



Validation Report

Reference Number: PCV: MON 2009-64
Project Number: 32017
Loan Number: 1847-MON
December 2009

Mongolia: Housing Finance (Sector) Project

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
EA	–	executing agency
HAAP	–	housing area action plan
IED	–	Independent Evaluation Department
LIH	–	low-income household
LMIH	–	low- and middle-income household
M&E	–	monitoring and evaluation
MCUD	–	Ministry of Construction and Urban Development
MIH	–	middle-income household
MIK	–	Mongolia Mortgage Corporation
MOF	–	Ministry of Finance
OCR	–	ordinary capital resources
PCB	–	participating commercial bank
PCR	–	project completion report
PMU	–	project management unit
PSC	–	project steering committee
RRP	–	report and recommendation of the President
SDR	–	special drawing rights
TA	–	technical assistance

NOTE

- (i) In this report, “\$” refers to US dollars.
- (ii) For an explanation of rating descriptions used in ADB evaluation reports, see: ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

Key Words

asian development bank, adb, loan, subloans, mortgage finance, private sector, subprojects, housing development, poverty reduction, low-income households, middle-income households, participating commercial bank, relevance, effectiveness, efficiency, sustainability, impact

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PROJECT COMPLETION REPORT VALIDATION FORM

A. Basic Project Data		PCR Validation Date:		December 2009	
Project/Loan Number:	32017/1847			Approved	Actual
Project Name:	Housing Finance (Sector) Project	Total Project Costs (\$ million):	24.0	32.4	
Country:	Mongolia	Loan (\$ million):	15.0	16.4 ^a	
Sector:	Housing finance	Total Cofinancing (\$ million):			
ADB Financing:	ADF: \$15 million (equivalent SDR11,817,000)	Borrowers (\$ million):	1.0	1.1	
	OCR:	Beneficiaries (\$ million):	4.7	10.0	
Cofinanciers:	Borrower, participating commercial banks, and beneficiaries	Others (\$ million): Participating commercial banks	3.3	4.9	
Approval Date:	18 October 2001	Effectiveness Date:	15 May 2002	15 May 2002	
Signing Date:	29 January 2002	Closing Date:	30 June 2007	24 August 2008	
Project Officers:	Name: S. Penjor, Principal Financial Analysis Specialist, EARD	Location: Headquarters	From (year) 2001	To (year) 2008	
Validator:	S. Thalakada, Staff Consultant	Director:	H.S. Hettige		
Quality Control Reviewer/Peer Reviewer:	C. Kim, Principal Evaluation Specialist, IED2				

ADB = Asian Development Bank, ADF = Asian Development Fund, EARD = East Asia Department, IED2 = Independent Evaluation Division 2, OCR = ordinary capital resources, PCR = project completion report, SDR = special drawing rights.

^a Includes depreciation of US dollar against special drawing rights.

B. Project Description

(i) Rationale: The project was intended to meet the immediate shortage of adequate housing in Mongolia. Over the past three decades, Mongolia has experienced rapid urbanization. Over half of the population resides in urban areas. Since the end of the socialist era, very little new housing was built—resulting in a critical shortage of adequate housing in Mongolia and a rapid increase in un-serviced *ger* (traditional Mongolian round tent) housing areas surrounding the cities. Access of the poor to urban services and adequate housing continued to be limited. Housing finance, which was not available in Mongolia, was one of the critical factors to increase access to good housing and services for low- and middle-income households (LMIHs). By establishing and partially funding a sustainable housing finance system in Mongolia, the project¹ was the logical step in developing the housing sector after Mongolia promulgated the National Housing Strategy, Housing Law, Housing Privatization Law, and the Condominium Law (April 1999) with assistance from earlier Asian Development Bank (ADB) technical assistance (TA)². The lack of long-term finance and past inadequacy of the legal framework for property rights kept Mongolian commercial banks from engaging in lending for housing. The major source of housing finance for LMIHs were their own savings and family assets.

