Bolivia: Financing Micro and Small Enterprises (NAFIBO II)

Ex-post evaluation report

OECD sector	24040/Informal/semi-formal financial intermediaries	
BMZ project number	1999 65 666	
Project executing agency	Nacional Financiera Boliviana S.A.M., NAFIBO	
Consultant	-	
Year of ex-post evaluation report	**2007**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	2nd quarter 2001	3rd quarter 2002
Period of implementation (outflow of funds)	up to 4th quarter 2003	up to 2nd quarter 2003
Investment costs	EUR 5.11 million	EUR 5.11 million
Counterpart contribution	0	0
Finance, of which FC funds	EUR 5.11 million	EUR 5.11 million
Other institutions/donors involved	0	0
Performance rating	**3**	
• Relevance	2	
• Effectiveness	2	
• Efficiency	3	
• Impact	2	
• Sustainability	3	

Brief Description, Overall Objective and Programme Objectives with Indicators

Promotion of micro and small enterprises (MSEs) via the financial sector. The programme, Financing Micro and Small Enterprises, comprised the provision of a long-term refinancing line to the state development bank, Nacional Financiera Boliviana (NAFIBO), to enable regulated financial intermediaries to refinance their small lending and microlending business at commercial terms over a long period. The overall project objective was to contribute to deepening the formal sector, help secure jobs and improve income in poor sections of the population. The programme objective was sustainable improved access for micro and small enterprises in rural and urban regions to investment and operating loans via efficient financial intermediaries regulated by the banking supervisory authority. The intention was to help secure jobs in low-income sections of the population in Bolivia and raise income. The target group of the project were formal and informal micro and small enterprises (MSEs) in urban and rural areas of Bolivia with bankable borrowing requirements. The intermediaries for MSE outreach were microfinance institutions regulated and licensed by NAFIBO with access to the target group. The programme was conducted in cooperation with the TC project on rural financial system development.

Programme Design/Major Deviations from Original Programme Planning and Main Causes

NAFIBO. The programme executing agency, NAFIBO, was founded in 1996 as a state apex institution. The Bolivian government holds 80% of the shares and the Andean Development Corporation (CAF), 20%. NAFIBO's mandate as an apex bank is to make an active contribution to developing the production sector and strengthening the competitiveness of the national economy. As of 2000, NAFIBO acts as a private-sector institution, wielding far-reaching practical autonomy in all areas. Its executive and specialist staff can draw on several years of experience in the banking sector and are well qualified to perform their tasks. So far, NAFIBO has been known for its independence from political influence and the management has successfully warded off attempts in this direction in the past. There are, however, no institutional mechanisms to ensure this autonomy in future regardless of the respective management in charge.

NAFIBO's finances are well-ordered and it has a sound profitability record. At the end of the financial year 2005, net income (after tax) of US$ 2.67 million slightly exceeded the previous year's figure (US$ 2.45 million). A particular reason was a decline in costs (provisions and administrative costs), which compensated for diminishing margins. At US$ 40.1 million, NAFIBO had a robust equity base (2004: US$ 39.6 million), the equity ratio amounting to a comfortable 16% (2004: 14%). Total assets came to US$ 246 million (2004: US$ 273.5 million). NAFIBO was given an AA rating by Fitch in June 2006.

Selection of partner institutions. The accreditation of financial intermediaries and the disbursement of refinance by NAFIBO is governed by the Normas Generales de Crédito (general lending standards) and the specific guidelines for each credit line (in the specific case, Reglamento de la Ventanilla de Crédito para la Pequeña y Microempresa). These take particular account of the portfolio quality as well as the financial strengths of the respective intermediary. It is at NAFIBO's discretion to decide what financial institutions receive funds from the programme and the amount. In view of the executing institution’s adequate high standard of professionalism, it would seem warranted to leave this selection function to it. After approving a new intermediary, NAFIBO signs a framework agreement with it and concludes a separate loan agreement for each refinancing transaction. Adequate selection criteria have been applied for partner institutions and lending and have been successful in vetting generally suitable institutions for participation in the programme.

NAFIBO portfolio. As in previous years, the net loan portfolio recorded a drop of US$ 223 million equivalent in 2004 and US$ 202 million in 2005. Despite a slight decline of approx. US$ 40 million to US$ 38.1 million, the portfolio for microfinance intermediaries still retained a share of almost 20% of total lending. Asset quality is outstanding, with almost no delinquent loans.

At ex-post evaluation, the microlending portfolio amounted to US$ 40.96 million. Between 1996 and September 2006, US$ 135.3 million in loans was disbursed via the microcredit window. Thanks to the revolving arrangement, (aggregate) loans amounting to US$ 11,690 million were refinanced to the Fondo Financiero Provado (FFP) alone through the line under review. Between December 2004 and October 2005, no loans were, however, disbursed from the microcredit window, leaving a mere US$ 1.7 million outstanding at ex-post evaluation. NAFIBO cites an interest cap on loans extended to the partner institutions as the reason for the insufficient deployment of FC funds.

