ICR Review
Operations Evaluation Department

Report Number : ICRR10956

1. Project Data:		Date Posted :	10/18/2001	
PROJ ID :	P008590		Appraisal	Actual
Project Name :	Housing	Project Costs (US$M)	677	109.8
Country :	Poland	Loan/Credit (US$M)	200	20
Sector(s):	Board: FSP - Housing finance and real estate markets (50%), Housing construction (50%)	Cofinancing (US$M)	67	0
L/C Number :	L3499			
		Board Approval (FY)		92
Partners involved :	EBRD, USAID, Japan	Closing Date	12/31/1998	06/30/2000

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2. Project Objectives and Components

a. Objectives

The loan financed the first housing project in a transitional country, and the project's approach to the housing sector represents a major break with the socialist policies of the past. Project objectives were to promote: (i) the creation of banking services to finance construction and mortgages; (ii) a greater private sector role in housing production; (iii) incentives to split existing cooperatives; (iv) competitive bidding in construction contracts; (v) pricing of land as part of housing costs; (vi) removal of legal and regulatory constraints to private initiative; and (vii) greater efficiency in the use of local government resources. A Board-approved restructuring in October 1997 added the following flood-related objectives: disaster assistance for small and medium enterprises (to reconstruct buildings and replace other assets destroyed by the flood), and repayment assistance for firms with commercial loans (granted after the flood) that could not be repaid for flood-related reasons.

b. Components

The original project consisted of a line of credit to finance two components: (a) mortgage loans to individual households (50%); and (b) construction financing to developers (50%). Loan proceeds were to be onlent to banks by an apex lending institution in the Bank Rozwoju Budownictwa Mieszkaniowego (BudBank). The BudBank Mortgage Fund was to provide a stable source of long-term capital and to encourage financial institutions to issue Dual Index Mortgages (DIMs) to individual borrowers. Following severe flooding in July 1997, the Government requested that uncommitted funds from the housing loan be reallocated to help finance an emergency program of commercial credit with non-repayable grant assistance from the Government.

c. Comments on Project Cost, Financing and Dates

The EBRD cofinanced $67 million to be disbursed against construction subprojects, partly substituting for counterpart finance. USAID provided $25 million of parallel financing in the form of housing guarantees The loan was restructured three times, reducing the size of the housing component from $200 million to $4 million. A technical assistance component for banking institutions and developers was financed by EBRD, USAID and the Japanese Government. Following the flood, the emergency component consisted of $16.0 million to assist SMEs. There were two cancellations $150 million was canceled as of July 1995, and additional $30 million was canceled in June of 1996. The government requested cancelation of the full EBRD loan and the unused 60% of the USAID guarantees.

3. Achievement of Relevant Objectives:

Mortgage lending developed far slower than anticipated. Macroeconomic conditions were not favorable to the project (35% inflation, falling real wages; not to mention continued government interest rate subsidies on some construction loans through a publicly owned bank). Until the economy stabilizes, interest rates fall and the remaining legal risks of mortgage lending are resolved, mortgage lending will remain conservative and small scale in its developmentThe project met its institutional, policy, financial and sectoral objectives, but the time required to achieve project targets was severely underestimated (in projections of disbursements and resource needs). The technical assistance component trained about 1,000 bankers and 1,200 developers in mortgage finance and the production of bankable projects. In a climate of extreme uncertainties and reversals in policy regarding interest rates in the first three years, the project introduced significant changes in housing finance. At the end of the project, there is clear evidence that the manner in which housing is produced and financed has been transformed--it is now more conducive to market finance and production.The number of SME beneficiaries of flood assistance was far smaller than anticipated, although assistance helped restore production and economic growth in the flood-affected region.

4. Significant Outcomes/Impacts:

Banking services for market-based mortgage and construction finance have been created. The project demonstrated to commercial Banks that mortgage and construction lending are profitable, and it established industry standards for loan origination and underwriting. In terms of the transition in housing finance -- according to studies prepared for a USAID conference -- Poland's Banks are leading the region. The Dual Index Mortgage, introduced by the project, remains the most prevalent mortgage product offered. Interest rate subsidies have been eliminated as of 1995, thereby allowing a level playing field for banks to enter the market. The share of private sector activity in overall housing completions almost doubled during the period of project implementation The legal and regulatory framework has undergone significant reforms to support the emergence of a market-based system of finance and production and changes in the public sector role. The materials developed have been institutionalized by bank training institutions and are widely used.

