Ex post evaluation – Syria

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Sector: Informal and semiformal financial intermediaries (24040)
Programme/Project: Microfinance bank in Syria (BMZ Nos. 2007 65 289*, 2007 65 693* and 2007 70 156)
Implementing agency: The supported microfinance institution

Ex post evaluation report: 2017

		Total (Planned)	Total (Actual)
Investment costs (total)	in EUR million	5.0	4.9
Counterpart contribution	in EUR million	0.0	0.0
Financing	in EUR million	5.0	4.9
of which BMZ funds	in EUR million	5.0	4.9

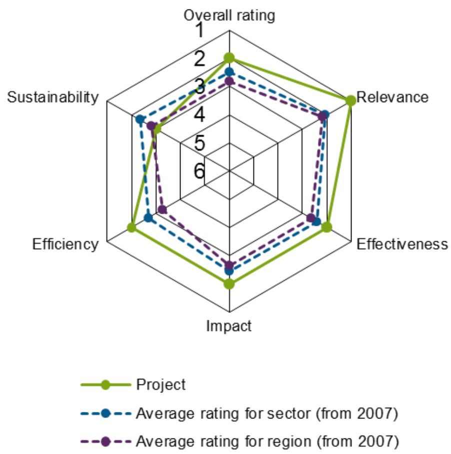
*) Projects in 2013 random sample

Summary: The partner bank offers microfinance products for poorer population groups and micro, small and medium-sized enterprises (MSMEs) in Syria. FC has been supporting the partner bank to expand its business in three ways since 2008: 1) Fiduciary holding: As a trustee for the Federal Government, KfW acquired 14.43% of the bank’s shares and managed these in the Supervisory Board. 2) Grant to the Syrian state: This was fed back to the partner bank as a loan for the refinancing of its microcredit business and the establishment of new branches. Revenues from the loan should be used to strengthen the central bank and to regulate the microfinance sector. However, bilateral cooperation with Syria was stopped due to the civil war and these measures were not further developed. 3) Accompanying measure: Advice and consultancy services for product development and process strengthening in the bank. The outbreak of conflict, which could not be foreseen in 2008, has had a serious impact on the partner bank. However, it is still present and active in Syria today.

Development objectives: The aim of the project was to provide appropriate and sustainable access to microfinancing in Syria. This was to contribute to the improvement of the socio-economic situation and to the development of the MSME financial sector. There was also an additional target dimension in relation to the conflict: access to financial products should help the target group to deal better with the impact of the conflict (strengthen resilience).

Target group: The primary target group was micro entrepreneurs. In the case of microfinance projects, the low-income population as a whole can also be taken as a target group. Due to the conflict, this now encompasses a large portion of the Syrian population.

Overall rating: Rating 2 (both projects)



Rationale: The project is of high relevance to the under-supplied Syrian microfinance market, its objectives have largely been fulfilled, and the access of the target group to microfinance products has improved. The partner bank has established solid internal processes and diversified its products. The project also enables the target group to better cope with the consequences of the conflict. Overall, the development of the partner bank has been impressive in a difficult context, even if the growth targets were only partially achieved. Negative results include the real capital value, which could not be achieved and the failure to strengthen the central bank.

Highlights: Although the outbreak of the civil war was not foreseeable at the time of the project appraisal, the project also strengthens the resilience of the population against the effects of the conflict. The partner bank grants targeted loans in order to e.g. maintain the economic activity of the population or to help ensure internally displaced persons a new livelihood. The evaluation shows that financial sector projects can be very successful in fragile contexts.

Rating according to DAC criteria

Overall rating: Rating 2 (both projects)

The project is highly relevant and has achieved its objectives. In addition to its positive impact in the microfinance sector, the project has also provided an unexpected benefit in that it strengthens the resilience of the people against the effects of the civil war. Among other things it enables the continuation of economic activity and allows internally displaced persons to establish businesses in their new place of settlement. The continuing existence of the funded partner bank, despite the ongoing civil war, and its adaptation to changing customer requirements are impressive. At the same time however, the high rate of inflation and geographic concentration of the portfolio place challenges on the partner bank that jeopardise its sustainability. The component for the strengthening of the central bank, which was never implemented, has had a negative effect on the overall rating of the otherwise very successful project, as this has adversely affected the beneficial further development of the microfinance sector.

