans from the European Union, and the governments of the autonomous community, province, and city of Valencia, Spain, among others; and (v) it has demonstrated it has the technical, administrative and financial wherewithal to achieve the project objectives.

- 1.19 **Beneficiaries.** The project beneficiaries are 720 families<sup>10</sup> with incomes of between US\$225 and US\$500. In most cases, these families are headed by women involved in microenterprise activities. Of these beneficiaries, 330 families will receive both their initial loan and their mortgage loan from CIUDAD, while 390 families will receive their initial loan from CIUDAD and a mortgage loan from a financial institution in the formal sector associated with the project.

## II. THE PROJECT

### A. Goal and purpose

- 2.1 The project's goal is to improve housing conditions and net income of the poor and microentrepreneurs through multi-staged, replicable financing for quality housing in Ecuador's central region. The project's purpose is to enable 720 low-income families who do not own a home to have access to housing through CIUDAD's PASO A PASO program.

### B. Description

- 2.2 The project is divided into two components: (i) reimbursable financing consisting of US\$400,000 from the Bank and US\$250,000 in local counterpart funding, and (ii) nonreimbursable technical-cooperation funding in the amount of US\$125,000, with a US\$50,000 local counterpart. CIUDAD will carry out both components.
- 2.3 **The reimbursable financing component** (IDB: US\$400,000, local counterpart: US\$250,000), executed by CIUDAD, will be used to finance the multi-stage loans for low-income family housing, or the PASO A PASO program. Specifically, it will finance: (i) initial loans to supplement the downpayment (initial payment) for new homes that CIUDAD develops; (ii) loans to supplement family savings and meet

<sup>9</sup> Initially a consumer loan is provided (to date around US\$800, for 6 months). This loan serves two purposes—to verify over several months the borrower's ability to pay, and to supplement the initial downpayment (to which the borrowers contribute with their own savings) that is the requirement for the voucher and the long-term financing. Subsequently, the “bridge” loan during construction is then capitalized into a mortgage and added to the initial principal of the home purchase. Lastly, the mortgage loan for the home purchase is a long-term financing arrangement, with payments based on the borrower's actual and verified ability to pay.

<sup>10</sup> Although the poverty line is based on the cost of a basic family shopping basket (US\$450), CIUDAD is increasing the limit to US\$500 to avoid the problem of a family qualifying for the housing voucher but not for CIUDAD support.

the COAC cash requirement for home financing; (iii) bridge mortgage loans for housing under construction for up to 14 months, (iv) 60-month mortgage loans for homes already completed; (v) supplemental microcredits (construction advances, finishing, title, etc.); and (v) microcredits to supplement families' own funds, enabling them access to State subsidies if these become available again<sup>11</sup> (this product has been suspended until the voucher program is reactivated). These products will meet the home financing needs of 720 low-income families in Ecuador's highland region. More than 85% of the loan portfolio will be guaranteed by mortgages. CIUDAD will evaluate and approve loan applications, as well as applicant families' economic financial analysis. The pertinent credit regulations are in the technical file. The average loan will be around US\$2,300 by year 3 of the project and loans will be denominated in United States dollars.

- 2.4 **The technical-cooperation component** (IDB: US\$125,000; local counterpart: US\$50,000), will be carried out by CIUDAD for: (i) training and awareness building activities for grassroots organizations, local actors, and construction firms involved in the entire housing development process, workshops for good community relations and promotional purposes, and systemization and dissemination of CIUDAD's housing experiences; (ii) institutional strengthening and quality assurance of services through workshops on internal strengthening and organizational development, monitoring of strategic partnerships with members and actors that contribute to the project, and software and hardware updates; and (iii) management, monitoring, assessments and audits. CIUDAD will hire the technical and administrative personnel required for different project areas, in accordance with Bank procedures.

### C. Sustainability and results of financial analysis

- 2.5 The technical files contain the 2006 financial statements and projections. At year-end 2006, CIUDAD reported US\$827,168 in assets, of which the loan portfolio accounted for US\$527,605 (63.8%). Liabilities amounted to US\$100,892 (12.2% of assets) and net worth to US\$726,276 (87.8% of assets). Sources of funding include CIUDAD's net worth, capitalization of European Union and Valencia local government donations once the donors' conditions have been fulfilled.
- 2.6 **Financial projections.** CIUDAD's projections for the Paso a Paso project over the next three years anticipate portfolio growth of over US\$1.5 million, which is feasible given that, with Bank resources and counterpart financing from Valencia's autonomous community government, networth and retained earnings will be sufficient to cover financing requirements. The technical files show projections of the project's financing requirements and funding sources. Annual average portfolio growth, which is more than 44%, is also operationally feasible for CIUDAD in light of its high staff efficiency, which bring operating costs down to

<sup>11</sup> CIUDAD's PASO A PASO model works either with or without the housing voucher. Consumers receiving vouchers have several options: (i) reduce the loan balance, thereby decreasing their monthly payment; (ii) shorten the life of the loan through early repayment; (iii) making an addition to the house, building an additional bedroom or making other home improvements.



less than 10% by the end of the project, and good risk management with accounts more than 30 days in arrears of less than 1%.

