Ex Post-Evaluation Brief
Bolivia: Financial System Development (NAFIBO III)

Sector	Formal-sector financial intermediaries (24030)	
Programme/Client	Financial System Development NAFIBO III BMZ no. 2001 65 621	
Programme executing agency	State development bank NAFIBO: Nacional Financiero Boliviana S.A.M; since 2007 Banco de Desarrollo Productivo (BDP)	
Year of sample/ex post evaluation report: 2010*/2012		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	no information	no information
Counterpart contribution (company)	at least EUR 1.173 million	EUR 1.2 million
Funding, of which budget funds (BMZ)	EUR 5.86 million	EUR 5.86 million

* random sample

Project description: The development approach for NAFIBO III consisted of the provision of a long-term refinancing line to the state development bank, NAFIBO (Banco de Desarollo Productivo since 2007) for enabling regulated (micro-)financial intermediaries (MFIs) to provide long-term refinancing for their small and microloan portfolio and housing finance at market-conform terms and conditions. Finance from FC funds amounted to about EUR 5.86 million. Phases I and II were carried out under the title, Financing Micro and Small Enterprises I and II, had a very similar design and were rated good (2) and satisfactory (3) in the respective ex-post evaluations. Phase III evaluated here concludes the programme. Complementing the third phase, a training measure was carried out in which various personnel of BDP visited KfW in Germany and informed themselves about its mode of operation.

Objective: The overall objective of the programme was to make contributions to securing jobs and raising income for the benefit of poor sections of the population as well as to deepen the formal financial sector. The project objectives consisted of the sustainable increase of credit supply for MSEs via the programme MFIs at market terms and conditions and raising the efficiency of MFIs.

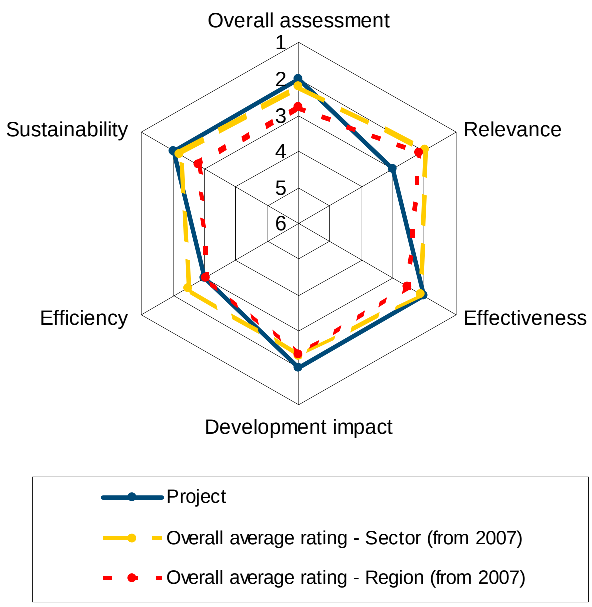
Target group: Micro and small enterprises (MSEs) of the formal and informal sector in the urban and rural areas of Bolivia. MSEs were defined as enterprises with up to 20 personnel, total assets of up to US$ 100,000 and an annual turnover of up to US$ 200,000. The intermediaries are the MFIs with drawing rights that serve predominantly poorer sections of the population as clients.

Overall rating: 2

The programme was implemented with a four-year delay due to political problems (change of government with a new political agenda). As the microfinancial market in Bolivia developed very rapidly in these 4 years, discrepancies arose between the terms and conditions of the programme and the requirements of the market. Since, however, the initial allocation of funds reached generally viable MSEs via efficient MFIs, we nevertheless assign the programme a rating of good.

Of note: As a result of a dynamic market development, the approval criteria may no longer be appropriate for the revolving use of funds. An appraisal should be made here before the end of the programme.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: Rating: 2

Relevance: Microfinancial market in Bolivia: The Economist Intelligence Unit's Global microscope on the microfinance business environment 2011, a recognised annual report on the quality of microfinancial markets, places Bolivia in second position in microfinancing after Peru. Bolivia has a sound and conducive regulatory framework for the microfinancial sector. The evident keen competition can be seen as proof of a functional market. There have not been any overindebtedness trends among final borrowers. The Bolivian Government has also not changed its focus on promoting MSEs since the planning of the third programme phase in 2004.

Programme design and market situation: Due to the political and administrative delays (change of government) in programme implementation, the design did not always meet the new market requirements, particularly in the following points:

- <u>Demand of MFIs for refinancing</u>: Due to the rapid development of the microfinancial market since 2004, the refinancing capacities of MFIs have improved considerably. Since 2008, savings deposits have injected a very large inflow of liquidity onto the market. Finance from commercial institutions is available for microloan banks and the slightly less regulated FFPs (fondos financieros privados). This is why demand declined sharply for the BDP microfinance programme as of 2009.
- <u>Regulation</u>: In 2008, the Bolivian regulatory authority (ASFI) introduced a new regulation for NGOs and cooperatives that formally permitted these institutions to act as financial development institutions (instituciones financieras de desarrollo, IFD). These offer a broad range of financial services, particularly in rural regions. They cannot take savings deposits and tend to issue smaller loans. At the moment, these financial institutions cannot obtain refinance from the FC credit line.
- <u>Maximum loan amount</u>: Altogether, the regulated microfinancial institutions have been able to considerably improve their institutional capacities and practices in risk management, enabling them to diversify their services. This was not confined to new financial products but also included larger loans with a longer term. At the same time, the borrower enterprises have grown considerably, with an attendant increase in average loan amount. The contracts of the FC credit line specify an average loan amount of US$ 3,000 (US$ 4,000 as of 2009).

