Ex Post-Evaluation Brief
Philippines: MSME Financing Programme

Programme/Client	MSME Refinancing Programme BMZ nos.: 2001 65 969*, 2001 70 316 (accompanying measure), 2009 462 (training measures)	
Programme executing agency	A state financial institution of the Philippines	
Year of sample/ex post evaluation report: 2012/2012		
	Appraisal (planned)	**Ex post-evaluation (actual)**
Investment costs (total)	EUR 12.27 million	EUR 12.47 million
Counterpart contribution (company)	-	-
Financing, of which investment (BMZ/KfW funds), staff support measures (BMZ funds)	EUR 12.27 million EUR 11.71 million EUR 0.56 million	EUR 12.47 million EUR 11.71 million EUR 0.76 million

* random sample

Project description: The programme was designed to refinance the medium- and long-term lending business of selected financial institutions to benefit micro, small and medium-sized enterprises (MSMEs) in the regions of the Visayas, Mindanao and Luzon. The programme executing agency was a state financial institution that functioned as an apex institution for implementation of the credit line. With the funds provided under the FC loan worth EUR 11.71 million, 21 partner financial institutions (PFIs) were financed and 294 MSME customers reached. The accompanying measure worth around EUR 0.56 million and a training measure worth around EUR 0.2 million were designed to support the programme executing agency in improving its accreditation, monitoring and reporting system, strengthen its risk management, and train personnel of the executing agency and selected PFIs in borrower risk rating methods.

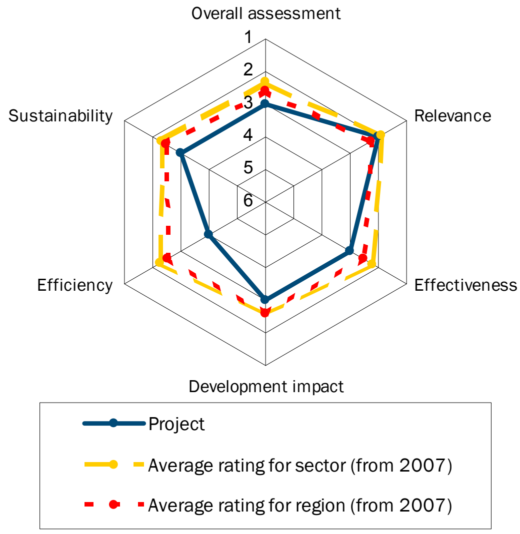
Objective: The overall objective of the programme was to help create and safeguard jobs and income, and further develop the local financial market. The programme was designed to help sustainably improve access to credit for MSMEs, especially in the Visayas and in Mindanao, by (i) providing a line of credit to refinance investment loans to MSMEs, and (ii) implementing an accompanying measure to strengthen risk management by the programme executing agency. **Target group:** MSMEs with fixed assets (not including land) <100 million Philippine pesos (PHP), at least 40% of the credit line to MSMEs with fixed assets (not including land) ≤ 20 million PHP.

Overall rating: 3

Overall, the development of the programme executing agency since programme appraisal has been positive. The accompanying measure implemented as part of the programme made a significant contribution toward achieving this result. The executing agency is a politically important institution, and despite its currently reduced competitiveness will very probably be continuing its MSME financing activities in the future.

Although the programme targeted the deficits in the financial and MSME sector in the Philippines, it reached the target group (MSMEs) only to a limited extent. Moreover, the efficiency of the programme is to be rated as unsatisfactory.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: 3

Relevance: The MSME sector is a major pillar of the Filipino economy, and a basis for the country's sustainable social development. Access to medium- and long-term investment finance remains one of the key constraints for MSMEs. The project was designed to address these shortcomings in the financial sector in the Philippines. It thus tackled major problems that remain relevant to this day. The objectives and measures of the project are aligned with the development strategy of the Filipino Government (priority areas include: poverty reduction; MSME promotion [MSME development plan, Magna Carta for MSMEs]; promotion of the financial system). The project was geared to the priorities of German-Filipino development cooperation at the time, and the financial sector strategy of the German Federal Ministry for Economic Cooperation and Development (BMZ). Since the promotion of MSMEs is also a priority for other donors in the Philippines, the project was designed to complement the activities of other donors (especially the Deutsche Gesellschaft für Internationale Zusammenarbeit [GIZ], and the Asian Development Bank, [ADB]). Since the executing agency also received technical support from other institutions such as ADB and GIZ as part of other programmes, coordination meetings involving various institutions were held regularly (quarterly).