(ii) Impact: ADB involvement in housing in Mongolia was justified by (a) a large demand for adequate housing and shelter, which was essential for the survival of the households, particularly the poor, given the extremes of

¹ ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Housing Finance (Sector)*, Manila.

² ADB. 2001. *Technical Assistance to Mongolia for the Housing Sector Policy*. Manila.

Mongolia's climate; (b) the significant health benefits that would accrue from better and improved basic infrastructure; and (c) the interlinkages between the financial, banking, housing, and construction sectors that would be strengthened, and substantial employment opportunities that would be created. The main benefit of the project was expected to be the catalytic impact on improving the access of LMIHs to housing finance, and the accompanying policy reform plan agenda that would focus on (a) establishing an environment conducive for housing development, (b) setting up appropriate and sustainable mechanisms for providing housing finance at market rates, and (c) strengthening institutional capacities in the housing finance and contracting sectors. The ADB loan of \$15 million equivalent was expected to result in housing investments of about \$24 million equivalent, by leveraging financial contributions from participating commercial banks (PCBs) and the funds of the beneficiaries. The project was expected to increase the capacity of the PCBs and other financial intermediaries to respond to the housing finance needs of LMIHs. The project also expected to benefit about 25,000 LMIHs of about 125,000 people, enhance human development by increasing the availability of housing finance for LMIHs, generate significant construction-related employment opportunities (estimated at 32,000 person-years), provide urban infrastructure and services under the Housing Area Action Plan (HAAP) subprojects, and strengthen institutional capacities to improve living conditions in *ger* housing areas across Mongolia.

(iii) Objectives or expected outcomes: The main objectives of the project were to (a) help meet the immediate shortage of adequate housing in Mongolia; (b) contribute to the long-term objective of establishing a sustainable, market-based system for the delivery of housing finance to meet the borrower needs of LMIHs; (c) reduce poverty in *ger* housing areas by providing and upgrading basic infrastructure and services through the HAAP schemes; and (d) improve the quality of life of LMIHs through the provision of affordable housing loans.

(iv) Components and/or outputs: The project comprised three parts:

Part A: The housing development fund made operational and (a) establish links between PCBs and public and private enterprises, and channel loans totaling \$2.4 million to low-income households (LIHs) and \$1.1 million to middle-income households (MIHs) through public and private enterprises; (b) establish links between PCBs and small and medium-sized contractors loans, and channel loans totaling \$3.0 million to LIHs and MIHs; (c) PCBs make loans totaling \$3.0 million directly to LIHs and MIHs; and (d) PCBs make loans totaling \$500,000 to two condominium associations for apartment block maintenance and repairs.

Part B: Poverty reduction through 18 HAAP subprojects with loans totaling \$3.5 million are financed and implemented.

Part C: Capacity building and establishing effective project management.

The project was expected to be implemented over 5 years (2002–2006) and completed by 31 December 2006.

C. Evaluation of Design and Implementation

(i) Relevance of design and formulation: The project design was *highly relevant* at appraisal. It built on previous ADB TA grants (one for a housing sector policy in 1997 and another for institutional strengthening of the housing sector in 1998) that helped to develop a sound legal, regulatory, and policy framework for the housing sector. It also complemented the ongoing ADB second financial sector program loan³ intended to help develop Mongolia's financial sector. The project targeted the LMIH sector for assistance as it had the least access to housing finance, and high interest rates were levied even finance was available. It was formulated based on a feasibility study funded by ADB TA⁴. The project was consistent with the ADB country and sector strategy for Mongolia and the poverty reduction partnership agreement signed with the government in March 2000. The project promoted the bottom-up HAAP approach to planning, based on extensive consultations with the communities and resulting in new planning procedures and standards for residential development. The government established the required policy and legal framework for creation of a market-based shelter and urban services sector; developed new approaches to housing need and housing finance; and played an enabling role, guiding and regulating development of the housing market and supporting private sector provision of housing. Other donors played a complementary role by providing basic urban services. Lessons learned in implementing other projects in Mongolia were taken into consideration when formulating the project, e.g., the need for capacity building and

³ ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Second Financial Sector Program*. Manila.

