Ex post evaluation – PPP Study Facility

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Sector: Infrastructure and Financial Sector (CRS Codes 25020, 25010 - Business and other services)
Programme/Project: PPP Facility BMZ No.: 1999 10 076, 2004 10 142 and 2000 51 458
Implementing agency: Companies that conducted studies and were therefore insured or financed proportionately through the Study Facility.

Ex post evaluation report: 2015

in EUR million	1999 10 076 (Planned)	1999 10 076 (Actual)	2004 10 142 (Planned)	2004 10 142 (Actual)	2000 51 458 (Planned)	2000 51 458 (Actual)
Investment costs (total)	14.28	roughly 6.10	2.85	0.00	3.75	roughly 3.10
Counterpart contribution	9.00	roughly 4.00	1.90	0.00	2.50	roughly 2.60
Funding	4.78	2.75	0.95	0.00	1.25	0.68
of which BMZ budget funds	4.78	*2.75	0.95	0.00	1.25	**0.68

* including EUR 0.66 million in administrative expenses; residual funds transferred to DEG and federal treasury; ** including EUR 0.25 million in administrative expenses; residual funds transferred to 2004 10 142 (formerly 1999 10 076)

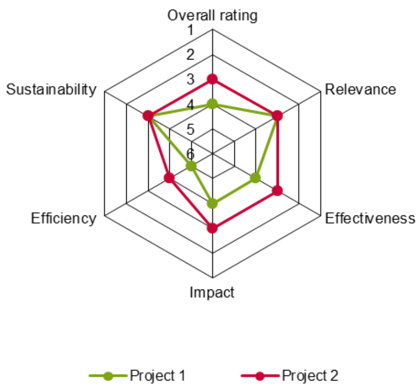
Summary: The projects promoted preparatory studies for the Public Private Partnership (PPP) development commitments of private European companies in developing and emerging countries in the sectors of infrastructure and finance. During the administration by KfW Development Bank from 1999 to 2007, 35 studies were awarded financing, of which 30 were implemented. Furthermore, the "Water and Sanitation for the Urban Poor" (WSUP) strategic alliance was promoted with three studies. In April 2007 the Study Facility was transferred to DEG. The information collected for this evaluation focused on funding until 2007 that was not covered by the “Impact Evaluation” report prepared in early 2005 by the operations department. This evaluation was supplemented with information from the 2005 Impact Evaluation that contained no assessment in accordance with DAC criteria and did not differentiate between the PPP facility discussed here and a parallel project of the Federal Ministry of Economics and Labour.

Objectives: Embedded in the BMZ’s PPP programme (and with the involvement of GIZ), the facility was designed to increase the number of preparatory studies with a view to improving the information flow for companies potentially willing to invest as well as raising the number and volume of meaningful PPP investments (adjusted project objective). This was to help raise the efficiency of formerly public companies and provide infrastructure for the population in partner countries (ultimate objective).

Target group: The direct target group of the project was the population of the given partner country. The indirect target group was the companies that obtained funding through the Study Facility.

Overall rating: 4 (BMZ No. 2004 10 142, formerly 1999 10 076); 3 (BMZ No. 2000 51 458)

Rationale: In spite of the relevance confirmed by the supported companies, demand for study funding fell well short of expectations. Despite the positive study results, follow-up investments were generally not carried out for reasons beyond the control of the companies, so the impacts and efficiency are no longer satisfactory. The situation is somewhat more positive for studies promoted in the same format under the Stability Pact for South-Eastern Europe (2000 51 458).



Highlights: The projects were uncharacteristic for FC, there were few synergies with FC, and so the Study Facility was transferred to DEG in 2007 where it was closed down in 2008 in its existing form. During the term of the facility, KfW reported to the BMZ on the impacts achieved in the “Impact Evaluation 2005” report. The 2005 report was not compiled by KfW Development Bank's independent FC Evaluation Unit.

