

Chile - Environmental Credit Line/Regional Credit Line (CORFO) II

Ex post evaluation report

OECD sector	2403000 / Formal sector financial intermediaries	
BMZ project ID	2001 66 629	
Programme executing agency	Corporación de Fomento de la Producción (CORFO)	
Consultant	---	
Year of ex post evaluation report	2010 (2009 sample)	
	Programme appraisal (planned)	Ex post evaluation report (actual)
Start of implementation	Q1 2002	Q4 2002
Period of implementation	48 months	74 months
Investment cost	EUR 30.61 million	EUR 30.61 million
Counterpart contribution	approx. EUR 16 million	approx. EUR 16 million
Financing, of which FC funds	EUR 23 million	EUR 23 million
Other involved institutions / donors	--	--
Performance rating	4	
• Relevance	4	
• Effectiveness	4	
• Efficiency	3	
• Overarching developmental impact	4	
• Sustainability	4	

Brief description, overall objective and programme objectives with indicators

The programme comprised the establishment of a refinancing credit line at Chile's Corporación de Fomento de la Producción (CORFO = project executing agency) that could be used by Chilean commercial banks to refinance loan and lease financing for small and medium-sized enterprises (SMEs). The provision of long-term finance for economically efficient and ecologically sustainable investments by SMEs outside the greater Santiago area (RM = Región Metropolitana) was designed to improve the financing opportunities for SMEs outside the RM (programme objective). These investments were intended to contribute to improving the environmental situation and the economic structure in Chile (overall objective). Loans were granted to private-sector SMEs with a turnover of up to USD 30 million.

The programme was designed as an open programme. The overall investment volume, which covered numerous individual projects, was estimated at up to EUR 46 million. The financing of the overall investment volume was provided from FC composite finance funds in the sum of EUR 23 million (EUR 7.66 million in budget funds, EUR 15.33 million in market funds), in counterpart funds from CORFO and from equity

contributed by the enterprises to the investments (at least 15% of the investment cost). In 2002 a loan of EUR 23 million was committed and the loan funds were disbursed between September 2002 and November 2008.

The programme objective - the demand-oriented and sustainable provision of funds to SMEs/MSMEs - was to be deemed to have been achieved when the following indicators were fulfilled: (a) three years after disbursement of the FC funds, the volume of overall investments was to have been at least EUR 46 million, and (b) the portfolio at risk in the lending operations performed by the banks under the programme was to have been less than 5%.

Programme design / major deviations from the original programme planning and their main causes

The loan disbursed in full by KfW in September 2008 amounted to USD 28 million (EUR 23 million) while CORFO disbursed funds of its own totalling some USD 10 million (around EUR 7.5 million). The total loan volume that was disbursed amounted to USD 38,082,939. The planned counterpart contribution by CORFO to the programme was thus fulfilled. CORFO channelled the loan efficiently to the on-lending banks for refinancing and in accordance with the conditions of the loan agreement under its environmental/regional loan programme. The banks extended the FC funds together with the funds of CORFO directly to the SMEs/MSMEs. The sub-loan interest rates were set by the banks at their own discretion and on the basis of the relevant risk ratings of the borrowers. As per the terms of the programme, CORFO did not impose any conditions on the interest rates, so the sub-borrower interest rates vary from one enterprise to another. In some cases the rates were significantly more favourable than the market average and the loans were therefore perceived by the sub-borrowers as the best financing alternative. The offer of a US dollar financing at a fixed interest rate over the entire term was considered very attractive by many enterprises, particularly by exporters. To finance the sub-borrower investments, the banks used only the refinancing credit line of CORFO and did not lend any funds of their own. Under the terms of the programme, the SMEs/MSMEs were required to make a counterpart contribution of at least 15%, which was regularly provided. CORFO used repayments on the loans for new lendings.

The greatest portion of loan funds (nearly 83% of the loan volume) was granted to enterprises of the food and agriculture sector. Most of these borrowers used the loans for wine, fruit and vegetable crops or for their refinancing. The strong demand by these enterprises (particularly for US dollar financings) reveals a significant financing deficit in this sector, which the programme was able to narrow. However, according to the surveyed enterprises, none of the funds were invested in direct improvements of environmental compliance.

Key results of the impact analysis and performance rating

Relevance: The programme was mainly designed to achieve environmental and regional (structural) impacts whose relevance has increased further since the time of programme appraisal. The concentration of economic activity on the RM is continuing to place increasing pressure on the environment, particularly in the form of air pollution. The main polluters here are public and private transport and manufacturing, which together account for two thirds of emissions; they are followed by households and so-called "off-road" polluters (construction machines, agricultural traffic). Emissions by SMEs/MSMEs, on the other hand, are usually below the statutory maximum levels and are not subject to continuous monitoring by the air pollution control and monitoring

system established in Chile. In retrospect, the overall objectives formulated at the time of programme appraisal must be regarded as too ambitious for a programme of comparatively small dimensions to be able to make a verifiable contribution towards their achievement. In order to gain an influence over enterprises' investment decisions, particularly over decisions of such fundamental and enduring significance as the new establishment or relocation of a site, and thus to durably and sustainably achieve the intended impacts, further, stronger incentives will be required. In this regard, the surveyed enterprises and banks mentioned primarily tax incentives (which are already partly established in the "Ley Austral" for the four southern regions of Chile) and direct subsidies or (state) guarantee programmes to compensate for the often inadequate collateral basis, particularly of smaller enterprises. Consequently, as the programme failed to reach the appropriate target group, and as the programme instruments and volume were not suitable to achieve the intended impacts with regard to the structural objectives, we rate the relevance of the programme as unsatisfactory (sub-rating: 4).

