Chile: Microloans programme (CORFO) (interest rate reduction)

Ex post evaluation report

OECD sector	24030 - Financial intermediaries in the formal sector	
BMZ project ID	2002 66 866 (2009 random sample)	
Project executing agency	CORFO	
Consultant	Frankfurt School of Finance and Management e.V.	
Year of ex post evaluation	**2010**	
	Project appraisal (planned)	**Ex post evaluation (actual)**
Start of implementation	**II** Q1 2003	**II** Q1 2004
Period of implementation	**II** 48 months	**II** 60 months
Investment, counterpart contribution	n.a.	n.a.
Financing, **of which FC funds (interest subsidy)** **KfW funds**	EUR 20.00 million EUR 3.00 million EUR 12.00 million EUR 0.5 million (training)	EUR 28.02 million, EUR 3.00 million EUR 15.00 million EUR 0.5 million (training)
Other institutions/donors involved		
Performance rating	**2**	
• Relevance	**2**	
• Effectiveness	**1**	
• Efficiency	**3**	
• Overarching developmental impact	**1**	
• Sustainability	**2**	

Brief description, overall objective and project objective with indicators

This project provided medium and long-term refinancing to Non-Bank Financial Institutions (NBFIs) in the semi-formal sector, predominantly to Savings and Loan Cooperatives (SLCs). The aim here was to develop and strengthen the Chilean financial system. These financial institutions would then use the funds to improve loan and lease financing for micro and small enterprises (MSEs) operating within the formal and informal sectors in both rural and urban parts of Chile. Such businesses would thereby gain efficient, ongoing access to finance for investment and working capital (the programme investment measures). The supply of a refinancing line to the NBFIs via ‘Corporación de Fomento de la Producción’ (CORFO, a government body, and the programme agency), proved an important starting point.

The project was established as an open programme. Financing was provided as a subsidised interest FC loan, payable in USD, of up to EUR 15.0 million (EUR 15.0 million of market funds, and an FC financial contribution of approx.

EUR 3 million as an interest subsidy). CORFO was due to provide counterpart funds to the value of EUR 5 million.

Under the programme's training initiatives, the international consultant was scheduled to provide the following services: (1) basic and advanced training for staff in the programme agency's 'Unidad Evaluación de Riesgos' (UER) section, drawing on other apex institutions' experience with NBFIs in risk and liability management; (2) basic and advanced training in credit procedures for microlending to MSEs for key staff from selected SLCs (managers and credit specialists in the business customer sector).

The programme objective was to provide - on an efficient, needs-based and sustainable basis - funds to refinance credit and leasing finance issued by NBFIs to MSEs for the purpose of financing investments and working capital. By improving access for MSEs to financial services, the programme aimed to contribute to the development of the formal financial sector (the overall objective). With regard to the project's principal activity (the credit line), the programme objective would be deemed to have been achieved if (1) three years after disbursement of FC funds, at least 9,500 microenterprises and 550 small businesses had received financing under the programme, and (2) the default ratio of NBFI loans made under the programme did not exceed 5 %.

The objectives for the training initiatives would be considered achieved if (1) staff in CORFO's 'Unidad Evaluación de Riesgos' (UER) were implementing sustainable and efficient risk and liability controls when providing credit to NBFIs, and (2) key staff in the SLCs' business customer sections were capable of granting sustainable and efficient financing to MSEs (with suitably adapted lending protocols, cashflow-based analysis procedures for family businesses, credit analysis and credit control, credit information systems, product development, accounting, liability management, and cost recovery practices).

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

CORFO is in receipt of a subsidised interest FC loan in the USD equivalent of EUR 15 million. The total disbursed by KfW at the end of 2008 amounted to USD 18 million. CORFO's counterpart contribution, which was originally planned to be around USD 5 million, was increased over the course of the project; by now it may well stand at USD 10 million. CORFO passed on the funds from the FC loan (together with some of its own funds) to the participating NBFIs, and co-opted the margin from interest differentials to insure against currency risk and NBFI default. Lending terms may be considered as close to market norms; however, the NBFIs felt they were favourable, since some NBFIs would not have been able to find finance via any other route. The NBFIs set the interest rates for end-borrowers at their own discretion. Due to various factors (including the financial crisis), a substantial upward trend in these rates was evident at settlement dates between June 2007 and June 2009. Over the period from 2002 to 2008, a total of almost 59,400 loans were issued to MSEs, with a nominal value of USD 42.4 million. The number of NBFIs participating in the project rose steadily over the period under consideration, and currently stands at 15.

Training and qualification initiatives were planned and coordinated by CORFO. This ensured that the project was tailored to the needs of CORFO staff working in their 'Unidad Evaluación de Riesgos' (UER) department, as well as those of the participating NBFIs.