The executing agency was established in 1991. Its mandate then was to deliver (particularly in regions underserved by commercial financial institutions, such as the Visayas and Mindanao) loans and guarantees to MSMEs that were competitive, but unable to meet the strict conditions imposed by banks regarding collateral and minimum borrowing volumes. MSME business and the provision of long-term investment finance to MSMEs are part of the executing agency's core business for development. On the basis of the Magna Carta for MSMEs, in 2008 the executing agency's mandate was broadened and a new division was established – the Financial Institutions Development Group (FIDG) – to deliver non-financial services (training, advisory services) for PFIs in connection with borrower risk rating systems.

The results chain on which the project is based involved the provision of refinancing, plus staff support. This was designed to strengthen the risk management capacity of the executing agency and the PFIs, and improve the credit supply to MSMEs. From today's perspective this results chain is plausible. However, we should qualify this by saying that due to the small size of the project executing agency and the low volume of the project, the project results could only be achieved through demonstration effects (of the 4 PFIs visited (52% of the total volume of the project), three have devised MSME strategies, established MSME divisions or branches, and are in the process of implementing borrower risk rating systems appropriate to MSMEs). Overall we rate the relevance of the project as good. **Sub-Rating: 2**

Effectiveness: Of the five indicators for the programme objectives, two (maximum non-performing loan (NPL) rate of the executing agency as a percentage of its total credit portfolio, growth in the MSME portfolio of the PFIs) were achieved completely, one (minimum growth of the executing agency's MSME portfolio) was achieved partially, and two (maximum NPL rate of the PFIs as a percentage of their total credit portfolios, maximum time required by executing agency to process loan applications from PFIs) were not achieved.

The effectiveness of the programme was negatively influenced by the slow outflow of funds during the initial years, which led to delays in the progress of the programme. This was due to the initially strict programme criteria (especially the regional focus), and the high fee paid to the Filipino Government for on-lending and assumption of the exchange rate risk at a time when market interest rates were falling. Only when a number of programme criteria were adjusted and the on-lending fee was renegotiated was it possible to implement the line of credit in accordance with the objectives. The adjustment of the programme criteria had a negative effect on achieving the regional orientation of the programme, though it was justified on the grounds of a timely use of the funds without further loss of efficiency.

The staff support provided to strengthen the executing agency's risk management capacity and the introduction of borrower risk rating (BRR) systems among PFIs was well accepted in the vast majority of cases. In the course of the programme, and following the expansion of the executing agency's political mandate in 2008 (which entailed the establishment of the Financial Institutions Development Group – FIDG), it became possible to provide further support. As a result, the staff support was extended and expanded twice within the duration of the programme. The effectiveness of the programme was adversely affected by the fact that the staff support was initially also available to PFIs which did not receive refinancing, thus breaking the link between investment and staff support. This was later corrected in the course of the programme. Since 2011, only "active" PFIs have had access to staff support.

Overall the staff support can be rated a success. The selection of PFIs (and the low drop-out rate of the PFIs from the executing agency's portfolio) in the course of the programme indicates that the executing agency has a good accreditation and risk rating system in place, which was strengthened and further developed through the staff support. Some of the PFIs have since devised MSME strategies, established MSME departments or branches, and firmly implemented risk rating systems. Since the staff support was completed the programme executing agency has continued the relevant activities.

Although the indicators for the objectives were only partially achieved, it is to be assumed that the programme executing agency would not have developed or been able to discharge its mandate to promote MSMEs in the way it did without the programme (loans and staff support). Nor would the regional focus on the Visayas and Mindanao have been achieved without the programme. **Sub-Rating: 3**

Efficiency: Productive efficiency of the programme executing agency: The executing agency's key performance data have improved continuously over the last few years, though in some cases have still not reached an appropriate level. Although the executing agency's productive efficiency is sufficient, this will have to be improved further if the agency is to continue as an actor for MSME financing in the future (see the section on sustainability). The staff support measure implemented as part of the programme made a significant contribution toward improving this productive efficiency. For instance, the loans extended using the borrower risk rating (BRR) system introduced through this measure display a significantly higher portfolio quality than the executing agency's average lending business.

