Bangladesh: Private Sector Support II

Ex-post evaluation

OECD sector	24040 – Informal and semi-formal financial intermediaries	
BMZ project ID	2000 65 706	
Project-executing agency	1) Bank for Small Industries and Commerce (BASIC) 2) Industrial Development Leasing Company (IDLC) 3) United Leasing Company (ULC)	
Consultant	n.a.	
Year of ex-post evaluation	**2006**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	4th quarter 2001	4th quarter 2003
Period of implementation	2 years	2 years
Investment costs	no information available	no information available
Counterpart contribution	no information available	no information available
Financing, of which Financial Cooperation (FC) funds	EUR 5.1 million	EUR 5.1 million
Other institutions/donors involved	none	none
Performance (overall rating)	3	
Significance / relevance (sub-rating)	3	
Effectiveness (sub-rating)	3	
Efficiency (sub-rating)	3	

Brief Description, Overall Objectives and Project Objectives with Indicators

The project comprised the provision of an FC grant in the amount of approximately EUR 5.1 million to be on-lent as loans to the three financing institutions, namely Bank for Small Industries and Commerce Bangladesh Lt. (BASIC), Industrial Development Leasing Company of Bangladesh Lt. (IDLC) and United Leasing Company Lt. (ULC). The objective of the establishment of a revolving credit fund was to support micro enterprises with loans (approx. EUR 2.0 million granted to BASIC) and small enterprises through leasing (around EUR 1.5 million each granted to ISLC and ULC).

The programme objective was to ensure the sustainable supply of the target group of mostly urban micro and small enterprises with financial services by the three before-mentioned financial institutions. The overall objective of the project was to make a contribution to the economic development and the development of the financial sector in Bangladesh. In order to measure the achievement of the programme objective, seven indicators were defined for each of the three project-executing agencies. The same indicators were defined for the achievement of the overall objective and of the programme objective. The number of jobs newly created or safeguarded and the number of micro loans handed out were specified as additional indicators.

Project Design / Major Deviations from the original Project Planning and their main Causes

The micro-loan component of the project was implemented as planned as an apex structure with BASIC as apex bank and non-government microfinance institutions (NGO MFI) as on-lending institutions. Altogether 35 NGOs were involved in the micro-loan component. The leasing component was implemented directly by the two leasing companies IDLC and ULC. As compared with the project appraisal report drawn up in 2001 no major institutional changes occurred in any of the three financial institutions.

In its capacity as apex bank BASIC does not require real collateral and accepts guarantees provided by the NGOs. The requirements to be fulfilled for accreditation as an on-lending institution appeared to be little formalised up to now and contain mainly qualitative indicators (e.g. experience up to now in the cooperation with BASIC, outstanding loan volume, annual financial statements, non-performing loans, etc.). The funds are on-lent as advances and later on evidence for the use of funds has to be provided by the NGOs in accordance with the contractual provisions. The definition of micro enterprises used by BASIC is in line with the definition customary in Bangladesh. The organisational and operational structure of BASIC as an apex bank still requires improvement in the sense that an efficient monitoring and reporting system has to be set up to enable the timely retrieval of relevant data (e.g. use of loan funds, loan repayment). BASIC pays 1% interest to the Bangladeshi government and charges an interest rate of 7% on the funds transferred to the NGOs involved. As contractually agreed, the Bangladeshi government transfers the interest differentials to the development budget. BASIC receives a fee of 3.5% for handling and processing the loans. The NGOs on-lend the sub-loans to micro enterprises at interest rates of 20% to 50% p.a.. This is in principle in line with market conditions. The interest differentials in the amount of 2.5% accrued by BASIC were allocated as contractually agreed to the micro-loan account and were used for granting new loans. The 1% refinancing rate of BASIC contains a substantial subsidy element, which can no longer be justified today given the positive development in the micro-finance sector in Bangladesh.