- 2.7 In 2006, CIUDAD's operational sustainability was close to 79%. With this project's support, CIUDAD will become operationally sustainable starting in year two. CIUDAD will be able to cover all its expenses every year thanks to agreements with its donors that allow it to cover operating costs the project cannot cover, achieving net earnings after taxes and revenue under agreements, as well as sound coverage of debt with the Bank. CIUDAD will become financially sustainable in year three.

**Table 1 – Contractual indicators**

<b>Financial projections in US\$</b>	<b>Dec. 06</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Families that have accessed home financing (cumulative)		232	468	720
Quality low-income housing portfolio	527,605	947,000	1,240,000	1,526,000
Portfolio at risk	1%	2%	2%	2%
Operating expenses as a percentage of active portfolio	21.33%	17%	12%	10%
Operational sustainability	79%	86%	108%	130%

#### **D. Credit risk for the Bank**

- 2.8 CIUDAD has demonstrated with its PASO A PASO program that financing for quality low-income housing is viable on conditions similar to those of the market and with loan portfolios that have a good risk profile. During project execution and loan amortization CIUDAD is expected to be able to cover all costs out of operating income and maintain good debt coverage indicators debt with amounts owed to the Bank (see technical files).
- 2.9 The project represents a low credit risk for the Bank because 94% of CIUDAD's portfolio consists of mortgages, with accounts more than 30 days in arrears of 0.7%. The percentage of nonmortgage housing loans (initial loans, arrangements, property title, cash holdings, etc.) is 3.07%. In December 2006, the number of CIUDAD accounts more than 30 days in arrears due was less than 1%. During project execution, the organization's mortgage portfolio will always be over 85% of its total portfolio. Furthermore, CIUDAD has not had any losses in its mortgage portfolio. Housing prices in Ecuador are expected to remain at current levels or increase in the years ahead, due to a dearth of affordable housing, and therefore, no problems are foreseen regarding the value of the portfolio's mortgage guarantees.

#### **E. Expected outcomes and capture of benefits**

- 2.10 **Expected outcomes for beneficiaries.** By the end of the three-year project, the following outcomes are expected: (i) 720 families will have received initial loans under the Paso a Paso program for home financing; (ii) of this number, 330 families

will also have received Paso a Paso mortgage loans, and 390 families mortgage loans from finance companies in the formal sector associated with the project or financing in the form of family loans; (iii) housing will be delivered at a price 30% below the market price of similar quality housing; (iv) by the end of the project, beneficiary families will have 30% more disposable cash after housing expenses; and (v) agreements will be reached with grassroots organizations on the architectural, landscaping and financial terms of housing proposed for more than 720 families.

- 2.11 **CIUDAD's expected outcomes.** This project will strengthen an organization that has the potential to meet low-income families' home financing requirements. Upon completion, the project will have: (i) financed part of CIUDAD's growth, boosting its portfolio to US\$1,549,000; (ii) implemented a software and technical management enhancement system with grassroots organizations, allowing it to better serve the project's beneficiary families; and (iii) achieved operational sustainability after year two, and operational efficiency of less than 10% by the end of year three. The project's logical framework (technical files) shows indicators for the project's expected outcomes in greater detail.

#### **F. The Bank's strategy**

- 2.12 Project activities are consistent with the priorities of the Bank's new strategy with Ecuador (document GN-2338-2) of 10 November 2004, as the focus is on one of the two areas in the country to which the Bank has accorded priority: promoting protection of the most vulnerable and social development (social dimension). Furthermore, and in keeping with this strategy, the project strengthens a sustainable organization that targets financing for quality housing for low-income urban families.

#### **G. Cooperation with other international development agencies**

- 2.13 In March 2001, CIUDAD was the beneficiary of an initial fund of US\$407,745 for housing loans from the European Union, US\$72,539 from ACCSUD, and US\$152,000 from the provincial and city governments of Valencia (2004 and 2006). The present project does not now have international development support, and will be presented for information purposes to the microfinance donors committee in Ecuador in which international cooperation agencies participate.

#### **H. Summary of the Social and Environmental Review**

- 2.14 The Committee on Environment and Social Impact (CESI) reviewed this operation and the recommendations listed in the technical files without issuing any recommendations. The technical file contains the social and environmental conditions for the project.