Results chain: The identified results chain at project appraisal remains valid. The provision of loans for the private sector promotes investments, creates jobs and generates income.

Consistency with partner country and donor goals: The programme is still basically aligned with the goals and priorities of the donors and the Bolivian government, as reflected in the good consultation with other projects/programmes of German development cooperation in Bolivia. Central in this connection were the GIZ activities in the project, Desarrollo del Sistema

Financiero (DSF), which promoted the formalisation of many previously unregulated financial institutions. The refinancing windows for MSEs are also assisted by BID, but the programmes are not fully harmonised. Policy changes due to the electoral victory of Evo Morales at the beginning of 2006 and the resultant administrative hurdles delayed programme start by four years (The financing agreement had already been signed in 2004.). In this period, BMZ changed the priority sectors of German development cooperation in Bolivia so that when the programme started with the disbursement of the first loan tranche at the end of 2008, financial system development was no longer seen as a priority sector.

Altogether, we are of the view that the programme is still relevant, though less so in comparison with the first two phases (Sub-rating 3).

Effectiveness: Indicators: The project objective of the FC programme was (i) the sustainable increase in credit supply for MSEs through the microfinance programme intermediaries (MFIs) at market terms and conditions, (ii) a contribution to raising the efficiency of the (iii) MFIs and to product diversification in MSE sector finance, particularly in housing finance. Indicators for project objective achievement were (a) the annual growth of MSE credit volume and the number of outstanding loans over the three-year term of the programme >5% (amount and number), (b) the average of all loans under US$ 30,000 from MFIs, would be less than US$ 3,000 (US$ 4,000 as of 2009), (c) increase in the number of branch offices of MFIs taking part in the programme, d) annual increase in administrative efficiency (administrative costs/assets) weighted by assets of the participant MFIs, (e) positive annual average total ROA of all participant MFIs (net profit/assets) and (f) improved financial service delivery by the participant MFIs in terms of quantity and quality (particularly in housing loans with innovative credit technologies and terms and in other products, such as collateral loans, payment transactions, time deposits, savings accounts, current accounts, transfers and credit cards).

Suitability of indicators: The indicators are closely geared to the growth of microfinance institutions, although the concentration on growth was heavily criticised after the financial crisis. In the present case, we still consider this focus to be warranted, as Bolivia was hardly affected by the financial crisis and the good regulatory framework allows for healthy growth. In view of the dynamic and innovative development of the microfinance sector, the performance of the project indicators in the third phase partly well exceeds the outcomes of the previous phase. As the programme was delayed by four years, the indicators do not reflect the expectations at actual programme start and therefore have to be rated as conservative.

Disbursement of funds: In the initial allocation in 2008, most funds were paid out. In the following years, however, demand declined from MFIs for FC refinancing funds from the government development bank, BDP (formerly NAFIBO). During this time, the MFIs received a large influx of customer deposits. These are often only formally available to the institutions for a short term, yet the constantly available funds are so large that demand for long-term refinancing of up to 5 years can also be met in part. As the interest rate for deposits amounted to only 1%, the MFIs preferred to resort to their own refinancing and not draw on BDP refinance from the

KfW programme. For this reason, demand for the revolving funds has been rather slow. At evaluation in October 2011, only 80% of funds had been disbursed. There are now indications, however, of resurging demand by MFIs. The increased demand is due for one thing to a reduction of new customers in savings deposits and the desire for diversified refinancing in a highly competitive market with heavy price and competition pressure.

Objective achievement: All growth and efficiency indicators were met and even exceeded. The excellent and dynamic market development also indicates that readjusted indicators would also have been met. The development of project indicators is not solely attributable here to the programme but was also facilitated by the advanced Bolivian microfinancial market and the favourable macroeconomic development. The only indicator that was not met was in housing finance, where the initially envisaged issuance of indexed loans was discontinued due to phases of high inflation. However, more loans were allocated particularly in residential building. New products (loans with longer terms, time deposits, current accounts, transfers, agricultural loans, mobile banking, etc) have been developed in the microfinancial sector and have proved successful on the market.

Summarising, the microfinancial market still makes a major contribution to innovation in the financial sector and to economic growth. Except for housing loans, the programme achieved almost all of its objectives. We therefore assess its effectiveness as good (Sub-rating 2).