In the last two years IDLC and ULC further diversified their business activities. Meanwhile both institutions regard themselves as universally active financing institutions. In the future, attention is to be increasingly paid to the retail business. Leasing finance continues to be the most important financing product with a share in the assets of both financing institutions of around 61%. The financing conditions are in conformity with the market and are profit oriented. At the end of 2004 the share of small enterprise financing (including micro enterprises) was around 46% for IDLC and 71% for ULC. Altogether 68 leasing contracts (ISLC 21, ULC 47) for 56 micro enterprises were financed with FC funds. The leasing financing was used almost exclusively for company enlargement or modernisation measures. The maturity of the contracts was in the medium to long-term range. The sectoral focus was on transport, the manufacturing industry and the service sector, with more than 90% of leasing contracts concluded in the greater Dhaka area. The two leasing companies used the FC funds almost exclusively to finance long-standing customers. Around 90% of the total investment costs was financed with FC funds, the share of own funds made available by ULC and IDLC was less than 1%. The average amount of the leasing contracts was BDT 5.5 million or around EUR 70,000 for IDLC and BDT 2.4 million or EUR 30,600 for ULC. IDLC and ULC use the return flows from the leasing contracts to refinance their normal leasing business. IDLC and ULC did not know about the requirement that the FC funds should be used for the target group of the FC project on a revolving basis. Likewise, the requirement was not mentioned in the Separate Agreements.

The verification of the use of funds and the random samples made at sub-borrowers on site did not give cause for complaint.

Key Results of the Impact Analysis and Performance Rating

Overall, we rate both the indicators for the overall objective and for the programme objective as sufficiently achieved. Since from today's point of view one of the originally defined seven indicators for the programme objective (number of jobs newly created or safeguarded) is to be subordinated to the indicator for the overall objective, the following six indicators for the programme objective remain:

Indicators for the achievement of the programme objective:	Target: Project appraisal report	Actual: End of 2nd year after disbursement
(1) Gross loan portfolio of micro loans and leasing to SMEs with up to Taka 50 million in fixed assets	BASIC: Micro loan portfolio > Taka 250 million IDLC: Total leased assets > Taka 100 million ULC: Total leased receivables > Taka 150 million	BASIC: Taka 280.4 million IDLC: No information can be provided ULC: Taka 414 million (SMEs up to Taka 10 million in fixed assets)
Assessment		Indicator is sufficiently fulfilled.
(2) Overdues of principal and interest instalments / leasing instalments of more than 90 days under FC financed loans / leasing transactions	BASIC: < 3% IDLC/ ULC: < 5%.	BASIC: 2% IDLC: 5.64% ULC: 7.6% (more than 180 days)
Assessment		Indicator is partly missed, but this is still acceptable.
(3) FC financed micro loans / leasing transactions	BASIC: < Taka 5,000 IDLC/ ULC: < Taka 5.0 million.	BASIC: Taka 5,166 IDLC: Taka 5.5 million ULC: Taka 2.39 million
Assessment		Indicator is partly missed, but this is still acceptable.
(4) Administrative expenses in relation to operating result before taxes	BASIC: < 40% IDLC: < 45% ULC: < 20%	BASIC: 31% IDLC: 38.7% ULC: 15.5%
Assessment		Indicator is sufficiently fulfilled.
(5) Profit (after taxes) per employee	BASIC: > 380.000 Taka IDLC: > 1 Mio. Taka ULC: > 3 Mio. Taka.	BASIC: Taka 504,300 IDLC: Taka 1.47 million ULC: Taka 3.75 million
Assessment		Indicator is sufficiently fulfilled.
(6) Share of overdues of more than 90 days in the total loan / leasing portfolio	BASIC: < 5% IDLC: < 4% ULC: < 2%.	BASIC: 3.7% (overdues > 180 Tage) IDLC: 5.9% (overdues > 180 Tage) ULC: 1.2% (overdues > 180 Tage)
Assessment		Indicator is partly missed, but this is still acceptable.

The two indicators that measure the achievement of the overall objective (number of jobs created and of micro-loans handed out) have been fulfilled. At the time of the ex-post evaluation micro-loans had been extended to altogether 34,910 micro-enterprises and 68 leasing contracts to 56 small enterprises had been financed. Moreover, nearly 35,500 new jobs had been created or safeguarded. As regards the micro-loan component, it can be stated that the project had a large broad-scale effect and made a significant contribution to creating and safeguarding jobs and incomes. Thus, it can be assumed that the project contributed directly to reducing poverty. As regards the leasing component, the contribution made to achieving the real economy objectives is lower due to the low number of financings and to the fact that the FC funds were not used on a revolving basis for the target group. The low broad-scale effect of the IDLC leasing component has to be judged critically.