⁴ ADB. 2000. *Technical Assistance to Mongolia for the Housing Finance Sector*. Manila.

government commitment and ownership to make a project successful. The project's relevance was somewhat reduced because of design issues described in sections (v) and (vi) below, e.g., the project steering committee (PSC) should not have been given the task of approving sub-loan applications and the channeling of all the loans, including those for LMIHs. It should have been left to the PCBs to decide based on market considerations and the creditworthiness of the subborrowers.

(ii) Project outputs: The actual outputs after project implementation, under the three parts, showed substantial adjustment between project components, mainly because of developments in the property market.

Part A: The housing development fund was made operational. Item (a): 258 loans amounting to \$1.53 million were made before the subcomponent was discontinued, against the appraisal estimate of \$3.5 million (shortfall of \$1.97 million or 56%) as links between PCBs and public and private enterprises were not established since enterprises were unwilling to borrow block loans and onlend to employees. Item (b): no loans were made to LIHs and MIHs against the appraisal estimate of \$3.0 million since loans to small and medium-sized contractors were discontinued because of the high risk of commercial loans and the growth of the private construction sector. Item (c): loans totaling \$15.2 million (75% or \$11.4 million from ADB, 25% or \$3.8 million) made by PCBs to individual borrowers (91% bought new or existing apartments, and 9% completed or renovated houses or apartments)—a huge increase on the appraisal estimate for an ADB loan of \$3.0 million—triggered by the new Land Privatization Law of 2003 that allowed borrowers to use the purchased real property as collateral. Item (d): only a few loans totaling \$21,000 were made to condominium associations against the appraisal estimate of \$500,000 (shortfall of \$479,000 or 96%) as PCBs were reluctant to lend to condominium associations because of lack of collateral from association members (whereas the individual borrowers had collateral under the new law).

Part B: Nine subprojects for \$2.47 million were financed and implemented against the appraisal estimate of 18 HAAP potential subprojects, with loans totaling \$3.5 million financed and implemented (shortfall of 29%).

Part C: Capacity building and establishing effective project management were implemented on schedule. Training was provided to staff of the project management unit (PMU), PCBs, public utility service organizations, and local governments; a housing finance database was established; loan documents were standardized; and a housing finance legal database was established.

(iii) Project cost, disbursements, borrower contribution, and conformance to schedule: The project was estimated to cost \$24 million equivalent, of which \$5.5 million was the foreign exchange cost and \$18.5 million equivalent the local currency cost. It was to be financed by ADB providing \$15 million (\$14.6 million in foreign exchange and \$0.4 million equivalent in local currency) or 62.5%, beneficiaries providing \$4.7 million equivalent in local currency or 19.6%, PCBs providing \$3.3 million equivalent in local currency or 13.8%, and the balance \$1.0 million equivalent in local currency by the borrower or 4.1%. The actual project cost at completion was \$32.4 million. ADB financed \$16.4 million or 50.6% (includes depreciation of the US dollar against special drawing rights), beneficiaries financed \$10.0 million or 30.9%, PCBs financed \$4.9 million or 15.1%, and the borrower financed \$1.1 million or 3.4%. The decrease in ADB financing and increase in financing by the others is noteworthy. Out of the loan of SDR11.8 million, SDR11.2 million was disbursed and SDR0.6 million remained undisbursed⁵. The ADB loan was closed on 24 August 2008 against the appraisal estimate of 30 June 2007, and included one extension. The extension in the loan closing date by about 1 year was due to delay in project implementation (included delays in bringing stakeholders together, application of bidding procedures, and the execution of works).

On an overall basis (after shifting of funds between the various subcomponents), SDR11,167,091 (94.5%) was disbursed for housing development out of the loan of SDR11,817,000; and SDR649,909 (5.5%) of the loan remaining undisbursed in the loan account (mainly as a result of US dollar depreciation against special drawing rights).