Effectiveness: The loans were granted efficiently and swiftly by the executing agency CORFO and the Chilean commercial banking sector; a total of 40 projects were financed. The programme objective of a demand-oriented and sustainable provision of financing to SMEs/MSMEs through Chilean commercial banks has thus been fully achieved. The volume of overall investments three years after disbursement of the FC funds was EUR 46 million, with an average counterpart contribution by the enterprises of 35%. The second indicator of the achievement of the programme objective, a portfolio at risk (PaR >30 days) of less than 5%, was also achieved. The portfolio at risk in CORFO programmes on average is usually well below 5%. This result testifies to the professional management of the programme and the efficient functioning of the Chilean banking sector as well as the programme executing agency CORFO.

One qualification has to be made, however, namely that the programme has financed mainly medium-sized and large enterprises (by Chilean standards) with an annual turnover of more than USD 1 million, which were able to meet the high demands of the banks on creditworthiness and collateral. No relocations of SMEs from the RM have taken place. Only four new businesses, all of them in the agricultural sector, were established in the regions, which accounted for around 9% of the loan volume. The programme primarily reached enterprises in the agricultural sector outside the RM. The target group, SMEs/MSMEs in the broader sense, was not reached, and thus the programme failed to contribute to solving the core development problem of continuing strong centralisation in the RM and reducing the heavy pollution in this region. In the absence of exact and verifiable indicators, it must be concluded overall that the programme was not suitable for achieving the intended impacts to a sufficient degree and, in particular, in a measurable volume. At best, the programme made a marginal contribution to solving the identified problems. Although it contributed to overcoming a financing deficit, it did not achieve this in the originally intended target group of SMEs/MSMEs in the RM whose relocation was to be encouraged but primarily in enterprises of the agricultural sector outside the RM. For these enterprises the programme has significantly improved the long-term financing opportunities, particularly through the offer of US dollar financings, and contributed to improving their export capacities. The programme thus constituted an approach that overcame a specific shortage of adequate, long-term financing and could also be transferable to other target groups. Despite the positive effects the programme has had on the enterprises of the agricultural sector, we rate its effectiveness as unsatisfactory overall (sub-rating: 4).

Efficiency: The programme conception was implemented as planned. The credit line offered by CORFO was used by the banks wherever possible. The processing by

CORFO can be rated as efficient. The credit line was fully disbursed. The participating banks granted the loans efficiently at end-loan interest rates that were real in positive terms and, in part, significantly more favourable than market conditions; the interest rate was sufficient, however, to cover the costs. The granting of loans to SMEs/MSMEs therefore can be assumed to be profitable for most banks that have an established business model and efficient loan handling procedures in place. With regard to allocation efficiency, it can be assumed that the sub-borrowers have made appropriate use of the loans. However, as the target group was not reached and virtually no environmental impacts were observed, allocation efficiency must be assumed to be unsatisfactory. The information supplied by the surveyed enterprises also illustrates that free rider effects occurred on some occasions in that enterprises used funds from the programme to implement investments which would have been implemented even without using these funds. Overall, given the existing impacts and the lending mechanisms now well in place between CORFO and the banks and the generally efficient handling of the programme, we arrive at a satisfactory rating of the efficiency of the programme (sub-rating: 3).

Overarching developmental impact: The overall objective of the programme was to improve the environmental situation and the economic structure in Chile. As no indicators were defined in regard to the overall objective, the evaluation of the overall objective must be based on adequate proxies. Unfortunately, accurate figures on the impacts of the programme cannot be obtained without unreasonable effort or expense. Given the sub-borrower structure, however, it can be stated overall that the programme has made a minor and hardly measurable contribution towards the improvement of the environmental situation and the economic structure in Chile. The initially intended target group was practically not reached. We therefore rate the overarching developmental impact of the programme as unsatisfactory (sub-rating: 4).

Sustainability: The programme executing agency CORFO is a profitably operating development agency of the Chilean state with broad experience in on-lending operations with private Chilean commercial banks for the promotion of SMEs/MSMEs and for the achievement of other economic objectives. Thanks to its regional branch network, CORFO possesses very good knowledge of the target group and its financing conditions, which makes it a heavyweight player in the conception and implementation of state-sponsored promotional programmes. As it is backed by an explicit state guarantee for the refinancing of its loan programmes, the sustainability of CORFO is currently not an issue. The programme itself has achieved few or no sustainable impacts and has been discontinued in the meantime. It is therefore questionable whether the approach of the programme can be considered suitable for the achievement of the intended overall objectives - given that it has been used by the target group of SMEs/MSMEs only to a limited extent. We therefore rate the sustainability of the programme as unsatisfactory (sub-rating: 4).

Overall rating: After weighing the individual evaluation criteria described above, we rate the developmental efficacy as unsatisfactory overall (overall rating: 4).

General conclusions

In order to gain an influence over enterprises' investment decisions, particularly over decisions of such fundamental and enduring significance as the new establishment or relocation of a site, and thus to durably and sustainably achieve the intended impacts, further, stronger incentives will be required. In this regard, the surveyed enterprises and banks mentioned primarily tax incentives (which are already partly established in the "Ley Austral" for the four southern regions of Chile) and direct subsidies or (state)

guarantee programmes to compensate for the often inadequate collateral basis, particularly of smaller enterprises.

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

Projects 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:

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| 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).