Central America: Regional Microfinance Credit Line via BCIE (I)

Ex-post evaluation report

OECD sector	24030 Financial institutions in the formal sector	
BMZ project ID	2002 66 460	
Project executing agency	Banco Centroamericano de Integración Regional (BCIE) – Central American bank for regional integration	
Consultant		
Year of ex-post evaluation	**2007**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	first quarter 2004	second quarter 2005
Period of implementation	36 months	17 months
Investment costs	EUR 15 million	EUR 15 million
Counterpart contribution	n/a	n/a
Financing, of which FC amount	EUR 15 million	EUR 15 million
Other institutions/donors involved	AECI (Spain)	AECI (Spain)
Performance rating	1	
• Relevance	1	
• Effectiveness	1	
• Efficiency	2	
• Overarching developmental impact	2	
• Sustainability	1	

Brief description, overall objective and project objectives with indicators

The project comprised the granting of a loan to the Banco Centroamericano de Integración Regional (BCIE; Central American bank for regional integration) to the US dollar equivalent amount of EUR 15 million (USD 19.1 million) in order to refinance microfinance intermediaries in Honduras, Nicaragua, El Salvador, Guatemala and Costa Rica. These, in turn, granted loans for investments and working capital to micro and small enterprises (MSEs). BCIE used the loan to extend its existing MSE support programme (PROMYPE). The objective of the project was to improve MSEs' access to loans over the long term by developing the capacity of efficient financial intermediaries. This strengthening of the financial sector was intended to help create or secure jobs and generate additional income (overall objective). The target group consisted of viable MSEs that had previously had only restricted access to bank loans. The achievement of objectives was to be measured with reference to the following indicators:

- An overall increase in the PROMYPE loan portfolio of 5% per annum or a 15% increase in that part of the portfolio comprising loans to non-bank financial intermediaries (NBFIs);
- An average PROMYPE loan amount of up to a maximum of USD 1,500 for micro enterprises and USD 15,000 for small enterprises;

- An average return on equity of at least 10% per annum at NBFIs;
- An average operating cost/portfolio ratio of 18% maximum at NBFIs;
- An average payment arrears rate of 5% maximum at NBFIs.

Project design / major deviations from the original project planning and their main causes

BCIE was both borrower and project executing agency. The bank channelled the funds to suitably experienced financial intermediaries (FIs) in the five programme countries, and these in turn offered microloans to their MSE clients at market conditions. BCIE is a regional development bank headquartered in Tegucigalpa. Its shareholders are based in the five programme countries (63%) as well as in Argentina, Colombia, Mexico, Taiwan and Spain. BCIE plays a leading role as financing institution in the region and is recognised as a leading expert in the field of microfinance. BCIE's operations strategy centres on regional integration, poverty reduction (in particular MSE promotion) and the integration of member countries in the global economy. BCIE employs around 300 staff.

Within the framework of the PROMYPE programme, BCIE selected the partner institutions in accordance with international standards (CAMEL Analysis – Capital Adequacy, Asset Quality, Management, Earnings, Liquidity – and best-practice standards of the Consultative Group to Assist the Poor – CGAP). Of the 34 financial intermediaries refinanced through the programme, 23 were non-regulated organisations in the categories "Caja de Crédito" (El Salvador) or "Fundación" (Nicaragua, Guatemala) and accounted for 49% of the funding. Of the remaining amount, 36% was provided to six regulated non-banks (Financieras) in all countries and 15% to five banks (chiefly in Costa Rica and Honduras). All pursue the strategic objective of promoting the MSE sector and offer a range of financial services. As well as considerably extending the range of loans offered in recent years, they now also offer other types of financial services apart from credit products. In addition to MSE loans, the product range now includes loans for the construction of commercial buildings (business premises, for example the acquisition or construction of kiosks) and consumer credits. In their assessment, this has brought about a closer relationship between clients and banks while improving the basis for refinancing. In addition to mobilising savings directly, it was also possible to tap a small portion of guest worker transfers/remittances for the purpose of refinancing the loan portfolios.

Overall, BCIE's competent selection of the FIs and the clearly expanded range of products offered by these institutions is evaluated very positively.

Key results of the impact analysis and performance rating

The indicators established at the time of the project appraisal were appropriate for measuring the achievement of the project objective. In quantitative terms, all indicator values were satisfied or exceeded, as the table below shows. However, in order to achieve a comprehensive evaluation of the achievement of objectives, it would have been expedient in retrospect to apply these indicators to the regulated financial intermediaries as well, especially as these accounted for 51% of the funding. Moreover, with the data provided on the "maximum average loan" indicator, it was not possible to differentiate between the microloan and small-loan categories, with the result that an average indicator had to be created as a makeshift solution. Finally, the project appraisal did not differentiate between Costa Rica and other countries, even though refinanced financial intermediaries in this country grant considerably higher average loan amounts. Despite the considerably higher level of development in Costa Rica, these average amounts (around USD 15,000) must be viewed critically in the context of the target group to be reached by the measure, notwithstanding the relation to per-capita income there (around USD 4,700).