(iv) Implementation arrangements, conditions and covenants, related technical assistance, and procurement and consultant performance: Implementation arrangements remained about the same as designed at appraisal. The Ministry of Finance (MOF) was the executing agency for the project. The Ministry of Construction and Urban Development (MCUD) acted as the implementing agency through the PMU. A PSC comprising officials of MOF, MCUD, and local governments concerned provided high-level policy guidance and coordination. There were 38 general and specific covenants. They were complied with, except covenant number

⁵ The US dollar depreciated by about \$0.8 million against special drawing rights over the life of the project.

19 that specified that the “PMU shall submit the proposed sub-loans to the project steering committee for approval.” Since the PSC was a policy-based committee, it was not financially qualified and it did not have the time to review and approve all project sub-loans. Services of international consultants over 33 person-months were provided to support the PMU in project management, implementation, and capacity building. The 130 person-months allocated for national consultants were transferred to the PMU for recruitment of local staff. Consultant recruitment followed ADB’s Guidelines on the Use of Consultants. The project completion report (PCR)⁶ confirmed that the consultants performed “exceptionally well” in building the capacity of the PMU staff to implement the project and to become qualified professionals in mortgage finance. The PCR also confirmed that the local contractors and suppliers, except one, performed “very satisfactorily” in meeting standards for quality and contract compliance.

(v) Performance of the borrower and executing agency: MOF’s Debt Management Division of the Treasury Department was responsible for supervising and approving withdrawal applications, loan disbursements, and consultant performance. The PCR stated that it “performed satisfactorily and gave full support to the Project.” The Independent Evaluation Department (IED) rated the performance of the borrower and MOF *satisfactory*. IED is of the view that the borrower played a pivotal role in laying down the foundation for development of a private housing sector in Mongolia in terms of establishing the required legal and regulatory frameworks, mortgage finance mechanism, and infrastructure services with the help of the donor community. Although there was a delay in the loan closing date, the project was completed as envisaged with about 94.5% of the ADB loan utilized and most of the outputs achieved in terms of lending through PCBs for development of LMIHs, poverty reduction through HAAP schemes, and capacity building and effective project management. Noncompliance with the covenant referred to earlier could be partly attributed to a project design flaw, as the PSC should not have been assigned the task of approving sub-loan applications—that should have been made the sole responsibility of the lending institutions, i.e., PCBs.

(vi) Performance of the Asian Development Bank: PCR rated the performance of ADB over the life of the project *highly satisfactory*; IED rates it *satisfactory*. ADB appeared to have planned and sequenced the project preparation well in coordination with the borrower and other aid agencies (for infrastructure services) that facilitated the project’s success. Considerable groundwork was done through TA to help the borrower lay down the needed legal and regulatory frameworks. In parallel, ADB’s financial sector program loans helped to develop the financial sector, which included strengthening of the banking sector and PCBs. This project followed thereafter to set up and operate, for the first time in Mongolia, a mortgage financing mechanism (including lending procedures, databases, and loan documentation) to help the construction and renovation of housing for LMIHs. This mortgage lending mechanism was a key ADB contribution, as it is now being followed by other PCBs using their own resources to finance housing. The project design could have been stronger if it had avoided the need for the PSC to approve sub-loans; this should have been left to the PCBs to decide as lending institutions. ADB performance decreased to some extent because of a delay of about 1 year in the loan closing date.

D. Evaluation of Performance

(i) Relevance: The PCR rated the project *highly relevant* as its design and formulation since it is in line with the country operational strategy⁷ and the country’s financial sector needs. However, IED rates it *relevant* because of design issues brought up during the implementation stage.

(ii) Effectiveness in achieving outcomes: The PCR did not rate this explicitly, but pointed out the outcomes achieved. IED rates the project *effective* based on the following assessments.

Part A: Lending under this subcomponent helped to establish a sustainable long-term housing finance system in Mongolia, and sub-loans given under this component enabled LIHs and MIHs to obtain new housing or renovate existing housing (thanks to the new Land Privatization Law and Condominium Law assisted by ADB TA). A small amount of sub-loans provided to condominium associations assisted upgrading of apartment blocks.