General conditions and classification of the project

The context of the project has changed drastically since the measure was launched in 2008. At the beginning of the project, Syria was an authoritarian, but politically relatively stable country. Under President Bashar Al-Assad, a cautious transformation process began, as part of which the centrally planned economy was opened up to a social market economy by means of liberalisation measures. The unexpected civil war, which has now been going on for five years, has claimed more than 250,000 victims, led to the destruction of large parts of the country, displaced millions of people and caused the country's economy to collapse (due to a number of factors including the destruction of economic infrastructure, significant inflation and international sanctions). The partner bank has customers and branches both in areas still greatly affected by the conflict (e.g. Aleppo) and in comparatively stable regions (e.g. Tartous), to which many internally displaced persons have fled. The project is therefore affected by the conflict in a variety of ways and the partner bank has had to adapt to the difficult environment. This development was taken into account when evaluating the project and its performance.

Breakdown of total costs

The total costs of the measure comprise: 1) a fiduciary holding in the partner bank (FH), 2) a grant to fund its microcredit business and to help set up new branches and 3) advice and consultancy services for product development and process strengthening in the bank (accompanying measure, AM):

	Grant (planned)	Grant (actual)	FH (planned)	FH (actual)	AM (planned)	AM (actual)
Investment costs (total) in EUR million	2.5	2.4	2.0	2.0	0.5	0.5
Counterpart contribution in EUR million	0.0	0.0	0.0	0.0	0.0	0.5
Financing in EUR million	2.5	2.4	2.0	2.0	0.5	0.5
of which BMZ funds in EUR million	2.5	2.4	2.0	2.0	0.5	0.5

Relevance

Sectoral: The project has fostered and encouraged financial inclusion by strengthening the microfinance sector, and has thus tackled one of Syria's key problems. In the course of economic liberalisation, the private sector played an increasingly important role in the creation of income opportunities and in poverty reduction. Despite the growing importance of the private sector, poorer segments of the population, as well as micro and small enterprises, have not had access to the formal banking sector. The existing microfinance programmes were unable to cover the demand for financial services. The creation of microfinance banks was permitted for the first time in 2007, as the result of legislative reform in the Syrian financial sector. The opening up of the financial sector and the liberalisation process were generally supported by the cooperation with a private microfinance bank. A portion of the funds was committed to the Syrian state and transferred to the partner bank as a loan. The Syrian state was to use the repayments and interest to strengthen the central bank in order to improve the regulatory environment and the general conditions of the still-young microfinance sector. Looking back, the commitment as a whole as well as the individual components are meaningful and relevant.

It also makes sense, in retrospect, to support an existing microfinance bank instead of establishing a new one. The partner institution already possessed the requisite banking licence and was also well networked at local level. KfW coordinated the fiduciary holding with two other international development banks, which became joint owners. The accompanying measures financed as part of the project were also closely coordinated with the other shareholders: according to a needs analysis, the measures were established collectively with a focus on the weaknesses of the partner bank and corresponded to the state of the art.

The partner bank required further support for the intended consolidation and expansion of its activities. In this respect, the exposure was sensible. It can, however, be questioned quite critically whether the well-established majority shareholder – an international microfinance organisation – would have provided this even without the FC project. In this case, alternative usage of the FC funds might have resulted in higher added value. By acquiring the shares though, FC also opened up possibilities for shaping the content. FC thus secured the potential to influence the balance between social responsibility and economic sustainability (known as the “double bottom line”) as part of the committees. Likewise, the impact potential was positively influenced by the combination of the grant and the accompanying measure. These measures would not have been financed by the majority shareholder in this form and at that time.

It can be criticised that the strengthening of the central bank would have been necessary at the beginning of the project in 2008, due to the still-weak regulatory environment. The funds from the partner bank’s repayments to the Syrian state, which were not seen until 2011/12, came too late. As far as the concept is concerned, (timely) direct support of the central bank might therefore have been more appropriate.

Resilience strengthening in times of conflict: The project gained additional relevance when the conflict erupted in 2011. Access to financial products is still important for the financial management of families and their businesses in the difficult environment at present. In certain areas, new needs have developed as a result of the continued activity of the partner bank (for example in the areas of housing, energy supply or start-ups for internally displaced persons). In addition, the withdrawal of (foreign) commercial banks has left gaps on the supply side which make the products of the partner bank attractive for new target groups. The measures are thus of great importance for mitigating the consequences of the conflict and for increasing the resilience of the target group.

In summary, the relevance is assessed as very good. Despite minor criticisms in relation to its design, the measure is considered to be highly relevant due to the high demand for microfinance services, the low level of supply and the important role of microfinance services in day-to-day life in conflict situations.