Due to the high number of micro-enterprises supported the project had substantial positive impacts on employment, incomes and in terms of poverty reduction. Loans were generally extended without regard for gender. As regards the micro-loan component, women benefited disproportionately from the financing measures. The project did not pursue the goal of improving the participatory development or good governance. Moreover, the programme was not geared towards protecting the environment or natural resources. As a result of the project documentation provided by the banks on site and the random visits to companies it can be suggested that the exclusion of companies that produce particularly negative impacts on the environment (e.g. tanneries, dyeing mills, galvanic enterprises) (this had been defined as one of the prerequisite of the programme) was adhered to.

In a summarised evaluation of the above mentioned aspects we rate the overall developmental effectiveness of the programme as follows:

Effectiveness

The programme objective was to provide financial services for urban small and micro enterprises in urban areas. Measured by the agreed target indicators the project purposes have been met in a satisfactory manner (exceptions: IDLC with regard to the quality of the FC portfolio and the overall portfolio and ULC with regard to the quality of the FC portfolio). A positive aspect to be mentioned is the broad-scale effect of the micro-loan component, which reached almost 35,000 borrowers. The same applies to the leasing finance component, which covered 47 leasing contracts concluded by ULC with relatively low average leasing amounts. However, the low broad-scale effect of the IDLC leasing component is not satisfactory since IDLC concluded contracts with only 21 lessees and the average leasing amounts were relatively high. We rate the programme's overall effectiveness as sufficient (sub-rating 3).

Relevance/Significance

The overall objective was to contribute to the economic development and the development of the financial system in the project region. Both indicators were achieved to a satisfactory degree. The impact on the real economy (jobs) is positive with no restrictions. It can be assumed that the financial services are provided on a long-term basis. However, the structural effects on the financial sector are limited: The above-referenced restrictions with regard to the revolving use of the funds and the concentration on long-standing customers are a limiting factor in terms of broad-scale effect and the significance of the developmental effect of the measures. Still, the fundamental relevance of leasing and loan financing for small and micro enterprises is obvious. Overall, we classify the programme's significance and relevance as still sufficient (sub-rating 3).

Efficiency

The project-implementing banks are working comparatively efficiently. The banks are above the sector average with regard to both their earnings and capital situation. The organisational and operational structure of BASIC bank as an apex bank still requires improvement in the sense that an efficient monitoring and reporting system has to be set up to enable the timely retrieval of relevant data (e.g. use of loan funds, loan repayment). Overall we judge the production efficiency to be sufficient. The terms and conditions for the ultimate customers of both leasing financings and micro and small enterprise loans are in conformity with market conditions. The use of the loan funds by small and micro enterprises was relatively successful (indicators: profitability and repayment behaviour). We also rate the production efficiency as sufficient. Overall, we rate the project's efficiency as sufficient (sub-rating: 3).

In a summarised assessment of the above impacts and risks we rate the programme as having an overall **sufficient** developmental effectiveness **(overall evaluation: rating 3)**.

General Conclusions and Recommendations

In the event of projects with an apex structure the implementing banks /financial institutions should be chosen in the context of a transparent, public selection procedure. Such a procedure will ensure a free and fair competition for the scarce promotional funds and will also increase the efficiency.

In the event of financial sector projects, the refinancing conditions should, if possible, be determined so as to ensure that the partner banks / financial institutions still have an incentive to raise funds in the form of savings deposits.

A phenomenon frequently noticed when examining MSME credit lines is that the overall maturity of the loan granted to the recipient country is usually considerably longer than the terms of the individual loans handed on to the banks / financial institutions involved. In order to increase the significance of this type of projects it would be worthwhile to adjust the on-lending maturities to the overall maturity of the loan, especially with the aim in mind to ensure the revolving use of the funds on a long-term basis.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	**Very high or high degree of developmental efficacy**
Rating 2	**Satisfactory developmental efficacy**
Rating 3	**Overall sufficient degree of developmental efficacy**
Developmental failures: Ratings 4 to 6	
Rating 4	**Overall slightly insufficient degree of developmental efficacy**
Rating 5	**Clearly insufficient degree of developmental efficacy**
Rating 6	**The project is a total failure**

Criteria for Evaluating Project Success

The evaluation of the developmental efficacy of a project and its classification during the ex-post evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?
- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities on their own and generate positive results after the financial, organisational and/or technical support has come to an end.