Part B: Lending under this subcomponent helped to develop nine HAAP subprojects, which improved living conditions in *ger* communities where hardly any housing was available before, and helped to reduce poverty to that extent. These subprojects served as models for future private sector investment in housing development in

⁶ ADB. 2009. *Project Completion Report on Housing Finance Sector Project*. Manila.

⁷ ADB. 1999. *Country Assistance Plan for Mongolia (2000–2002)*. Manila.

ger areas, inducing various poverty reduction effects.

Part C: A considerable amount of capacity building was achieved in respect of the PMU and PCBs through formal and on-the-job training—in terms of housing and mortgage finance concepts and procedures, underwriting, closing, servicing, and funding, and development of standard mortgage lending documentation. In addition, a substantial base of experience and knowledge in financing HAAP projects was built within the PMU, local governments, and communities. A nonjudicial Mortgage Law was adopted that should facilitate quicker foreclosure of delinquent loans. These developments will strengthen the country's overall institutional and staffing capacities as well as the appropriate policies and procedures for expanding the provision of housing for LIHs, MIHs, and *ger* communities in the future.

(iii) Efficiency in achieving outcomes and outputs: The PCR did not rate this explicitly, but described areas in which efficiency was achieved. IED rates the project *efficient* in achieving its outcomes and outputs. However, the closing of the loan was delayed by about a year (one extension).

(iv) Preliminary assessment of sustainability: The PCR did not rate this explicitly, but described areas to support the sustainability of the project. IED rated the sustainability of the project *likely* based on the following factors: (a) a legal and regulatory framework for development of housing by the private sector has been established; (b) the project showed that there is a demand for private housing by LIHs and MIHs and by *ger* communities, as reflected by their interest to use loan funds for housing development, and in the case of LIHs and MIHs their willingness to put in equity over and above that expected to purchase housing; (c) a market-based and private sector-oriented mortgage finance system is now in operation with appropriate policies, procedures, and databases in place; (d) appropriate institutions (PCBs, local governments, and *ger* community development agencies) and sufficiently trained staff capabilities are in place to sustain and expand the use of the mortgage finance mechanism; (e) other banks, in addition to the PCBs, are starting to undertake mortgage financing; (f) local governments and *ger* communities now have expertise and experience in further developing HAAP projects; (g) central and local governments gaining expertise and experience in providing infrastructure and urban services for housing development; (h) banks, including four of the PCBs and the Bank of Mongolia established the Mongolia Mortgage Corporation (MIK) to develop primary and secondary markets by issuing and selling mortgaged-backed securities on domestic and international markets, and to ensure the smooth functioning of the mortgage finance mechanism; and (i) the government decided to transfer the housing development fund to the newly created Housing Finance Corporation, which should ensure further government support and a greater flow of funds for housing development in general, including for public employees such as teachers and health workers. Subsequent to the project completion, the Mongolian banking sector has been hit by the sudden global and domestic economic down turns and by the volatile copper price changes in particular, which went down drastically but has recovered lately. If the banking sector's businesses continue to suffer from the shocks and if the industry's weak corporate governance and the weak regulatory capacity on the part of the two regulatory authorities (i.e. the Bank of Mongolia and the Financial Regulatory Commission) persist, the still young housing market can be affected negatively. However, the housing financing market relies on lending against collaterals and a long-term mortgage financing, causing relatively low credit risks to the lending banks. Development of the primary and secondary markets as explained above will mitigate the market risks. Also, ADB has been supporting good governance in banking sector and capacity development of the regulatory authorities.