Key Results of Impact Analysis and Performance Rating

Indicators and objectives achievement rating. The target/actual comparison of the indicators for overall and progamme objectives reveals a good to very good performance:

Overall objectives:	
Contribution to job security and increased income in favour of poor sections of the population	Available studies on the impact of various microfinance facilities in Bolivia reveal beneficial effects on income in the participant entrepreneur households and attendant improvements in quality of life and jobs.
Contribution to deepening the formal financial sector	Target: Annual increase in the number of MSEs issued with credit in the formal financial sector by 5% Actual: The increase each year exceeded 5% (max. 40.2%; min. 6.43%) Target: Annual increase in loan portfolio outside the central axis by 10% Actual: The increase each year exceeded 10% (max. 23.7%; min. 17.3%) Target: Annual increase in the number of customers using other financial services (time deposits, savings accounts, current accounts, remittances, housing loans, etc.) Actual: No statistics are available but an increase may be assumed.
Programme objective	
Sustainable increase in lending facilities for MSEs via the microfinance intermediaries (MFIs) of the programme at market conditions and improved efficiency of MFIs.	Target: Annual increase in a) MSE volume of credit issued by the MFIs in US$ (by 10%) as well as the number of b) outstanding MSE loans (by 5%) Actual: The increase every year was a) more than 10% (max. 37%; min. 29%) b) more than 5% (max. 53%; min. 19%) Target: Average loan amount by MFIs less than US$ 3,000 Actual: Requirement was met every year, the latest figure was US$ 1,692 in 2005 Target: Increase of branch offices outside the central axis Actual: Met Target: Annual reduction in interest margin of MFIs Actual: The interest margin of the participant MFIs declined from 20.13% in 2003 to 17.71% in 2005

As evidenced by the low average loan amount of the participant FFPs, the MSE target group outreach has been very good. Several studies on various microfinance facilities in Bolivia reveal beneficial impacts on income in the participant entrepreneur households and attendant improvements in the quality of life and in jobs.

The programme harnessed its potential to contribute to gender equality: Female entrepreneurs make up a major part of the target group. This marked participation of women in the Bolivian business sector provides an economic base to advance their interests in other areas as well and to improve prospects for gender equality.

A general poverty reduction approach was adopted at macro and sectoral level. Environmental protection and resource conservation were not primary concerns of the project. Under their lending directives, the MFIs are obliged to abstain from financing measures that endanger the environment or health. Altogether, the project is not expected to cause any significant damage to the environment.

The project was not geared to decentralisation, participation or good governance.

In summary, we assess the developmental efficacy of the project as follows:

Relevance: The programme still aims today at removing a major impediment to the economic development of Bolivia by contributing to securing the provision of long-term credit to MSEs. The programme was aligned with the national development policy goal, which attaches high priority to creating employment and reducing poverty. It also conformed with the German Government's development cooperation priority with Bolivia and with its Programme of Action 2015 and it has also made an indirect contribution to attaining the Millennium Development Goals. The results chain from the provision of concessional loans to MSEs for investments to securing and creating jobs and income is logically coherent. Some obstacles still stand in the way of MSE development: the inefficient bureaucratic procedures in public administration and lack of legal certainty. We assess the **relevance** of the programme as **good** (Subrating 2).

Effectiveness: The objective of the FC programme was the sustainable increase in lending facilities for MSEs via its intermediary microfinance institutions (MFIs) on market terms and raising MFI efficiency. Measured against the relevant indicators, the programme objective has been achieved and in part even surpassed. The loan portfolio of the participant MFIs grew on average by 30% a year, far above the target of 10%. The average volume of outstanding loans has remained consistently low at about US$ 1,700. Net interest margins are still adequate. We judge the **effectiveness** of the project as **good** (Subrating: 2).

Efficiency: We assess the production efficiency of the FFPs in the programme as very good. The Bolivian FFPs already number among the leading group among MFIs worldwide for production efficiency. This is particularly evident in the very good capital returns and the strong portfolio growth. Portfolio at risk has remained consistently low. Defaults are followed up consistently. Operating costs are low. Allocative efficiency is currently restricted, as a large part of the present FC funds remained unused in 2005. A positive aspect, however, is that the programme provides for a 20% contribution by NAFIBO and the revolving use of funds. The FFPs surveyed praised NAFIBO for its speedy loan preparation and approval. Interest for MSME loans by the participant FFPs are positive in real terms and in line with the market. Altogether, we assess **efficiency** as **satisfactory** (Subrating 3).