#### **I. Special conditions**

- 2.15 As a condition precedent to the first disbursement of *reimbursable financing*, CIUDAD will present, to the Bank's satisfaction: (i) the project's credit regulations, approved by the organization's board of directors; (ii) evidence that is has

- commitments from international donors in an amount at least equal to the local counterpart funding for reimbursable financing; (iii) evidence that CIUDAD will see to the regularization of property titles; and (iv) a framework agreement between CIUDAD and the builder to ensure the latter's involvement in and commitment to the project such that it can complete and deliver the homes to be financed by CIUDAD.
- 2.16 As an additional condition precedent to disbursement of the *technical cooperation* funding, CIUDAD will select a project coordinator and submit, to the Bank's satisfaction, an execution plan for the first 12 months of the project with targets for fulfillment of project outcomes and objectives. During project execution, CIUDAD may not disburse more than 40% of the technical cooperation funding until it has disbursed at least 50% of the reimbursable financing.
- 2.17 **Procurement.** Procurement of goods and services will be carried out in accordance with the provisions established in Appendix 4 ("Policies for the Procurement in Loans to the Private Sector") of document GN-2349-6 ("Policies for the procurement of works and goods financed by the Inter-American Development Bank"), which will be reflected in the agreements between the Bank and CIUDAD. For procurement of consulting services, the quality- and cost-based selection (QCBS) procedure will be used. In keeping with these policies, CIUDAD has presented to the Bank's satisfaction the project's procurement plan based on its detailed budget. Activities will be programmed based on the procurement plan found in the project's technical file.
- 2.18 **Revolving fund.** The revolving fund will be 10% of the reimbursable financing and the technical cooperation funding.
- J. Indicators, reports, evaluations, and audits**
- 2.19 **Indicators.** The logical framework contains the indicators to be used for Bank evaluations and to measure the project's overall rate of advance. Contractual indicators are found in Table 1. The Bank will review the outcomes and recommendations made in the progress reports, evaluations, and audits, and may suspend disbursements should there be an deviation of more than 20% in any of the Table 1 indicators until such time as the executing agency takes steps, to the Bank's satisfaction, to correct project activity.
- 2.20 **Reports.** During execution, CIUDAD will delivery semiannual progress reports to the Bank's Country Office within 60 days of the end of each six-month period. These reports will include: (i) a description of progress made under the project execution plan and its indicators, as well as a list of the main accomplishments and difficulties encountered with the project, and the steps taken to overcome such difficulties; (ii) an updated project execution plan for the following 12-month period, including steps to overcome any obstacles identified; (iii) a summary of the technical assistance and training provided; (iv) CIUDAD's financial statements, including a report on the project-financed portfolio; (v) a list of environmental and social measures taken to fulfill the recommendations in paragraph 2.13 of this document; (vi) a comparison of the project's lending rates with those of

competitors, as well as an explanation of any significant differences that may exist; and (vii) evidence that CIUDAD's portfolio has grown more than the Bank's contribution to the financing component disbursed up to that point. The first progress report will need to verify the initial values of the project impact indicators. The final progress report will need to provide a summary indicating the extent to which the original indicators and objectives have been achieved.

- 2.21 **Evaluations.** There will be two evaluations of the project to be conducted by individual consultants selected and contracted by the Bank. A midterm evaluation will be performed 18 months after the first disbursement, or once 50% of the proceeds have been disbursed, whichever comes first; and a final evaluation 36 months after the first disbursement. The first evaluation will measure: (i) the progress achieved in improving impact indicators in a representative sample of low-income families; (ii) the efficiency and effectiveness of the project and the additionality it brings; (iii) independent verification that the project recommendations on social and environmental issues have been fulfilled; and (iv) lessons learned and recommendations on improvements in phase two of the project. In addition to what is required for the first evaluation, the final evaluation will measure and document: (i) the extent to which the project objectives have been fulfilled; (ii) the extent to which the proposed impact indicators have been met; and (iii) the project's financial and operational sustainability.
- 2.22 **Audits.** CIUDAD will present its audited financial statement within 120 days after the end of its fiscal year for the duration of the project. These audits will be commissioned by the executing agency using its own resources. Also, CIUDAD will commission, out of the Bank's contribution, a final audit of the technical cooperation and reimbursable financing upon completion of the project.

#### **K. Project risks and mitigating factors**

- 2.23 The most important risk associated with the project is if ECO & Arquitectos, the firm working on home construction and one of the firms most involved in the Bank-financed SIV, were to lose interest in the project. In this eventuality, CIUDAD would have to work with other home builders with less capacity for home construction of the expected quality and price and with less experience in developing housing projects in conjunction with social organizations.
- 2.24 A second risk is Ecuador's social and political situation, which could lead to a reduction in the target population's purchasing power and a flood of home financing and construction being made available on terms and conditions that cause distortions in the low-income housing market in terms of real costs. To mitigate this risk, CIUDAD will continue improving the quality and attractiveness of its housing units, thus ensuring continuity in demand for its housing and the financial arrangements it offers.

#### **L. Exceptions to Bank policy**

- 2.25 None.