Rating according to DAC criteria

Overall rating: 4 - unsatisfactory (BMZ No. 2004 10 142, formerly 1999 10 076); 3 - satisfactory (BMZ No. 2000 51 458)

General conditions and classification of evaluation

As part of the two projects evaluated here, preparatory studies were promoted for the Public Private Partnership (PPP) development commitments of private European companies in developing and emerging countries in the sectors of infrastructure and finance. The project bearing the number 2000 51 458 was limited to countries of the Stability Pact for South-Eastern Europe. By contrast, the project bearing the number 1999 10 067 (later changed to: 2004 10 142) was open to preparatory project studies in all developing countries around the world. During the administration by KfW Development Bank from 1999 to 2007, 35 studies were awarded financing, of which 30 were implemented. Furthermore, the "Water and Sanitation for the Urban Poor" (WSUP) strategic alliance was promoted with three studies. In April 2007 the Study Facility was transferred to Deutsche Investitions- und Entwicklungsgesellschaft (DEG). This evaluation includes results of an “impact evaluation” compiled in 2005, but also covers funded projects between 2005 and 2007. This information encompassed a survey among companies funded from 2005, which followed the template of the 2004 survey conducted for the interim evaluation. The available report only refers to the period administrated by KfW Development Bank from 1999 to 2007. A final report was prepared by DEG in January 2009 for the closing period.

Relevance

To support the national economy, many developing and emerging countries offer incentives to foreign companies to invest in their countries. However, small and medium-sized enterprises in particular often have strong inhibitions with regard to such investments because the risks are very difficult to gauge. The study facility evaluated here by BMZ was designed to break these inhibitions of European companies down. It was intended above all to support commitments in the form of public private partnerships (PPPs) by promoting preparatory studies for developmental investments eligible for promotion in infrastructure and later on in the financial sector too. PPP commitments are still not widespread in many developing and emerging countries and represent a particular challenge on account of their complex structure.

The results chain of the study facility can also be classed as plausible from today’s perspective. Accordingly, by assuming certain proportions of study costs, the study facility aimed to increase the number of preparatory studies carried out for worthwhile private sector development commitments in PPP projects located in partner countries involved with development cooperation. This was designed to reduce the risks of such commitments by means of an improved information flow for company owners, thereby preventing failed investments and promoting meaningful PPP commitments (programme objective). The latter were to contribute towards the more efficient operation of previously public enterprises and/or improved infrastructure supply, and hence to better living conditions in the partner countries (ultimate objective).

However, the details of the promotion concept revealed weaknesses. Since the changes made to the study facility in June 2003, companies were able to choose between the promotion of a study by means of insurance or a grant, whereas only the insurance option was available up to 2003. This provided a safety net of up to EUR 167,000 if the planned follow-up investment failed to materialise. The grant option comprised the proportional financing of study costs up to EUR 100,000 regardless of any follow-up investment. This meant that companies were financed with up to 33% or 50% of the total costs of the study, regardless of the chosen option, and depending on whether the study was implemented internally or externally. Under these conditions, grants were more beneficial for private companies in almost every relevant situation. Only if a follow-up investment seems very unlikely even before the study (<40%) does the insurance option appear better, in which case though the business owner would presumably balk at providing the required counterpart contribution. Awarding grants means risks are no longer covered in a targeted manner, and this form of promotion is also interesting for companies which have already resolved to carry out a study without funding.

One criticism is the restriction of the study facility to PPP projects, coupled with the requirement for a certain percentage of the commitment to focus explicitly on poor parts of the population. The investment segment addressed with the funding is therefore extremely limited; investments funded solely using private means and not in collaboration with the public sector of the target country are ruled out, even though such investments could be equally meaningful from a development perspective. Given the widespread inhibitions particularly from small and medium-sized enterprises (SME) in Europe to invest in developing and emerging countries, the study facility confined itself to focusing solely on demand eligible for funding and therefore developmental impacts. This limitation was logically lifted as part of the DEG funding of feasibility studies that succeeded the PPP study facility.[1]

The central ministerial coordination of the entire BMZ PPP programme which the study facility was embedded into ensured harmony with the other implementing organisations of German development cooperation, including GIZ. However, the utilisation of the BMZ study facility was impaired until 2005 because of similar study promotion from the Ministry of Economics and Labour, which did not require evidence of a developmental focus for eligibility. At an international level there are no indications of any marked detriment caused to other projects by the study facility or vice versa.