Impact: The overall objectives of the project - contributing to securing jobs and increasing income in favour of poor sections of the population and to deepening the formal financial sector - have been met. Moreover, the participant intermediaries can be expected to align their business policy with the needs of their target group in the long term. The loans to the participant intermediaries have also contributed to strengthening their finances in the long run. Even if NAFIBO were to break off the programme completely, it has nevertheless made a contribution to developing capacity in the financial sector. We judge the **impact** of the programme as **good** (Subrating 2).

Sustainability: The main risk for sustainability consists in a possible deterioration in the business position of the participant FFPs. In the past, the FFP sector has, however, proved to be particularly stable and crisis resistant and the financial sector still looks to be developing largely independently of the general political climate. There is, however, a danger that direct state interventions by the left-wing populist government could destabilise the financial sector. Besides growing general economic and political uncertainty, the current conversion of the executing institution, NAFIBO, into a development bank could jeopardise programme sustainability. As to the executing institution itself, the future political autonomy of NAFIBO or the new development bank is not assured. In hindsight, NAFIBO has proved to be a stable institution able to withstand political pressure (see below). This stability is to the particular credit of individuals in the management, though, so that developments could well have taken a different turn. The programme itself, then, missed the opportunity of instituting mechanisms to guard against political influence in future as well, via a complementary measure, for example. In particular, in its efforts at autonomy, the management was unable to enlist the participation of private shareholders besides the CAF in negotiations with the government.

An affirmative factor is that the NAFIBO management, whom we assess as professional for the most part, has been retained in the new development bank. As a state bank, NAFIBO has been subject to political influence to a certain extent in the past also, but this has not undermined the professional operation of the institution so far. The management of NAFIBO was, for example, able to prevent the government Fondo de Desarrollo Regional (FNDR) take-over and only the non-risk part of the portfolio was acquired in the case of FONDESIF. The Venezuelan funds administered by NAFIBO as trustee in 2005 have been returned to the Bolivian government due their politically charged implications. Also with respect to BDP, an arrangement was found despite political pressure that does not diverge in essentials from NAFIBO's original approach. In particular, it managed to ensure that the development bank will only act as an apex institution and not directly via a network of branches of its own (with the exception of Banco Unión), so that there is no imminent danger of ousting existing FFPs. Moreover, this danger could also be mitigated by the fact that Banco Unión lacks the necessary network and technology to reach MSEs. The government has also only limited funds for this kind of subsidisation policy. Additional sustainability risks are posed by attempts on the part of the Venezuelan government to exert direct influence by taking over financial institutions, as it tried to do with the FFP, Prodem, in January 2007. These kinds of take-over could endanger the stability of the sector by expanding the development bank's branch network, thus exceeding its apex function proper. In our view, there is a latent risk that a diminishing commitment of the executing institution to the programme could impair the good efficiency to date. There are no indications at present that individual FFPs, such as Prodem, are engaging in competition for markets, thus contributing to sectoral destabilisation, but this risk cannot be ruled out. Although the management of NAFIBO has been able to stave off political influence, we assess the sustainability of the programme as satisfactory only, as the programme design did not provide for any mechanisms to assure political independence as an institution. We thus gauge the **sustainability** of the programme as **satisfactory** (Subrating 3).

Performance rating: Weighing up effectiveness, relevance, efficiency and sustainability, we rate the **developmental efficacy** of the programme overall as **satisfactory** (Rating 3).

General Conclusions

Interest terms and conditions. Financial sector projects where loan conditions are supposed to be aligned with the market should also make contractual provisions adaptable enough to be able to keep pace with the current market trend.

Bearing exchange rate risks. Where final loans must be granted and repaid in foreign currency but the income of the final borrowers is paid solely in local currency, closer attention should be paid to ensuring that the transfer risk for loan repayment is borne by the project executing agency.

Abbreviations:

BDP	Banco de Desarollo Productivo
CAF	Corporación Andina de Fomento, Andean Development Corporation
FFP	Fondo Financiero Provado
MSME	Micro, small and medium-sized enterprise
MSE	Micro and small enterprise
MFI	Microfinance institution
NAFIBO	Nacional Financiera Boliviana S.A.M. – development bank; executing agency of FC programme
NGO	Non-governmental organisation
TC	Technical Cooperation

Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being relevance, effectiveness (outcome), "overarching developmental impact" and efficiency. 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 rating that clearly exceeds expectations

2 Good rating fully in line with expectations and without any significant shortcomings

3 Satisfactory rating – project falls short of expectations but the positive results dominate

4 Unsatisfactory rating – significantly below expectations, with negative results dominating despite discernible positive results

5 Clearly inadequate rating – despite some positive partial results the negative results clearly dominate

6 The project has no positive results or the situation has actually deteriorated

A rating of 1 to 3 is a positive assessment and indicates a successful project while a rating of 4 to 6 is a negative assessment and indicates a project which has no sufficiently positive results.

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 an improvement is very unlikely. 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.