(v) Impact (both intended and unintended): The PCR did not quantify the following appraisal estimates: (a) to catalyze housing investments of about \$24 million equivalent by leveraging financial contributions from PCBs and funds of the beneficiaries⁸; (b) to benefit about 25,000 LMIHs of about 125,000 people, and (c) to generate construction-related employment opportunities (estimated at 32,000 person-years). However, the project made a significant impact in the following areas, which would have beneficial effects in developing the housing sector in the long term: (a) creation of demand for housing by LIHs and MIHs, which improved their living conditions, reduced poverty, and contributed to overall human development; (b) establishment of a viable and sustainable mortgage financing mechanism with appropriate institutions, policies, procedures, and trained staff; (c) establishment of a viable and sustainable funds flow mechanism, with an increasing number of banks participating in providing mortgage financing, and establishment of the MIK and Housing Finance Corporation; and (d) expertise and experience in providing infrastructure facilities and urban services that should help housing development, including *ger* communities, in the long term.

⁸ From the actual project cost, the catalytic effect was about \$16 million—borrower \$1.1 million, PCBs \$4.9 million, and beneficiaries \$10 million.

E. Overall Assessment, Lessons, and Recommendations

(i) Overall assessment: The PCR rated the project *successful* overall. IED confirms the overall project rating as *successful* based on the individual ratings of *relevant*, *effective* in achieving outcomes, *efficient* in achieving outcomes and outputs, and *likely* sustainable. The project was successful in establishing a viable and sustainable mortgage finance mechanism with attendant facilities. Based on the foundation laid and the demonstration effect of the project, housing for LIHs and MIHs and *ger* communities is continuing at an increasing pace. Given a continuous flow of funds, including recycling of loans with nonperforming loans kept to the minimum, this mechanism would be capable of contributing positively to development of the housing sector in Mongolia.

(ii) Lessons: The project was a success and the following lessons were learned: (a) the development of the housing sector could be best done through a two-stage basis: by ADB providing TA for establishment of the legal, regulatory, and policy frameworks, and by providing a follow-up loan to assist housing development; (b) cooperative and coordinated efforts by the government, ADB, other donors, and local governments are required to provide the needed infrastructure facilities and urban services; (c) the project had inbuilt flexibility to shift funds between the various subcomponents, which ensured greater loan utilization; and (d) sub-lending should be done only through banking/financial institutions (PCBs in this case) and not through other institutions as tried under this project (public and private enterprises, contractors) since they lacked lending and loan recovery expertise.

(iii) Recommendations: In future, when designing projects where sub-lending of ADB funds to subborrowers is involved, ADB needs to consider that the responsibility of sub-lending should be placed only within experienced lending institutions as they are capable of performing the function of lending, taking the credit risk, and ensuring loan recovery. In this case, private and public enterprises and contractors were also expected to provide sub-loans, which did not work out well. The PCR also made useful recommendations (paras. 57–61).

F. M&E design, implementation, and utilization: The report and recommendation of the President (RRP) included a project framework (PCR, Appendix 1). A comprehensive reporting requirement was incorporated under the project to help ADB with monitoring and evaluation (M&E). These were for the MOF/PMU (a) to submit: quarterly reports to ADB on project progress; (b) to maintain records and accounts in accordance with sound accounting principles as detailed in the Project Accounting Manual, and the accounts (including financial statements, statements of expenditure, and imprest account records) be audited annually in accordance with sound auditing standards by auditors acceptable to ADB; (c) to submit certified copies of their (PMU, local governments, and PCBs) annual audited financial statements, auditor's report, and management letter within 6 months of completion of the fiscal year; (d) to submit audited annual financial statements from the PMU throughout the life of the loan; (e) to provide a project completion report, not later than 3 months after the loan closing date, detailing project implementation; and (f) to have full records maintained by PCBs relating to the sub-loans for ADB random review and audit. The reporting requirement appeared adequate and it was met by MOF and the PMU. This facilitated M&E by ADB. ADB fielded seven review missions, which assisted project supervision and implementation and responded adequately to changing project circumstances (e.g., shifting of funds between subcomponents to overcome constraints and ensure greater loan utilization).