In retrospect it is questionable whether managing a study facility focused on private European companies at KfW Development Bank was the best choice, an institution that in terms of financial cooperation mainly works together with public bodies in partner countries. This potential source of inefficiency was addressed in 2007 when the study facility was transferred to DEG.

Relevance rating: 3 (for all projects)

Effectiveness

The original project objective whereby the study facility was to “make a contribution towards preparing individual infrastructure projects for implementation"[2] is an overly limited objective from today’s perspective as it only rates studies as successful if they trigger a follow-up investment. However, avoiding failed investments can also constitute a meaningful result of information captured in a feasibility study. This is why the project objective was reformulated: The study promotion should contribute to an improved information flow for business owners resulting in the promotion of meaningful PPP commitments and the avoidance of failed investments.

The following were listed as indicators for assessing target achievement:

- Number of funded studies (> 60 %), utilisation of funds (> 75 %) and informative value of the studies from the perspective of the business owner (> 80 %) to depict the informative added value produced by means of the facility.
- Size of PPP investments conducted as a result of the studies, broken down in terms of positive (> 75 %), neutral (> 50 %) or negative study results. The cases where an investment failed to materialise for reasons beyond the company’s control should be considered separately here.
- High significance of funding for the implementation of the study at 75 % of the companies at least (avoiding deadweight effects); qualitative estimate using statements from business owners, size of company, type of planned follow-up investment, study costs in relation to planned size of investment.
- Counterpart contribution of companies relative to financing: at least 2:1.

Achievement of targets is as follows:

- Throughout the entire administration period by KfW Development Bank between 1999 and 2007 only 35 instances of funding were granted, of which 30 studies were actually carried out. This is precisely the figure calculated at the programme appraisal for the period until 2003. Seven of these studies can be attributed to funding provided from the Stability Pact for South-Eastern Europe (BMZ No. 2000 51 458). The WSUP strategic alliance was also supported, which carried out another 3 studies. Despite all attempts to increase demand, the funds planned overall for the study facility were never

[1] Cf.: https://www.deginvest.de/Internationale-Finanzierung/DEG/Unser-Angebot/Förderprogramme/Machbarkeitsstudien/

[2] PPP facility offer, May 2000.

fully exhausted and only roughly half were disbursed; the utilisation of funds sat on average at below 50 %. This latter figure should not be overestimated because unused insurance is positive from a development policy perspective, but reduces the utilisation of funds.
On a positive note, the vast majority of the business owners surveyed confirmed the information value of the studies; new opportunities but also new risks were discovered in most cases.

- The number of follow-up investments is disappointing with 7 PPP investments from 24 cases, in which the implementation or omission of the follow-up investment is definite. One of the 7 investments was much smaller in size than originally planned because a tender was not carried out in the partner country, and 3 of the follow-up investments can be attributed to the 7 studies funded from the Stability Pact. Additionally, one larger and two smaller follow-up investments were conducted as part of the WSUP promotion that did not match the typical profile of PPP financing.

  In 17 out of 24 cases, however, there were definitely no follow-up investments, and negative study results were only responsible in 2 of these cases. One further case was caused by a lost tender. In 12 cases it was not the lack of or negative study results but events and decisions in the partner country such as missing tenders, approvals issued slowly if at all, changes in the political climate or the exit of local partners at short notice that led to the failure of investment plans. In one case, both internal and external reasons were to blame, while in another of the 17 cases the survey feedback failed to shed light on the reason.

- The significance of the study funding was deemed to be high or very high by the vast majority of companies, even if the study was considered to be much less important for follow-up investments. This is not too surprising given the frequent failure of investment plans as mentioned above for reasons beyond the companies' control. Due to the limited size, the funding was presumably more important for smaller companies than for large companies, even if the latter also emphasise the high relevance of the financial support. One smaller company underlined how important the funding was for them to get to know a new market, despite the follow-up investment failing to get off the ground. For both of the large companies supported as part of the Stability Pact (insurance option) where large investments in the transport sector were prepared by means of the studies and subsequently implemented, we can assume in all likelihood that the study and the investment would have been conducted even without the study facility promotion.
- The targeted ratio of 2:1 regarding the own funds invested by companies and promotional funds was achieved on average for all studies, yet only because of the much higher ratio of own funds to promotional funds invested in the studies under the Stability Pact.