Relevance rating: 1 (both projects)

Effectiveness

The sectoral objective of the project is to provide appropriate and sustainable access to microfinancing by the partner bank. As part of the evaluation, the maintenance of the bank’s activities and the adaptation of products to the changing needs of customers were adopted as additional objectives.

KFW

Indicator	Status PA, Target value PA	Ex post evaluation
1) Sectoral indicators		
Annual growth of the MSME credit portfolio of FMFI while maintaining a consistently high portfolio quality (measured variable: outstanding credit portfolio).	20% p.a. (average years 1-5); status at appraisal: SYP 582 million (end of 2007) Target value 2015: SYP 2,502 million	MSME credit portfolio in SYP million 2012 : 919 2013: 977 2014: 1,530 2015: 2,072[1] in USD million 2012: 11,879 2013: 6,809 2014: 7,986 2015: 6,165 -> **Indicator not achieved** (see below) **The target value is too high, even in a non-conflict context, and the indicator therefore has very little influence on the rating.**
Growth of FMFI savings accounts (measured variable: number of active savings accounts).	End of 2nd year: 1,000; End of 5th year (=2013) 6,000	2013: 21,864 2014: 25,865 2015: 43,410 -> **Indicator significantly exceeded**
NEW: Variety of microfinance products offered.		Products at the project appraisal: 1 (microcredits) Products 2016: 5 -> **Indicator achieved**
Average Portfolio at Risk (PAR) > 30 days under 5% p.a.	< 5%	2012: 0.32% 2013: 0.12% 2014: 0.08% 2015: 0.17% -> **Indicator achieved**, in 2012 only due to depreciation amounting to 3% of the portfolio.
Real capital value (measured variable: RoE> rate of inflation) after 3 years.		Return on equity (mix market) 2013: -27.63% 2014: 9.48% -> **Indicator not achieved**
2) Indicators relating to strengthening of resilience	See text under the table: **all 4 indicators fulfilled**.	

Sectoral: The partner bank was able to establish itself on the Syrian market. All steps necessary for consolidation (approvals, purchase of shares by international players, securing of funding) were successfully implemented. The funds raised by the sale of the shares were used by the partner bank to fund its portfolio and to expand and renovate its branches. In addition, the partner bank professionalised its processes (e.g. credit manual, crisis response plan, staff management), developed internal systems (e.g. management information system, sales channels) and strengthened its branch network. As a result, the partner bank has the necessary institutional capacity to meet its growth targets. The established processes and guidelines comply with international standards and can be viewed as best practice. Human ressources

[1] Exchange rate: SYP/USD 336.65

development is a major strength of the partner bank. Such development allowed management positions to be filled with qualified Syrian employees after international employees had left the country because of the conflict. The target group who had their say in a local survey **praised in particular the customer-friendliness of the products and the strong identification of staff members with the social mission of the institution.** The accompanying measure financed from the FC contribution was therefore important for professionalisation measures and is rated very positively by the partner bank. Overall, however, it is particularly important to emphasise the central role played by the continuous and intensive support of the majority shareholder in the development of the partner bank. The strategies and concepts had already been developed and tested by the majority shareholder in other contexts. These were then carried over to the partner bank, taking the context into account. As a result, the partner bank was well established right from the start with a clear social focus and was able to benefit from the close exchange with other institutions and experts of the majority shareholder.

The volume-related growth of the portfolio was not achieved. This is attributable, amongst other factors, to a more restrictive lending policy after the start of the conflict, but which was also essential for achieving the quality objectives. The Portfolio at Risk (PAR>30 days) was consistently below 5%, which was achieved in part due to depreciation at the beginning of the conflict. The PAR value is therefore surprisingly good and is usually much higher in conflict countries. The target value for the number of savings accounts was clearly exceeded. This development demonstrates the relevance of the option to safely store money in a fragile environment and withdraw it at another branch (e.g. following internal displacement). The project objective subsequently introduced of "real capital value" was not achieved due to the extremely high rate of inflation, which has a negative effect on the effectiveness.

The allocation of around 60% of credits to rural customers and their use in a wide range of applications are positive features of the portfolio. A large portion were granted to smallholders and part-time farmers, which play a major role in poverty reduction. The volume of the credits in relation to income corresponds to the size of a typical microcredit. The number of credit and savings products offered has risen significantly since the PA, from 1 to 5 (microcredit, SME credit, term deposits, savings account, current account)

It must therefore be assumed that the measures to strengthen the regulatory environment and the Syrian central bank have not been implemented. It is not known whether or for what purpose the loans repaid by the partner bank are used by the Syrian state. The planned coordination between the recipients and KfW on the use of the funds has not taken place; this is because Germany ceased cooperating with the government-controlled central bank from the start of the conflict for political reasons. FC therefore had no further influence on the achievement of the objectives.

