Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 12022

PROJECT COMPLETION NOTE

PORTUGAL

HOUSING FINANCE PROJECT
(LOAN 2640-PO)

JUNE 17, 1993

Europe and Central Asia Regional Office

FOR OFFICIAL USE ONLY

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of Director-General
Operations Evaluation

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Completion Note on Portugal
Housing Finance Project (Loan 2640-POR)

Attached is "Project Completion Note on Portugal - Housing Finance Project (Loan 2640-POR)" prepared by the Europe and Central Asia Regional Office.

The project was canceled before the loan was signed because the Government of Portugal preferred alternative funds to implement the project. There was full agreement with the designate-implementing agency about the institutional development goals. Most of them were achieved by the time the project was approved as the Bank-borrower dialogue proved fruitful and led to agreements on the necessary features of the housing finance intermediary (sound financial policy) and its lending program (focus on moderate income groups with appropriate designs and lowered construction standards).

This experience confirms that the Bank can, apart from its resource transfer role, contribute to institutional development through advisory inputs at the project inception and preparation stages.

The overall project outcome and its sustainability cannot be rated; institutional development is rated as substantial.

PROJECT COMPLETION NOTE

PORTUGAL

HOUSING FINANCE PROJECT
(LOAN 2640-PO)

Summary: Loan 2640-PO for a Housing Finance Project was approved by the Board on December 3, 1985. It was never signed by the Government of Portugal and, at the latter's request, was cancelled by the Bank on April 6, 1987.

Basic Data:

Borrower:	Republic of Portugal	
Beneficiary	National Housing Institute (Instituto Nacional de Habitação - INH)	
Loan amount:	USD 25 million	
Board Approval:	December 3, 1985	
Total Project Cost:	USD 56.6 million	
Project Financing:	IBRD	USD 25.0 million
	USAID Housing Guarantee	USD 25.0 million
	USAID TA Grant	USD 0.6 million
	Local Developers	USD 6.0 million

Project Objectives: The objectives of the project were to support the Government's social housing policy by providing low-cost affordable serviced plots and turnkey housing units to about 26,000 the lower income segment of the urban population through a financial institution specialized in low-cost housing finance.

Summary of Project Performance:

Preparation of the project started in September 1982 at the request of the Government of Portugal. It was appraised in October 1984. Negotiations took place in May 1985. The Board approved Loan 2640-PO on December 3, 1985. The Government of Portugal deferred signing the loan and on March 31, 1987 requested the Bank to cancel it. Official notice of cancellation was sent to the Government on April 6, 1987.

The project fell victim to a series of various external circumstances whose importance was not necessarily foreseeable during project preparation. Political instability in the country and changes in the institutional framework for housing finance contributed to delaying the finalization of the project. Early 1984, the original Government implementing agency, FAIH (Fundo de Apoio ao Investimento para a Habitação-FAIH) was replaced by INH (Instituto Nacional de Habitação) whose legal status and operating conditions remained uncertain for several months. Appraisal, initially scheduled for December 1983, had therefore to be postponed several times until it could finally take place in October 1984. Government approval of the May 1985 negotiations and the draft loan documents was held up for another five months for reasons of a political crisis and the lack of a established government.

The main problem for the project, however, was that by the time the loan got approved, Portugal had gained access to sources of funding for low-income housing that were offering resources under more favorable and less stringent conditions that those offered by the Bank:

As a side benefit to the agreement concluded in December 1983 between US and Portugal on the use of the Lajas airbase on the Açoras islands, the US Government proposed Portugal early 1984 an aid package that included a USAID USD 75 million housing guarantee program with a first tranche of USD 25 million of housing construction loans at a rate two points lower than that offered by the Bank. As a result, the Bank loan was scaled down from originally USD 50 million to USD 25 million, while USAID agreed to join the project as a cofinancier. The Bank's decision to continue project preparation was based on the assumption that the USAID guaranteed construction loans would not be rolled-over, but consolidated into mortgage financing through specialized institutions, and that in this case the Bank loan would still be needed to fill INH's anticipated resource gap for 1986 and 1987. In 1986, however, USAID apparently decided, for reasons of its own, to authorize the roll-over of its construction loans and thus helped INH to significantly reduce its borrowing needs .

Furthermore, in 1986 INH was authorized by the Government to borrow up to US$40 million for housing finance from the Council of Europe's Resettlement Fund at an interest rate that was about half of that of the Bank's then prevailing rates thus was able to fill most of its possible financing gaps. The attractiveness of the Bank loan was dealt a last blow by the Bank's refusal in 1987 to amend the loan amortization schedule to offset the effects of the lapsing of the 3-year grace period.

4. Although the loan never became effective, Bank staff estimated that through its very preparation the project had a strong and positive impact on Portugal's policy framework for housing finance and related institutional arrangements by fostering a series of legal decisions on the provision of legal status to illegal settlements, the regime of rent control, the phasing out of housing subsidies, etc..

5. In hindsight, it seems that the Bank probably underestimated the risks stemming from the availability of other more advantageous funding sources and overestimated the attractiveness of its own loan resources on a competitive market. A more realistic assessment of the likely prospects for the Bank's resources to be used under these circumstances could have advocated discontinuing project preparation at an earlier stage and allowed significant savings in staff resources.