Ex Post-Evaluation Brief

Central America: Credit Line for Regional Microfinance through CABEI Phase II

Programme/Client	Credit Line for Regional Microfinance through CABEI Phase II (2006 65 877)	
Programme executing agency	Banco Centroamericano de Integración Económica (Central American Bank for Economic Integration)	
Year of sample/ex post evaluation report: 2012/2011		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	N/A	N/A
Counterpart contribution (company)	N/A	N/A
Funding, of which budget funds (BMZ)	EUR 20.00 million EUR 3.31 million	EUR 20.00 million EUR 3.31 million

* random sample: no

Project description: The project comprised a loan to the Central American Bank for Economic Integration (CABEI) in the USD equivalent of EUR 20 million, to provide refinancing to financial institutions (FIs) in Honduras, Nicaragua, El Salvador, Guatemala and Costa Rica. These in their turn issued loans to micro and small enterprises (MSEs) for investment and operational purposes.

Objective: The project's overall developmental objective was to generate income and employment among the poorer sections of the population in Central America. The project objective for this measure was to improve sustainable access to financial services for economically viable MSEs.

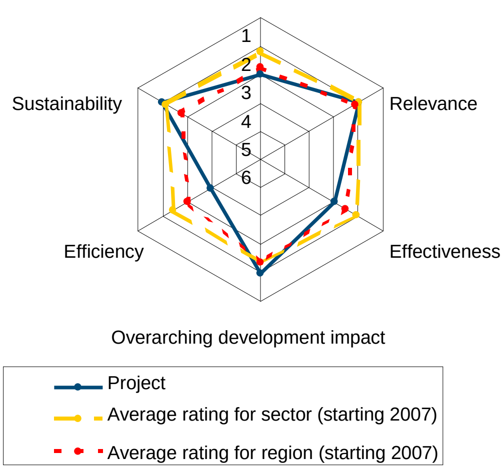
Target group: This programme particularly targeted those MSEs that showed long-term viability but had no sustainable access to financing. Businesses which qualified for financing included Central American micro and small enterprises in the following sectors: processing industries (including handicrafts), agribusiness, tourism, trade, the service sector and agriculture (including fishing and livestock breeding).

Overall rating: 3

Due to external factors which had a direct impact on the default rate of microfinance clients (the economic crisis which accompanied the international financial crisis and the 'Nicaraguan debtors' movement'), the project - although well conceived - has been ranked no higher than satisfactory.

Of note: Providing refinancing funds in times of crisis can be a means of safeguarding otherwise healthy financial institutions from collapse.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: This was the second phase of a microfinance project, which built on a highly successful initial phase that received top marks (rating 1) when subjected to ex post evaluation in 2007. Project design did not change in comparison to phase I. Due to external factors (the global financial crisis and the resulting economic crisis, which had serious negative consequences for the economies of Central America, as well as the debtors' movement in Nicaragua, which was politically motivated), it was not possible on this occasion to fully realise the project objectives. However, the project played an important role in stabilising FIs at the beginning of the crisis. We have assessed the project overall as satisfactory. **Rating: 3**

Relevance: Despite the progress made in the development of the finance sector in Central America, inadequate access to financial services remains a serious obstacle to MSE growth, and this restricts the exploitation of their potential to generate additional employment. The overwhelming majority of those in employment in Central America work in MSEs, so focusing on this sector is still appropriate today. The results chain - which assumes that access to financial services leads to further investment by MSEs to improve and develop their business activities - also remains valid. Furthermore, since the project is making an important contribution to donor coordination, and fits harmoniously with the developmental priorities of the partner country, we have assessed project relevance as good (Sub-Rating: 2).

Effectiveness: The project objective was to improve sustainable access to finance for viable MSEs. Not all the objective indicators were achieved in full. The failure to attain some of the indicators can be explained for the most part by the economic crisis and the debtors' movement in Nicaragua. The level of loan default was high to very high; this suggests that many MSEs had problems in repaying outstanding loans, which was caused by the difficult situation in the real economy. At the same time, the crisis also revealed internal problems within individual FIs. Hence these institutions now face the challenge of consolidating their former business and, in particular, improving their risk management. In 2010, many FIs (except those in Nicaragua still affected by the debtors' movement) were already showing a marked improvement in their figures. Most institutions withstood the financial and economic crisis without collapsing. The project made a contribution here as well, alleviating the substantial difficulties that arose (especially for unregulated FIs) in refinancing during the financial crisis. On this basis, even though certain indicators were not achieved, we have still assessed effectiveness as satisfactory (Sub-Rating: 3).

Efficiency: CABEI is the leading financing institution in Central America; especially in the area of MSE finance, it continues to take the lead across the region. The funds were allocated via CABEI within a year, so implementation ran smoothly. However, the deterioration that took place in the FIs' financial performance figures due to the aforementioned crises continues to present a major problem: in 2009, many of the FIs showed a very poor (and in some cases, negative) return on equity. In 2010 these values were once more, for the most part, at a satisfactory level, or above the level set at project appraisal. Only in Nicaragua is profitability still considered poor, and this can largely be explained by the high rate of default. CABEI selected the FIs in accordance with international standards, which suggests that the FIs were themselves of a good standard. Furthermore, it also became clear in the course of the crisis that some FIs had serious internal problems, and needed to improve their risk management in particular. Since loan default rates showed a huge increase during the crisis and in some cases, especially in Nicaragua, have not significantly declined since then, we have assessed project efficiency as no longer satisfactory (Sub-Rating: 4).

Overarching developmental impact: A study produced in 2010 by the CABEI department that implemented the project assessed its results as very positive. The project introduced a large group of customers to the formal finance sector. Many clients have already received several loans, enabling them to slowly expand their businesses and increase revenues, as well as employing new workers. Customers highlighted in particular the strong relationship of trust which exists between them and ‘their’ FI. Up until the financial and economic crisis, the FIs were expanding their loan portfolios; this dropped off sharply in 2009. However, in 2010 a larger number of FIs (but none in Nicaragua) slowly returned to growth. Although the overall loan portfolio has shrank, CABEI - despite the financial and economic crisis - succeeded in expanding its credit business with unregulated FIs. In hindsight, these FIs were exposed to two distinct dangers: the lack of refinancing opportunities, and the high level of arrears. It is fair to assume that, due to the financial crisis, some of the smaller FIs would not have been able to continue without this source of refinancing, even though they were in good health and were only suffering temporary constraints on liquidity. On this basis we have assessed overarching developmental impact as good (Sub-Rating: 2).

Sustainability: Analysis of CABEI’s financial position supports the good rating awarded by international rating agencies, and leads to the conclusion that CABEI will remain able to continue delivering its programme efficiently into the future. The compliance with international standards demonstrated in FI selection also allows one to conclude that these institutions will retain sustainable working methods in time to come. CABEI only collaborates with FIs whose financial performance figures attest to efficient, successful operating practices. Hence FIs that operate inefficiently receive no support and are compelled to improve their working methods, leave the market or merge. The project has therefore supported, rather than hindered, sectoral consolidation. Although in 2009 the majority of the FIs that were receiving support were affected by the aforementioned crises and showing negative development, an improvement in the situation was visible as early as 2010. It is reasonable to assume that this positive trend will continue in future. Despite the insecurity of the situation in Nicaragua, we have therefore assessed sustainability as good (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).