Ex Post-Evaluation Brief

CONGO (RDC): Sector programme Microfinance I (components 2 and 3)

Sector	Financial institutions of the formal sector (24030)	
Programme/Client	*Sector programme Microfinance I, BMZ no. 200465104*: Component 2**:* Support MFI 2 *Component 3:* Establishment of the "Fonds de Promotion de la Microfinance (FPM)" (Fund to Promote Microfinance, FPM)	
Programme executing agency	Component 2**: MFI 2, Component 3: Selected microfinance institutions	
Year of sample/ex post evaluation report: 2013/2013		
	Appraisal (planned)	Ex post-eval. (actual)
Investment costs (total)	C2: EUR 2.0 million (loan) EUR 0.5 million (CM) C3: EUR 6.5 million (Inv.) EUR 1.0 million co-fin. UNCDF/UNDP	C2: EUR 2.0 million (loan) EUR 0.5 million (CM) C3: EUR 6.5 million (Inv.) EUR 0.75 million co-fin. UNCDF/UNDP
Funding, of which budget funds (BMZ)	EUR 9 million EUR 9 million	EUR 9 million EUR 9 million

* Project in random sample 2013 **Component 1 (development of MFI 1) was already evaluated as part of the ex post evaluation of the trustee participation in MFI 1, BMZ no. 200565911.

Short description: The sector programme Microfinance I included 3 components in total. Component 1 (development of MFI 1) was already evaluated as part of the ex post evaluation of the trustee participation in MFI 1, BMZ no. 200565911 and is therefore not part of this evaluation. In the scope of component 2, MFI 2 was provided with loan capital (EUR 2.0 million) and a complementing measure (EUR 0.5 million). Component 3 covered the establishment of the "Fonds de Promotion de la Microfinance" (FPM) to support small Congolese microfinance institutions with technical and financial resources (EUR 5.5 million). The fund was not a separate legal entity, featuring an investment committee (IC) that decided on the award of resources to microfinance institutions (MFIs). These MFIs had been pre-selected by an implementing consultant. UNDP/UNCDF and USAID participated in the investment committee in addition to the German FC. The Congolese Central Bank had advisory status. UNDP/UNCDF participated in the fund with an amount of EUR 1.0 million.

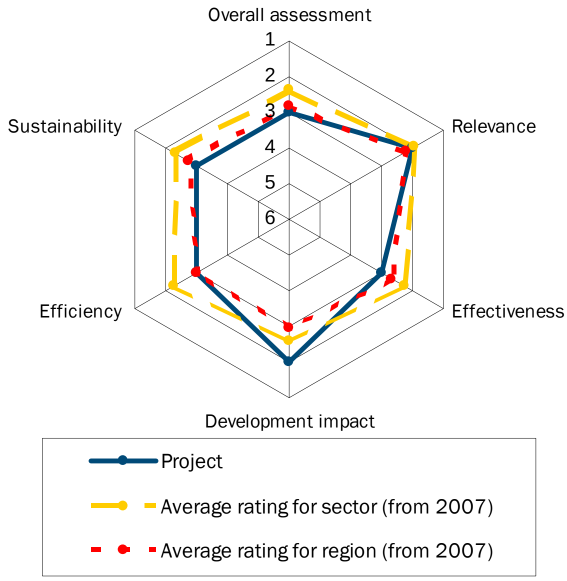
Objectives: Primary goal 1 was to contribute directly to the reduction of poverty by generating additional income. Primary goal 2 was to establish best practices in the market by developing sustainable microfinance institutions (MFIs) and thus lay the structural foundations for the development of an efficient and sustainable microfinance sector. The programme objective was to expand the sustainable range of financial services tailored to the needs of small and micro business owners. **Target group:** Small business and micro business owners in urban and rural areas, as well as their households and employees, who are generally among the poor population groups.

Overall rating: Note 3

The assessment system of ex post evaluations requires a joint assessment of both components with an overall rating. Component 2 (MFI 2) receives a rating of 2, component 3 (FPM) is rated 4. Since the weighting of component 3 was significantly higher than that of component 2, we just barely achieve a satisfactory overall rating.