Efficiency: Efficiency of programme executing agency, BDP: BDP has a stable financial structure and a sound equity base. It has adopted a controlled risk strategy and intends to carefully expand the number of promoted MFIs. The solvency and credit rating of BDP (Fitch rates BDP with AAA on the national scale) are based on support by the Bolivian Government. BDP does not (yet) refinance itself on the capital markets. The funds for issuing loans stem largely from credit lines from multilateral and bilateral organisations and from shareholders (Besides the Bolivian Government, the Andean Development Corporation holds 20% of the shares.). About 40% of the loan portfolio is financed from BID loans. The pooling of BID and FC resources is a very welcome development on the one hand, but the approval criteria are not harmonised, causing inconsistencies in implementation (different reference interest rates when setting conditions, in part different target groups). Interviews with MFIs showed that BDP has much improved its procedures, particularly in the recent period, and deals much faster with refinance applications. Depending on type of customer, loans are granted in 3 to 5 days.

Efficiency of participant MFIs: As already pointed out, the performance of microfinance institutions is exceptionally high in Bolivia. The rate of arrears in the whole financial system on 30 September 2011 amounted to 1.05%. Return on equity ranges between 23% and 27%. All efficiency indicators for the project were met, which underlines the high performance of the participant MFIs.

Programme efficiency can therefore be rated as very good at the participant MFI level. The lack of harmonisation of BID and German FC credit lines has to be called into question. Due to the development assessment of Bolivia at the time (M17), only BMZ budgetary funds were used for the programme. Considering the advanced microfinance sector, the partial use of market funds would also have been appropriate (Sub-rating 3).

Overarching developmental impact: Market development: Due to competitive pressure in the microfinancial sector, the interest margins of MFIs have declined. At present, interest rates of between 9.5% and 15% for microloans are usual in Bolivia, the lowest interest rates in Latin America. As the repayment culture is very good in Bolivia, the credit bureaux operate without any additional complications. Effective and sound financial market regulation and high liquidity in the financial sector foster market competition. Altogether, competition among the institutions has for the most part had a beneficial effect by lowering financing costs and broadening product diversity for final borrowers and has not resulted in unfair competition. The number of branch offices has risen considerably in the whole country. Nevertheless, there is a lack of adequate financial products in some rural regions. Regulations now require that two branch offices be opened in rural areas for every urban microfinance branch. This will compel the MFIs to increase the number of branches in rural regions and subsidise these through the urban branches. There is still a general lack of adequate financial products tailored to the needs of final borrowers in the production sector.

Responsible finance: Consumer protection is subject to strict regulations. Responsible finance standards are an integral part of lending and are strictly supervised, as confirmed by the international credit ratings. Bolivia scored best in the rating categories of market price transparency, complaints and arbitration procedure and conduct of banking transactions by agents. Most loans are in local currency nowadays, as the financial institutions have to securitise their loans with more equity capital in US$ and twice the amount of provisions must be made for non-performing loans in US$. The advantage for final borrowers is that loans in local currency pose no exchange rate risk.

Selection of MFIs for BDP refinancing programmes: By way of its selection criteria for eligible institutions for assistance, BDP contributes to professionalising the sector. BDP promotion and/or refinancing is perceived by the market as a seal of quality. The unregulated institutions also attempt to meet the criteria to gain access to relevant funds. Consideration should therefore be given to opening the programme for the newly regulated IFDs.

Due to the rapid market development that has taken place in keeping with the principles of responsible finance and also included new, previously unserved clientele, we assess the results achieved as good (Sub-rating 2).

Sustainability: The sustainability of the programme depends primarily on three actors: BDP, ASFI (Autoridad de Supervision del Sistema Financiero) as the Bolivian supervisory authority, and the microfinance institutions that issue the final loans.

BDP: Since its foundation in 2007, BDP has increasingly received trust business from the Bolivian Government. To perform these tasks, it has increased its staff. As majority shareholder, the Bolivian Government issues the statutes and it appoints the members of the directorate every year. The evaluation revealed that although annual rotation takes place in management, the technical personnel of the bank has largely remained unchanged. In the last two years, the image and the reputation of BDP as an apex institution and development bank has improved among market participants. BDP now concentrates on its role as financial intermediary for the production sector without excessively distorting the market. A major factor of influence in this direction is the Andean Development Cooperation (CAF), which currently still holds 20% of the shares of BDP and coshapes bank strategy. We therefore assess the sustainability of the programme in relation to BDP as good.

ASIF: Bolivia has a good regulatory framework and sound and efficient financial sector supervision, even though competent specialists left during the reform of banking oversight in 2009 and the new supervisory agency, ASIF, has experienced restricted autonomy. Market price transparency has risen since then, as stricter standards on disclosure of price information were adopted for regulated microfinance institutions. Compliance with disclosure duties has also been strictly monitored.

All interviewees agreed that political tensions will not have any large impacts on the microfinance sector in future. We consider the development and know-how of microfinance institutions as advanced enough to render the threat of government interventions in the sector improbable. We therefore assess the risk of political influence to be less than in the ex-post evaluation of the second phase in 2007, which feared massive government intervention in the financial sector (Sub-rating 2).

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).