To sum up, the target achievement can only be rated as unsatisfactory given the low number of studies and follow-up investments for the funding under BMZ No. 2004 10 142, previously 1999 10 076. The target achievement level for promotion under the South-Eastern European Stability Pact is higher. However, this is mainly attributable to two large investments of big companies, for whom the study facility is likely to have been of secondary importance. However, both of the funding projects were implemented with insurance options and so no funds were ultimately used. Consequently, while the target achievement fell short of expectations here, it is still rated as satisfactory.

Effectiveness rating: 4 (BMZ No. 2004 10 142, formerly 1999 10 076); 3 (BMZ No. 2000 51 458)

Efficiency

Production efficiency is rated as inadequate on account of the high level of unused funds. In terms of the funding actually used, the administrative expenses coming in at just over one third seem particularly high. Yet this should not be overestimated because the number is misleading for the following reason: the administration cost flat rate of 8 % was levied on the total costs of the studies, including own funds. This automatically means that large sums of own funds invested by companies to boost development, and the prevention of losses under the insurance option, which is also good for development, pushes the share of administrative expenses relative to paid funds upwards.

Due to the few follow-up investments and the limited impacts in the partner countries as a result, the allocation efficiency is not satisfactory either, with the exception of the funding triggered by the Stability

Pact, where three follow-up investments totalling well in excess of EUR 100 million overall can be linked - if not causally then presumably - to the 7 implemented studies. In terms of the follow-up investments that did not take place, however, it should be noted that studies sometimes produced negative results and therefore prevented failed investments, while certain particularly, small companies were positive about accessing new markets even when the investments failed to take place.

Efficiency rating: 5 (BMZ No. 2004 10 142, formerly 1999 10 076); 4 (BMZ No. 2000 51 458)

Impact

The study facility merely made a marginal contribution to improving the economic and social infrastructure and therefore to an improvement of living conditions in the target countries. While relevant development impacts were achieved in some cases at regional level, the relatively low volume of investment totaling roughly EUR 21.5 million under BMZ No. 2004 10 142 (formerly 1999 10 076) already suggests a limited impact potential. According to information from the companies more than 100 jobs were created with the four follow-up investments, know-how was transferred to the partner countries and some exemplary projects were realised from an environmental perspective, such as a waste disposal plant minimising methane emissions.

The situation is much better with follow-up investments under the South-Eastern European Stability Pact because of the two large PPP commitments implemented, as the investment volume realised was more than a hundred times the value of the promotional funding disbursed. The number of jobs created is limited with one of these projects, and markedly so with the other, even if the study funding is not as important for these investments.

Against such a background the overarching impacts of the promotion using funds from the Stability Pact are satisfactory, but are no longer satisfactory for the promotion under BMZ No. 2004 10 142.

Impact rating: 4 (BMZ No. 2004 10 142, formerly 1999 10 076); 3 (BMZ No. 2000 51 458)

Sustainability

First of all it must be clarified that the study facility is not a financially sustainable vehicle per se, but an instrument that is dependent on grants.

However, promotion through the study facility had the potential of triggering sustainable impacts. On the one hand, companies revealed they had learned something from the studies both when follow-up investments were implemented and when they were not, gaining knowledge in the respective areas. However, the sustainability of these effects should not be overestimated because each study or investment relates to an individual project and therefore the findings and experience from other projects are transferable to a limited extent only. On the other hand, investments derived from promoted studies potentially result in lasting effects. It transpires from the information available that the investments realised are sustainable PPP commitments still in operation today.

Consequently, the sustainability of the limited effects produced by the study facility is considered satisfactory.

Sustainability rating: 3 (for all BMZ numbers affected)

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:

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

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative 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. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 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" (level 3).