Points to note: The very successful component 2 of the project shows that MFIs can also be successful in a very difficult environment (post-conflict country). Component 3 was too broadly based from its conception; very many small MFIs were subsidised through very small contributions. The contribution to sustainable and efficient development of the sector was, therefore, ultimately small, in some cases even counterproductive.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: 3

Component 2 (MFI 2) rating: 2

Component 3 (FPM) rating: 4

Relevance

The Democratic Republic of Congo has below-average coverage by banks even by African standards. Consequently, the population has less access to relevant financial services. Shortcomings (lack of diversification, market concentration on well-off participants and urban regions, insufficient professionalism) disproportionately impact the area of micro-, small- and medium-sized businesses. At the beginning of the programme in 2005/2006, the microfinance sector consisted mainly of co-operatives and NGOs, which were generally not sufficiently competent to provide smaller businesses with an appropriate range of services. Outside of Kinshasa, only group loans were available.

Access to financial services (payment transactions, loans and savings deposits) was therefore not assured for the majority of small businesses, nor in fact for the broader population. At the time the project was reviewed, and even at the present time, it is limited to commercial high-density population areas, outside of Kinshasa primarily in the densely populated provinces of North and South Kivu in the east of the country.

Therefore, the objective of the sector programme to sustainably expand the range of financial services tailored to the needs of micro and small business owners can in principle be described as very relevant.

Component 2 (MFI 2) aimed at providing financial services to micro businesses, small business owners and very small savers by supporting a specific MFI.

Component 3 (FPM) was aimed at fostering smaller MFIs flexibly and selectively by combining technical support and loans, thus promoting a broader banking infrastructure. Since there was little information about the quality of MFIs operating in the RDC, information regarding eligible MFIs was collected by a consultant and then submitted to the German FC and UNDP/UNCDF for a subsidy decision. MFIs in the conflict zones in the east of the country were also to be reached using this scheme. From today´s perspective, the design of the fund was too broad-based. Rather than attempting to support all MFIs in the country individually, selective promotion of a few MFIs especially capable of development would have made more sense in order to support consolidation in the sector.

Together with component 1 (MFI 1) not evaluated here, the focus of which was rather on small and medium-sized companies, the deficiencies of the sector were to be addressed at various levels. The project thus fits very well into the objectives of the German government (sustainable economic development as focus sector) and the economic priorities of the country, except for the deficiencies mentioned.

Donor coordination for MFI 2 went very well, causing no problems. On the other hand, cooperation with UNDP/UNCDF, which was entered into due to the outstanding position of the UN organisations in the country after the civil war, was the source of a great deal of conflict, since the UNDP/UNCDF focus was above all on the quick achievement of wide impact, while the German FC emphasised financial sustainability as an additional criterion in selecting MFIs via FPM. These different concepts of fund policy also had a significant influence on its efficiency and manner of functioning.

Sub-Rating: 2 (Component 2: 1 / Component 3: 3)

Effectiveness:

The programme objective was to expand the sustainable range of financial services for small and micro business owners tailored to their needs. Indicators were defined differently for both components.

Component 2 (MFI 2): The chosen indicators were in principle suitable for assessing the success of the project.

Goal achievement of the indicators is shown in Table 1.

Table 1: Goal achievement for component 2 (MFI 2):

Indicator	Status at ex post evaluation
Number of active loan customers > 30,000 (after 3 years)	Significantly exceeded: 86,800 (2013); (2010): 62,000
Average loan amount < EUR 200 (throughout)	Achieved in 2010 (EUR 180); since 2012 rising trend to being slightly exceeded (2012: EUR 204; 2013: EUR 221)
Default rate (= due for over 30 days) < 5 % (throughout)	Significantly lower: 2013: 1.18%; 2010: 1.15%;
Financial sustainability after 3 years[1]	2010: 107%; 2011: 118%; 2012: 110% (assumed capital costs: 10%)

With the exception of the loan amount, which has been negligibly exceeded since 2012, all goals have been achieved or even significantly exceeded. MFI 2 management recognised a trend towards larger loans, which has arisen due to high demand for loans in the small and medium-sized business area, and seeks to expand this line of business. Target figures for the number of customers were massively exceeded, raising the question whether the indicator value was not set too low from the beginning. There is also a significant shortfall in the default

[1] Financial sustainability: (Operating income) / (operating costs + expenses for refinancing the portfolio (equity costs, interest expense)) > 1; occasionally the inflation rate is assumed instead of interest on equity (10% here). The inflation rate is lower than 10%.

rate, fortunately, but according to experience this can be very volatile and so an upper limit of 5% can be accepted as a customary international benchmark. Basically, the goals can thus be viewed as having been clearly met.