Key results of the impact analysis and performance rating

Relevance: the programme's rationale is based on a causal relationship which is generally accepted in the finance sector: lending to MSEs promotes investment, employment, and income generation. Furthermore, the focus on groups of customer who previously had no access to formal finance, combined with the development of new products, has served to strengthen and expand the finance sector. Inadequate long-term finance provision still constitutes a significant bottleneck for development in Chile. The project's conceptual design - in which CORFO transfers the refinancing funds to the financial intermediaries at terms in line with the market, and the financial intermediaries whilst taking market interest rates into account, are free to set their own terms for end-borrower loans - accords with the priorities of the Chilean Government, and also with BMZ guidelines on the development of financial systems and the promotion of private enterprise. It conforms to the BMZ strategy for Chile. In view of the positive developments seen in the Chilean economy, donors have largely withdrawn from providing funding for MSEs and the finance sector. Banco Interamericano de Desarrollo is one of the few donors active with CORFO in regional development. Amongst other things, this should serve to identify regional centres of growth for further development. Given the small number of donors still active in Chile, there is no longer any formal donor coordination. Overall, relevance has been assessed as good (rating: 2).

Effectiveness: the original concept was implemented as planned. Taking an overview of the project objectives, the following picture emerges: every indicator, both for the project objective and for the training initiatives, can be considered to have been achieved and in some cases significantly surpassed. In those NBFIs financed out of this development credit, quantitative growth has far exceeded project appraisal expectations, and the quality of the loan portfolio – in spite of the financial crisis - remains excellent. The effectiveness of training initiatives implemented between 2005 and 2007 is also judged as very positive, since they initiated important changes in organisational structure and workflow procedures, both at CORFO and the participating NBFIs. Overall, we judge the project's effectiveness as very good (rating: 1).

Efficiency: CORFO actioned the credit line promptly. In principle, CORFO - and in particular 'Gerencia Intermediación Financiera', the department responsible for the NBFIs under this cooperation project - has shown very positive developments over recent years. The NBFIs granted loans to end-borrowers on conditions in line with the market, and at rates of interest which were positive in real terms. However, in most of the participating NBFIs loans granted to MSEs may still be loss-making. The main reason behind this is the very high cost of the more sophisticated credit procedures, which rely on regular site visits to determine actual cash-flow positions. Also, the design of workflow procedures, to some extent, is still not efficient enough. As a result, the rates of end-borrower interest agreed at the time are often insufficient to cover costs. Overall, the NBFIs seem to counterbalance the costs of the refinanced MSE business from other business areas. In terms of allocative efficiency, it is reasonable to assume that borrowers have made good use of the loans provided. The average profitability of the investments financed has not been investigated at this time. Given how the end-loans have been serviced, it is reasonable to assume that funds have been allocated sensibly, and that the project has made a useful contribution to sector diversification within the Chilean economy. Taken overall, we judge the project's efficiency as satisfactory to good (rating: 3).

Overarching developmental impact: the project made a contribution to developing the formal finance system, and to the provision of capital to fund MSE growth. The overriding majority of NBFIs stated that the project had enabled them to make an entry into the microenterprise business sector. All those NBFIs that participated in the programme and were interviewed as part of this assignment wanted to develop the MSE field of business further, even though it may still be loss-making at the moment. It may be inferred from this that, despite having funded the NBFIs, sufficient independent incentives now exist to continue developing their field of business further. Some of the NBFIs have grown so strongly during this period that they are now subject to banking supervision. Moreover, the MSE loans market is viewed as extremely attractive by all the participating banks and SLCs, and everyone is striving hard for their share in this substantial growth. With its focus on microenterprises, the project was designed to make a direct contribution to the fight against poverty. The average microfinance loan for business activities in Chile amounts to approx. EUR 1,600, providing impressive corroboration of success in reaching the target group of microenterprises. The microenterprises' ability to repay the loans points to a corresponding contribution in securing income and employment. This applies in particular to those with limited or no formal education, and especially to women, who comprise 74 % of end-borrowers. From comments made by the end-borrowers interviewed, it is also clear that positive effects on income can be identified. The project's contribution to the decentralisation of economic activity has been crucial to the highly positive view we have formed with regard to overarching developmental impact. The provision of access to SME loans for regions outside the capital demonstrates impact across a wide area, and can serve as a template; it has thus delivered a notable contribution to the development of the financial system. Furthermore, this project enabled NBFIs to tap into new customer groups such as entrepreneurs who had no 'track record' in credit information systems, and hence previously had no access to external finance. Taken altogether, we judge the project's overarching developmental impact as very good (rating: 1).

Sustainability: CORFO is a for-profit development agency, established as a public body within the Chilean state. The business, founded in 1939, has long since abandoned direct loan operations in favour of the development bank concept (serving as the apex organisation), and nowadays refinances SME loans through private business banks and NBFIs. Thanks to its regional branch network, CORFO has a very good understanding of the target group. The brokering of SME financing services through private banks (and leasing companies) has so far worked well. CORFO views MSE financing as one of its core businesses, both now and in the future. From data collected by the project agency, from field visit findings, and bearing in mind the overall profitability of the NBFIs, sustainability is already established at the CORFO level. At the NBFI level, the quality of the MSE business portfolio that has been created is certainly reasonable; however, it is only self-supporting for the NBFIs through cross-subsidies from consumer credit business, which is configured within the credit information system as a significantly lower risk. However, the NBFIs have recognised the potential of the MSE business, and they intend to push forward with further professionalisation in this business sector. Taking into account how well the credit funds revolve, the acceptable ratio of end-loan repayments, and our impressions from the visit, we consider sustainability at the end-borrower level to be reasonable. Overall, we judge the project's sustainability as good (rating: 2).

Having given due weight to the individual evaluation criteria stated, we rate the project overall as good (rating: 2)

General conclusions and recommendations

None

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 an 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).