Country	Indicators				
	Increase in loan portfolio	Ø loan amount (USD)	Return on equity	Op. costs/ portfolio	Payment arrears ratio (30 days)
Costa Rica	28.9%	14,933	16.1%	18.0%	4.5%
El Salvador	25.6%	2,236	6.6%	10.2%	3.2%
Guatemala	not available	not available	12.9%	13.5%	2.6%
Honduras	31.0%	not available	19.4%	13.8%	3.0%
Nicaragua	42.1%	752	14.1%	19.1%	1.8%
Ø value	**30.0%**	**3,869**	**11.8%**	**13.9%**	**3.2%**
Project appraisal level	**15%**	**4,200**	**10%**	**18%**	**5%**
Achievement of objectives	**200%**	**109%**	**118%**	**129%**	**158%**

The expected impacts formulated in the project appraisal report are appropriate, from today's perspective, for assessing the achievement of the overall objective:

(1) Support for the BCIE PROMYPE programme. The volume of the BCIE PROMYPE programme was increased considerably. BCIE's loan portfolio in the MSE sector rose to USD 667 million. In terms of institutional impact, too, the FC project contributed to donor harmonisation and alignment.

(2) Expanding the scope for refinancing the lending operations of non-regulated financial intermediaries. The credit portfolios of the 23 FIs in this category exhibited very dynamic growth (an increase of 30% per annum.). We can therefore assume that the FIs also managed to attract many new customers (overall plausible indications of a stronger financial sector).

(3) Expanding the financial frontier and thus helping enhance the economic efficiency of MSEs. Non-regulated FIs in particular were able to extend their product range (increasing the breadth of the financial sector) while enhancing portfolio quality. As part of product diversification, they have for instance introduced "complementary products" in the deposit-taking and payments business, and generally familiarised the target group with the use of modern and tailored financial products. Microcredit clients, for example, can now transfer funds cheaply and more rapidly than in the past. Additional sources of income were opened up for the FIs themselves (cross-selling), underpinning FI sustainability in an increasingly competitive environment while helping stabilise profits generally in the microfinance sector. We can thus assume the presence of upgrading effects, although the growing competition is a further factor forcing FIs to take an even more rigorous approach to internal efficiency.

(4) More jobs and additional income as a result of improved MSE efficiency. No data are available on the income and employment impacts at sub-borrower level. However, the dynamic MSE growth and the improved repayment behaviour indicate that the loans are being put to productive use and that the target group is being effectively reached. The structural impacts of the project in terms of the refinanced banks are less clear. Some of these banks are interested in moving into the MSE sector but have generally made little headway in terms of developing a clear promotional strategy for this client group. We must therefore assume that corresponding downscaling effects were attributable to other influences rather than the programme. These effects are perhaps to be expected, as a considerable portion of the commercial banks, especially in El Salvador and Costa Rica, refinance non-regulated MFIs and are thus in effect moving towards the MSE sector (in turn boosting the above-mentioned upgrading effects among the participating FIs). All things considered, we can assume there was a positive impact on the MSE sector and that its marked ability – in this region as elsewhere - to create and secure jobs was enhanced. Accordingly, we conclude that the overall objective was achieved.

Evaluating all the above-mentioned impacts and risks, we summarise the developmental efficacy of the project as follows:

Relevance. The overwhelming majority of the workforce are employed in the MSE sector, which in turn accounts for almost 100% of all enterprises. At the same time, access to financial services was and remains one of the main impediments to MSE growth and thus to their potential for creating additional jobs. The cost of collecting accurate data on job creation and protection would be prohibitive. Overall, we assess the relevance of the project as very good, not least in recognition of the FC contribution to donor harmonisation vis-à-vis BCIE and its harmonic role in assisting with the attainment of the developmental priorities of the partner country **(Sub-rating: level 1).**

Effectiveness. The project objective was to sustainably improve access to loans for MSEs in Central America. Measured against the project indicators, this objective was achieved in full. Some of the participating FIs clearly exceeded the target values, even when more stringent quantitative targets were applied. We therefore assess overall effectiveness as very good **(Sub-rating: level 1).**