Component 3 (FPM): Those institutions taken into consideration for subsidy purposes were classified by the consulting team, which had hired a large number of staff on site to collect data. Based on several minimum criteria and a scoring system, the institutions were divided into five categories (A - E), with the quality of the institutions decreasing from Category A to Category E. The FC and UNDP/UNCDF then selected those MFIs from these institutions that were to receive subsidies from FC or UN resources. 229 institutions in total (at times 247 were mentioned) were supported. 19 of these (Category A and B) also received grants, 37 (Category C) received material expenses and personnel support while 72 were given personnel support only (figures relate in each case to the end of the project). The support to institutes classified as Category E (101) was limited to a short introductory training session at the beginning during which their suitability was also checked.

Achievement of goals has been monitored only for the 19 MFIs in Categories A-B. There was no data on the other 210 MFIs.

Table 2: Goal achievement for component 3 (FPM):**

Indicator	**Status at ex post evaluation**
Number of active customers > 5,000 (at the end of the programme) for each subsidised institution	Exceeded by 4 of 19 institutes financed, average of 5,735 (loan customers). Regarding savings customers: 11 of the 19 institutes.
Average loan amount < EUR 200 (throughout)	Fulfilled on average (EUR 186). Max. avg. amount exceeded by 9 of 19 financed MFIs, significantly exceeded by 4 MFIs (EUR 598-2,120).
Default rate (= due for over 30 days) < 5 % (starting from the second year of subsidy at the latest)	Weighted average 5.41% (slightly exceeded); not achieved in the case of seven MFIs. The average is 8.6% when MFI 2 is disregarded
At least three MFIs are operationally and financially sustainable (at the end of the programme)	Achieved by 6 MFIs
All indicators	Only 2 institutions fulfull all three criteria PAR 30, operational and financial sustainability. One of these, however, indicates an average loan size of EUR 840, so that only one institution (MFI 2) remains that has satisfied all criteria at the end of the project (2010).

** contains only data from the 19 institutions that have also received financial resources.

A review of indicators (Table 2) reveals that among the institutions that have received financial resources, only one (MFI 2) had achieved all indicators at the end of the project and also at the time of the ex post evaluation. With a 42%-share of the total loan portfolio and its good results, MFI 2 also significantly influenced the overall average. While operational sustainability not including MFI 2 remains unchanged (since MFI 2´s score corresponded exactly to the average value of 112%), the default rate rises significantly above the limit value at 8.6% when MFI 2 is disregarded. As already described with component 2, MFI 2 was also subsidised with an amount of EUR 2 million for refinancing and EUR 0.5 million for personnel support. This contributed more to achieving the goals than additional subsidies awarded by FPM. Even though MFI 2 has not received any direct allocations from (FPM) FC resources, but only UN allocations, it is hard to comprehend why an institution that was developing well at any rate was subsidised twice and it deepens concerns that the FPM approach was less goal-oriented.

On the whole, it can be established that the indicators were achieved only to a very limited degree. The fact alone that of 19 institutions which have received financial grants only one, (which was also subsidised under another component) has achieved all target indicators, shows that achievement of FPM´s goals is below expectations.

Sub-Rating: 3 (Component 2: 1 / Component 3: 4)

<u>Efficiency</u>

Component 2 (MFI 2): MFI 2 has achieved good to very good values on the whole for all important indicators. An adequate (in some cases even extremely high) profit with a correspondingly high equity capital interest rate was achieved; operational and financial sustainability have been consistently above 100% over the last three years, employee numbers and the number of branches have also increased considerably.

Interest expense is remarkably low compared to interest income, amounting to only 6% of interest income in 2012. This is only partly due to the fact that MFI 2 can refinance in part by using donor loans and grants (60% are still refinanced by means of deposits). The main reason, however, are the very high loan interest rates: while interest on deposits amounts to 2-3% annually (most deposits being demand funds), loan interest rates are approximately 4% a month. Furthermore, these loan interest rates are not calculated on the remaining value of the loan as is customary, but on the original value. Taking into account the loan discount, this results in effective interest rates of up to 146% p.a. MFI 2 explains this with the relatively high personnel costs customary typical for micro-banking, which in fact are at approx. 75% of operating income. Since 2013, interest has been calculated differently, bringing effective interest rates down to a maximum of 73% p.a. This is still high when compared to commercial banks (about 10-20% p.a.), but is on the same level as other MFIs. MFI 2 also benefits from extremely low default rates (1-2%, PAR 30). Since the efficiency of the institution has improved and clients continue to repay their loans as requested, the production and allocation efficiency can be viewed as acceptable.

Component 3 (FPM): Statements about efficiency relate to the subsidised MFIs as well as FPM´s operations.