Resilience strengthening in times of conflict: The partner bank was able to maintain its activities in the country despite the conflict and to enable its customers to better manage the effects of the conflict through its products. Institutional resilience is the result of various factors, including successful internal adaptation to the conflict (corporate strategy); the bank's strong local roots – which existed even before the conflict; close contact with customers; and the use of new communication channels (Call Centre). Even in the past, it was still possible to offer individual services (money transfers, savings products and repayment of existing loans) in fiercely contested cities such as Aleppo, making the partner bank the only remaining provider of financial services in many areas. In this context, of course, even the partner bank's capabilities are limited, and loans from areas heavily affected by the conflict are no longer granted due to risk.

The four project objective indicators related to the strengthening of resilience were: (1) financial products enable economic activity; (2) customers use products to mitigate the effects of the conflict / products prevent negative response strategies; (3) products facilitate the mobility of the target group and allow internal refugees to resume economic activity at their place of settlement; and (4) FMFI allows business customers whose banks have left the market to maintain their activities in difficult to access areas.

The partner bank's product adaptations play a central role for customers in the conflict. These have facilitated the transfer of money between branches, which is particularly important for internally displaced persons and increases mobility. Specific credits for the use of renewable energies (e.g. solar units) have been developed to counter energy shortages and the resulting purchasing restrictions. In addition to this, start-up credits have been introduced for internally displaced persons, so that they can start again at their new place of residence. It is difficult to quantify resilience strengthening, but there is a wealth of anecdotal evidence from employee and customer surveys which makes it plausible to assume the crucial importance of such measures.

In summary, the effectiveness of the components which aim to strengthen the partner bank is rated as good. The expansion and professionalisation of the partner bank, as well as its adaptation to the conflict and to changed customer requirements are to be evaluated very positively. While it was only possible to partially achieve the defined growth targets, the continued existence of the partner bank under the changed conditions is considered a success in itself. What's more, the development that took place up to 2011 suggests that the partner bank would have achieved the targets without a problem had it not been for the conflict. Furthermore, the partner bank's services are crucially important for the customers who have been reached, particularly in terms of adaptation to the conflict. The lack of real capital value as well as the failure to strengthen the regulatory environment have had a negative impact, but these factors are attributable to the cessation of state development cooperation with Syria and are therefore outside the project's sphere of influence.

Effectiveness rating: 2 (both projects)

Efficiency

In general, the assessment must take account of the fact that the funds used by FC make up only part of the total assistance and that the measures implemented by the majority shareholder and the other shareholders have also contributed to achieving the results and effects.

The efficiency of the accompanying measure is positively assessed, in particular since the shareholders were well-coordinated and their support was complementary. The productivity of employees at the partner bank is high by regional standards, with 316 customers per customer advisor, and is only slightly below the national average. At the same time, the high level of customer satisfaction speaks in favour of excellent customer service. These figures are a further indication that the available funds have been used sensibly and that the processes, mechanisms and further training measures are of a high quality. In the case of the fiduciary holding, the purchase price of the shares can be considered appropriate. Another positive point is the fact that the assistance has helped to strengthen the economic sustainability of the partner bank. The project implementation was also efficient considering the difficult context. The fiduciary holding and grants ensued according to plan. However, it was not possible to implement the investments for branch expansion according to the original schedule and scope. The accompanying measure also had to be suspended and adjusted due to the tense security situation. The original project duration was until November 2011. This was extended twice and the project was officially completed in July 2013.

The allocation efficiency is high, as customers receive adapted and diversified financial services at reasonable prices. At the same time, the products are transparent so that customers are aware of the conditions of the services. This is also reflected in the high level of customer satisfaction with the partner bank, as demonstrated in the customer survey. Although the interest rates are sometimes considered too high and the customers criticise the (inflation-linked) credit volumes for being too low, almost all respondents said they would continue to use the partner bank's products. In Aleppo, overall satisfaction is lower, which is mainly due to the suspended lending and the inferior working capacity of the partner bank (long waiting times). The only criticism is related to the practice of flat interest rates (calculated on the basis of the amount initially agreed upon), which results in limited transparency of the product's total cost. At international level, however, it has been shown that it is almost impossible for individual financial institutions to record interest using the declining interest rate method (calculated on the basis of the outstanding amount) on their own, since the requested interest rate then "appears" significantly higher than that of its competitors. This represents a clear competitive disadvantage.