5. Significant Shortcomings (including non-compliance with safeguard policies):

The emergency assistance (80% of disbursements) was slow to be mobilized, and some of the intended beneficiaries had already gone bankrupt by the time assistance became available.The housing finance reforms were not actively supported by the Ministry of Construction during the critical startup phase. Finance officials gave steady (but quiet and reserved) backing throughout: strong public and private lobbying pressure to continue subsidies proved hard to resist, however. The project only met 3% of appraisal targets for mortgages (800 of 27,000; and 50% of the loan), and 11% of targets for units constructed (1,661 out of 15,000 and 50% of the loan). There is still an unfinished agenda of reforms, notably in the areas of property registration systems, the priority of tax liens strengthening property rights under cooperative and condominium ownership, liberalization of rents on public housing, and improved targeting of housing allowances and other social programs.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	The project was restructured with Board approval and the achievement of the modified objectives determined the outcome rating (see Section 8). Achievement of emergency (small enterprise support) objectives was suboptimal: start-up delays impeded the flow of aid, and the consequent lack of funds forced some of the target enterprises to close their doors.
Institutional Dev .:	Negligible	Modest	
Sustainability :	Likely	Unlikely	Project designers did not intend to provide more than a one-time benefit.The emergency loans (given under the restructured Bank financing) that were directed at SMEs consisted (up to 40%) of non-repayable cofinancing. Nevertheless, this compensation (for flood damage) came too late to save many enterprises. Free technical assistance financed out of the State budget was also provided.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. In attempting to introduce new approaches and pilot more complex products, the expectation of large outputs at the outset is inappropriate. A willingness to allow a more gradual process that demonstrates new products and processes is more conducive to success in an uncertain environment.
2. Strong borrower ownership is especially critical in projects that introduce major changes in practice.
3. When key public officials are replaced and/or institutional structures change, time is needed to rebuild ownership and understanding of a project.
4. During the project preparation process, careful attention needs to be given to understanding the nature and depth of the demand for the project in key stakeholder groups--in this project a more careful analysis and monitoring of the housing market and financial sector conditions would have tempered expectations regarding the extent of the demand for new construction and mortgage finance.
5. Piloting, by its very nature, often works better when the loan is not large. In this loan, project size was established on the basis of an assumption that solving the resource constraint would encourage banks to lend and households to borrow to finance these units, which proved not to be the case.
6. In the absence of realistic expectations, realism in progress monitoring and reporting often does not elicit an adequate response. It takes time to prepare institutions, build capacity to assume major new responsibilities for implementation and marketing (especially of a complex new instrument), and to address legal impediments to market-based finance.
7. In transition economies, the process of building an understanding of market-based finance instruments is often the most important contribution of a project.
8. In order to deal effectively with an emergency situation caused by a recurring type of disaster, governments should have assistance programs fully prepared and cadres of advisors ready to activate.
9. Commercial bank lending to very small enterprises is often problematic, and other approaches to providing assistance to SMEs in a post-disaster context should receive serious consideration.

8. Assessment Recommended? ● Yes ○ No

Why? Project implementation yielded valuable lessons which could be explored more in depth in the context of several forthcoming OED sector and thematic studies .

9. Comments on Quality of ICR:

The ICR is of good quality. The discussion of the project experience was thorough and a good effort has been made to draw out important lessons from the various problems encountered . The discussion of the challenges encountered putting together the flood recovery component with assistance targeted to SMEs will be useful to those planning subsequent post-disaster efforts. A weakness of the ICR stems from it being written at two different times, several years apart. The text on the housing finance dates from the time the loan was restructured . Thus additional information on subsequent developments in the housing sector had to be provided to OED in order for this ICR review to be completed. The time lag between restructuring and completion also partially explains the difference in ratings between the ICR and the ES: ICR ratings are based only on the housing finance component, while the ES focuses on the achievement of the emergency component and its objectives, given that the bulk of the loan was used for this purpose and the Board approved the restructuring and resultant revised objectives .