Since the FPM, in contrast to today, did not have the status of a legal entity, no business indicators have been monitored in the past. The very broad-based approach of the fund resulted in the consultant hiring a large number of staff on site, who in turn had to cover an excessive number of MFIs. The resulting consulting costs were approximately EUR 4 million, after deducting the loans and grants. Still, it has to be taken into account that the consultant's employees, who collected information on site, also performed consulting work at the MFIs themselves. The costs are understandable against the specific background of the Democratic Republic of Congo, but significantly too high due to the broad-based approach. As a result, production efficiency of the fund is below expectations on the whole.

The allocation efficiency of the fund is also below expectations: the distribution of activities over such a high number of institutions (229) indicates that there was no sensible selection of institutions according to their performance capabilities. Even in a post-conflict situation, when rapid and broad promotion might be useful in the short term, sustainable effects are more likely to be achieved by promoting stable and promising institutions. So it would have been desirable that a more targeted selection of promising institutions had been made by the consultant, which would in turn have been supported systematically and with a higher subsidy. This approach would have been more likely to contribute to a consolidation of the sector and expansion in best practices.

Sub-Rating: 3 (Component 2: 2 / Component 3: 5)

Impact

Primary goal 1 was to contribute to the reduction of poverty by generating additional income. Primary goal 2 was to establish best practices in the market by developing sustainable MFIs and thus lay the structural foundations for the development of an efficient and sustainable microfinance sector.

Component 2 (MFI 2): With MFI2, an institution was promoted that met many conditions for achieving the programme´s objectives: it can be used as an example for an efficient and sustainable microfinance institution, except with respect to the interest rate policy which has been changed in the interim, and reaches very small borrowers and savers in particular. So-called "village loans" (with a minimum of USD 40 and an average of USD 247) reach the target group of the poor. 77% of customers were serviced in this segment (38% of the loan portfolio); another 14% of the loans were awarded as group loans (15% of the portfolio), which also go to poorer individuals. 54% of customers are female.

The fact that MFI 2 does not comply with all principles of "responsible finance" and calculates loan interest rates on the entire amount of the loan is seen as negative. The comparatively high effective interest rates are also criticised, which were also above the interest rates of other MFIs until 2012. On the other hand, it should be noted that, especially in comparison with other institutions promoted under the FPM, MFI 2 in particular concentrates on very small customers and thus administrative costs are very high. Even if in some cases an exorbitant profit was achieved in the years leading up to 2012 (which, however, was used to build up equity), one can conjecture that the high costs of small loans also require relatively higher interest rates in order to continue to withstand the competition.

The economic structure of the country is such that 80% of loans are granted in the area of trade and services. As a rule, this should have a positive effect on the reduction of poverty and on fostering economic growth.

Component 3 (FPM): An ambitious project was begun with the FPM, with significantly lower development policy effects when compared to MFI 2 due to the excessively broad and less selective approach to promotion. However, it should be emphasised that due to this broad-based approach, institutions in Eastern Congo still affected by conflict could also be reached. They are still in existence today and achieve impact.

Sub-Rating: 2 (Component 2: 2 / Component 3: 3)

<u>Sustainability</u>

Component 2 (MFI 2): With MFI 2, an institution with proven sustainability has been selected. MFI 2 has been in business for 28 years with commitments in 21 countries, five of which are in Africa. The environment in Congo is difficult. The lack of a credit agency, the poor infrastructure and in particular the poor traffic connections, as well as the war which has not ceased in parts of the country make awarding micro loans a personnel-intensive matter and, given the circumstances, a default rate of 2% is by no means a matter of course. However, based on institutional strength and the previous business figures of MFI 2, one can conjecture that MFI 2 belongs to the select group of MFIs that will master the difficulties that arise in the RDC, provided there is no further recurrence of massive strife and warlike confrontations.

Component 3 (FPM): The fund (FPM) cannot be viewed as sustainable in its current form, the subsidised institutions being still too heterogeneous at the end of the project period. Promotion lacked sufficient selectiveness while the information necessary for steering this component more precisely towards its goals was not specific enough, and was disregarded when available. Concerning the 19 financially supported institutions, at most three (including MFI 2) can be viewed as operating sustainably according to the available figures. There is reason for concern that the remaining 122 MFIs are not well set up, either.

Sub-Rating: 3 (Component 2: 1 / Component 3: 4)

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good result that clearly exceeds expectations
2	Good result, fully in line with expectations and without any significant shortcomings
3	Satisfactory result – project falls short of expectations but the positive results dominate
4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
6	The project has no impact or the situation has actually deteriorated

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.
Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Ratings 1-3 of the overall rating denote a "successful" project while ratings 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (rating 3).