Overall, we assess the efficiency as good, since the financial services offered are adapted to the needs of the target group, customer satisfaction is high and the partner bank operates efficiently.

Efficiency rating: 2 (both projects)

Impact

The development policy objective of the measure is to improve the socio-economic situation of the target group and to develop the microfinance sector in Syria. In addition, the development of the financial sector should support the target group to deal with the conflict.

Sectoral: The microfinance sector has grown during the course of the measure and thus all sectoral objectives have been formally achieved. This is of little significance, however, as the target values merely indicate the growth of the sector, without quantifying it. For example, the number of active customers (savings and credit customers) almost doubled between 2008 (41,500) and 2015 (80,000) and the partner bank continues to be market leader with 45,000 customers. However, when compared to the estimated 250,000 to 300,000 underserved consumers in 2008, the growth is rather low. The anticipated spill-over effect has also been modest. Since 2008, two new suppliers have entered the market, while one has left the market. The market is currently served by a total of four suppliers. The development of the product offering – which has diversified, particularly at the partner bank – is seen as positive.

In absolute terms, market development has thus been very cautious. We took the outbreak of the conflict into account when interpreting the figures. It can be assumed that market development would have been much more positive had it not been for the conflict. The microfinance sector was primed for substantial growth in 2011, as the partner bank had adequately professionalised its services and the regulatory framework was in place. The entry onto the market of new competitors in particular was made extremely difficult by the start of the civil war, and even the partner bank was unable to expand its activities. However, it is also questionable to what extent further competition in the microfinance sector would have been a welcome development in a conflict context in which existing microfinance banks are barely able to achieve meaningful growth to realise economies of scale and reduce costs. For this reason, the values achieved should be regarded as a success, particularly in relation to the extent of the economic downturn.

Resilience strengthening in times of conflict: The contribution made by the development of the microfinance sector to the better handling of conflict effects is plausible and can be supported by anecdotal evidence. It is clear that credits for renewable and autonomous energy generation (solar panels), loans for internally displaced persons and the option to transfer money between institutions (increased mobility, safer than transporting it on their own) serve to mitigate conflict effects.

Overall, we assess the impact as good, as the partner bank and the sector as a whole have developed positively despite the difficult circumstances. Likewise, a resilience-strengthening effect is plausible.

Impact rating: 2 (both projects)

Sustainability

Both the economic as well as the social sustainability of the institution can be assessed as positive on the whole. The Portfolio at Risk (PAR> 30) is currently very low, as noted above under Effectiveness, and depreciation is also very low. Since the sum of the savings deposits exceeds the sum of the loans granted, the partner bank is in a position to refinance independently. In particular, maintaining its business more than five years after the start of the conflict is a remarkable achievement and has made the partner bank the only remaining financial service provider in many areas. A key success factor is the fact that the partner bank was deliberately founded as a Syrian institution and has local roots in both its mission and its staff. The qualified and motivated employees are central to the continued existence and development of the partner bank. The social sustainability of the partner bank is also high: customers are well advised, are not pushed into unsuitable contracts, and the principles of the social mission are put into practice (responsible finance).

The conflict does pose a sustained risk to the partner bank’s continued existence, however. On the one hand, the institution can only maintain very limited activity in areas particularly affected by the conflict.

Should the fighting shift to the parts of Syria where the partner bank has particularly high numbers of customers, the partner's basis of existence would be threatened. On the other hand, the ever-increasing rate of inflation also presents a risk. The majority shareholder has previously been forced by inflation to convert a loan granted in US dollars into equity capital, due to the fact that the partner bank would never have been able to repay it. What's more, the interest caps set by the central bank currently favour credit customers and penalise savers (inflation is higher than both savings interest and credits). Since savings deposits cannot be held in foreign currencies, they are unattractive to customers. In the absence of alternative forms of investment, although a massive reduction in savings deposits is unlikely in the short term, the deposit business is the most important source of funding in the medium term. The partner bank has already developed policies for the retention of savings customers (e.g. improved service provision) and the development of additional sources of funding, but there is still a risk to the sustainability of the partner bank.

If the partner bank manages to endure the conflict, however, it has a very good chance of being successful on the market in the long term. The political framework might influence the partner bank's prospects in this respect, due to the denominational affiliation of the majority shareholder.

Overall, we rate the sustainability as satisfactory. The partner bank has endured the conflict better than anticipated thus far (due in part to the goodwill of the majority shareholder) and is well positioned internally, but the developments in the partner bank environment represent a high risk that cannot be influenced.

Sustainability rating: 3 (both projects)

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).