Efficiency. The quality of BCIE's loan portfolio is very good. Despite being described in part as somewhat cumbersome, the bank's internal operations are generally efficient. It appears that BCIE efficiently allocated the programme funds to the individual FIs. In general, the FIs still need to achieve modest improvements in operating efficiency, although the figures/ratios on cost development and portfolio quality (which remained constant even in the face of impressive growth) are evidence that programme efficiency is very good. The participating FIs grant all microloans to MSEs at market rates (good allocative efficiency). They have thus achieved complete financial sustainability. The overall picture, however, is somewhat marred by the relatively poor profitability of several of the FIs in El Salvador. Overall, we assess efficiency as good **(Sub-rating: level 2).**

Overarching developmental impact. In general, the FIs supported through the programme achieved significant loan-portfolio growth over a period of several years and expanded their product range. Their success has also encouraged banks to show greater interest in providing financial services to MSEs and to engage in this sector by offering commercial refinancing for FIs (demonstration effect). As a result, the structural impacts of the project are likely to extend well beyond the institutes directly involved. In our opinion, it is plausible that the financial sector now has greater depth and that target-group incomes have risen. We therefore assess overarching developmental impact as good **(Sub-rating: level 2).**

Sustainability. The majority of the FIs supported in the programme are among the most sustainable microfinance providers in Central America. The standing conferred on these institutions through the BCIE refinancing (seen as a "quality seal") leads us to expect that the FIs will increasingly take a more commercial approach in future. We therefore assess overall sustainability as very good **(Sub-rating: level 1).**

Overall rating. Taking the above evaluation criteria into consideration, we assess the overall developmental efficacy of the project as very good. **(Level 1)**.

The project also benefited poor sections of the population both directly and indirectly. Statements made by borrowers in El Salvador indicated that the microloans are invested to promote the growth of the micro and small enterprises, and positive income effects are directly visible as a result. Other effects also appear plausible, for instance the growth in individual savings to cover medical costs (one of the Cajas de Crédito in El Salvador for example offers free health checks to its clients) and, not least, decisions to relieve children from having to contribute to family incomes (child labour). The high proportion of funds provided to non-banks was also expedient. It was thus possible to reach economically disadvantaged regions outside the large metropolitan areas around the respective capitals.

The assumption that over half the target group would be women has been confirmed. The MFIs involved in the project do not discriminate against women when granting loans. However, there are no reliable data on how the programme affected poverty among women. That these effects occurred cannot be ruled out and is in fact deemed probable, particularly in Nicaragua and Guatemala, where outreach to women is comparatively high. However, better compilation of the data on such effects would have enabled clearer conclusions to be stated.

The project did not target governance. The sub-borrowers are small and micro enterprises that generally do not operate in sectors in which significant environmental risks are to be expected. The project did not address environmental protection or resource conservation.

General conclusions and recommendations

Complementarity through regional approaches to microfinance. Implementing microfinance programmes via regional approaches generates added value in terms of complementing bilateral approaches - provided a competent executing organisation is on hand that can guarantee the efficient flow of funds, select FIs according to professional principles, and establish a uniform funding programme that the donors refinance in a coordinated manner. It follows that the quality of the programme executing agency is crucial to the successful implementation of such regional approaches. This programme was also intended to dovetail with national programmes in order to avoid rivalry or competition based on conditions. In this context, the aim was to avoid the simultaneous refinancing of apex and retail structures in a particular country if the refinanced apex institutions themselves also refinance FIs that are participating in the regional programme.

Comparability of outreach indicators. In regional programmes involving countries at varying levels of development (for example Costa Rica in comparison to the other countries) it is expedient not to define outreach indicators, such as average loan amounts, in absolute terms but in relation to per-capita income, for example a maximum of half the per-capita income in the respective country.

Downscaling by commercial banks. The programme rightly focused on developing non-regulated financial intermediaries. If it appears expedient in principle for a programme also to support banks with a view to downscaling, then it is important to ensure that these pursue a clear strategy to support the MSE target group. This also applies to newly regulated FIs with particularly rapid growth rates and whose average loan amounts are also rising significantly (danger of diminishing target-group focus, or 'mission drift').

Putting guest worker remittances to productive use. In the present case, there was a growing demand for payment services in connection with guest-worker remittances. For the FIs, this opened up another source of income, albeit of limited size, and strengthened client-bank ties (cross-selling effects). In countries receiving a high level of guest-worker remittances (over 10% of GNP), the possibility of making greater use of at least part of these money flows to refinance microfinance portfolios should be explored when carrying out the needs analysis at the programme planning stage.

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.

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. A rating of 1 to 3 indicates a “successful” project while a rating of 4 to 6 indicates an “unsuccessful” project. In using (with a project-specific weighting) the five key factors to form a overall rating, it should be noted that a project can generally only be considered developmentally “successful” if the achievement of the project objective (“effectiveness”), the impact on the overall objective (“overarching developmental impact”) and the sustainability are considered at least “satisfactory” (rating 3).