G. Others: During project processing, ADB's Anticorruption Policy⁹ (1998, as amended to date) was explained to central and local government officials. Attention was drawn to the section on fraud and corruption that was added to ADB's Guidelines for Procurement and Guidelines on the Use of Consultants.¹⁰ The capacity of MOF and the Ministry of Industry to prevent potentially corrupt practices was expected to be enhanced through the capacity building activities under the project management and capacity building subcomponents. Governance was also expected to improve when homeowners became property taxpayers and began to demand efficient services from local governments. The PCR did not outline the procurement procedures adopted in the use of sub-loan proceeds.

⁹ ADB. 1998. *Anticorruption Policy*. Manila.

¹⁰ ADB. 2004. *Guidelines for Procurement under the Asian Development Bank Loans*. Manila ADB. 2000. *Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers*. Manila.

H. Ratings	PCR	IED Review	Reason for Disagreement/Comments
Relevance:	Highly relevant	Relevant	Downgrading caused by some project design issues
Effectiveness in Achieving Outcome:	Not rated explicitly but implied an <i>effective</i> rating	Effective	The project played a huge catalytic role in developing and expanding the house financing markets (housing lending and secondary mortgage markets)
Efficiency in Achieving Outcome and Outputs:	Not rated explicitly but implied an <i>efficient</i> rating	Efficient	
Preliminary Assessment of Sustainability:	Not rated explicitly but implied a <i>likely</i> sustainable rating	Likely	The housing finance system led by commercial banks and the secondary mortgage market institution (MIK) sustained in the recent financial crisis.
Borrower and EA:	Satisfactory	Satisfactory	
Performance of ADB:	Highly satisfactory	Satisfactory	ADB undertook prior work in laying the groundwork for developing the housing sector, and played a crucial role in achieving all the project objectives and a positive role through regular review missions and meetings to review performance of commitments and disbursements and steps to improve loan utilization. IED considers that ADB's performance was reduced to some extent because of the delay in the loan closing date.
Impact:	Introduction of a mortgage-finance system, establishment of the MIK to help expand the housing sector, HAAP subprojects helping development of cities and <i>ger</i> communities, and improving water supply that resulted in health benefits and an increase in the overall quality of life	IED supports PCR's impact assessment	PCR should have quantified the impacts envisaged at appraisal, i.e., loan of \$15 million equivalent to catalyze housing investments of about \$24 million equivalent by leveraging financial contributions from PCBs and the funds of the beneficiaries.
Overall Assessment:	Successful	Successful	
Quality of PCR:			Satisfactory (see comments under section I below)

I. Comments on PCR quality: The PCR quality is satisfactory. However, it could have been enhanced if it had (a) quantified the number of LIHs and MIHs assisted, stated separately, under part A; (b) given information on the repayment and bad debts status of the sub-loans for HAAP subprojects under part B to assess the efficiency in achieving outcomes and outputs, and the overall success prospects of the project, particularly from the point of view of recycling repayments for further housing development; (c) given ratings on effectiveness in achieving outcome, efficiency in achieving outcome and outputs, sustainability, and overall assessment on project's performance in accordance with ADB guidelines on PCR preparation; (d) quantified the impacts envisaged at appraisal as pointed out earlier; and (e) given the status of the environmental impact of subprojects financed (RRP, para. 89).

J. Data sources for validation: RRP, PCR, and other project documents (i.e., back-to-office reports, minutes of, minutes of Management Review Meeting)

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 25 November 2009, the Director of the Independent Evaluation Division 2 of the Independent Evaluation Department received the following comments from the Urban and Social Sectors Division of the East Asia Department.

The validation report is well written. It evaluates technical, financial, and managerial aspects of the project and its project completion report. In particular, it highlights the project design shortcomings such as the (i) loan approval task granted to the project steering committee while the latter did not possess sufficient loan risk appraisal skills; and (ii) failure to provide loans to low- and middle-income families, although it was in the original project design. At the same time, the report underscores the relevance and positive economic benefits of the project, e.g., poverty reduction, establishment of a mortgage model, and capacity building. We also agree with and support the Independent Evaluation Department's rating reviews.