Productive efficiency of the PFIs: Key performance data for the PFIs are only available to a limited extent. The average NPL rate of the PFIs weighted with the loan volumes was 10.5%. Although this corresponds to the sector average for rural banks, it is too high. We therefore rate the productive efficiency of the PFIs as only satisfactory.

Allocative efficiency: Initially there were delays in implementing the programme. Only by reducing the on-lending conditions and broadening the scope to include the economically stronger region of Luzon did it become possible to generate sufficient demand. Five and a half years after the programme was launched, approximately one third of the line of credit was being used for new MSME loans on a revolving basis. However, the PFI portfolio of the SBC (see annex 6) displays a high degree of heterogeneity, i.e. the NPL rates of the financed PFIs fluctuate between 0.8% and 19%. In other words, the SBC was entirely capable of identifying efficient PFIs ex ante, but given the average NPL rate of 10.5% did not make appropriate use of this ability when lending. Based on the results of the field visits, despite the high average NPL rate we can assume that overall the loans were used appropriately by the final borrowers.

Given the operational bottlenecks (high degree of centralisation, protracted processes), we can assume that a higher degree of efficiency could have been achieved through another financial institution such as the Development Bank of the Philippines (DBP) or the Land Bank of the Philippines (LBP). To improve the programme executing agency's competitiveness it would be necessary to further strengthen its processes and IT systems, expand its network of branches and further decentralise its decision-making processes. Corresponding measures to bring about these improvements are currently being planned/implemented, and have already been successfully supported as part of this FC measure.

Given the objective of the programme, the results achieved must be seen as inappropriate in relation to the costs. We therefore rate the efficiency of the programme as unsatisfactory.
Sub-Rating: 4

Impact: Achievement of the overall objective was measured in relation to two indicators (development of the MSME sector, degree of financial intermediation). Although the MSME sector in the Philippines has not developed significantly in relation to its status at programme appraisal, the degree of financial intermediation has risen slightly.

Given the size of the programme, we rate the structural impact on the financial and MSME sector in the Philippines as limited. Nevertheless, the programme did generate some demonstration effects (see the section on relevance), which means that a multiplier effect for FIs not financed by the programme executing agency may also be expected.

Through the PFIs supported by the programme, the target group of MSMEs was reached – even in remote and economically weak regions of the country. However, the programme executing agency's on-lending business for MSMEs, which had risen significantly since programme appraisal, has declined over the last few years (see the section on sustainability).

We therefore rate the impact of the programme as only satisfactory. **Sub-Rating: 3**

Sustainability: The programme executing agency is in a sound financial situation, with good capital resources. MSME promotion is part of the executing agency's mandate for development and its core business. There is currently nothing to indicate that the Filipino Government will attach less priority to MSME promotion in the future than it does at present, and it is to be assumed that the executing agency will continue to operate in MSME financing. However, the executing agency's on-lending business for MSMEs has declined in recent years due to temporarily limited competitiveness, and this business is currently being carried out more efficiently by other institutions. Nonetheless, current positive trends in key performance indicators for the programme executing agency (especially with regard to borrower risk) suggest that competitiveness will improve in the future.

The promoted PFIs see MSMEs as an important client group. They have established units to serve MSMEs, or are in the process of doing so. Most of these are operating professionally. Despite the information available on portfolio quality, on the basis of the results of the field visits we may assume that the investment activity of MSMEs is sustainable overall.

So far, the programme executing agency's business activity has been significantly dependent on lines of credit provided by international financial institutions (IFIs). These will expire in the medium term, or are already being repaid. The programme executing agency will need to identify alternative sources of refinancing in order to maintain the scope of its business activity, such as access to state financing, commercial loans, capital markets, other IFI facilities or funding from other financial institutions. The executing agency will benefit from the fact that financial institutions are obliged under the Magna Carta to withhold 8% of their lending portfolio for MSMEs.

Overall it remains to be seen how things will unfold with regard to (i) the programme executing agency's competitiveness, and thus its future business activity, in the MSME sector, and (ii) its future access to funding. Given the sustainability of the results achieved with the PFIs, and the political importance of the programme executing agency for MSME promotion, especially in areas and regions underserved by commercial financial institutions, we rate the sustainability of the programme as satisfactory. **Sub-Rating: 3**

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).