Ex Post-Evaluation Brief
Democratic Republic of the Congo: ProCredit Bank Congo (Fiduciary Holding)

Programme/Client	ProCredit Bank Congo (Fiduciary Holding) – 2005 65 911	
Programme executing agency	ProCredit Bank Congo	
Year of sample/ex post evaluation report: 2011*/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 1.0 million (Fiduciary Holding)	EUR 1.3 million (Fiduciary Holding)

* random sample

Project description: ProCredit Bank Congo (PCBC, a microfinance bank) was established in 2005 by the following founding organisations: the International Finance Corporation (IFC), Internationale Projekt Consult GmbH (IPC), the DOEN Foundation and ProCredit Holding. In 2005 the BMZ made funding of EUR 1 million available to KfW for the latter's trustee shareholding in PCBC. However, it was not possible to take a stake in the bank (of EUR 668,000) until 2007. In 2010 KfW participated in a further increase in the bank's capital in the amount of EUR 540,000. The funding for this capital increase was made up of residual funds from the year 2007 together with a new commitment of BMZ funds which amounted to EUR 300,000. Thus KfW presently has a shareholding in the bank - held in trust on behalf of the German government - in the amount of EUR 1.3 million (the difference from the above figures being accounted for by currency fluctuations). This corresponds to a 12% share of voting capital. KfW had previously supported the bank's development with a training initiative (EUR 1.0 million) delivered as part of the 'Microfinance' sectoral programme (BMZ no. 2004 65 104). This training has also been included in the evaluation. However, the main components of the 'Microfinance' sector programme are not yet due for evaluation and hence do not form part of this report.

Objective: The overall objective of the 'Microfinance I' programme, of which the PCB Congo project forms part, was to create access to needs-based financial products for micro, small and medium-sized enterprises (MSMEs) and to increase their revenues (overall objective 1), as well as developing sustainable microfinance institutions (MFIs) and thereby creating the structural conditions necessary for an efficient, sustainable microfinance sector (overall objective 2). The project objective was to expand the range of demand-based financial services on permanent offer (microloans, savings deposit accounts, and money transfers).

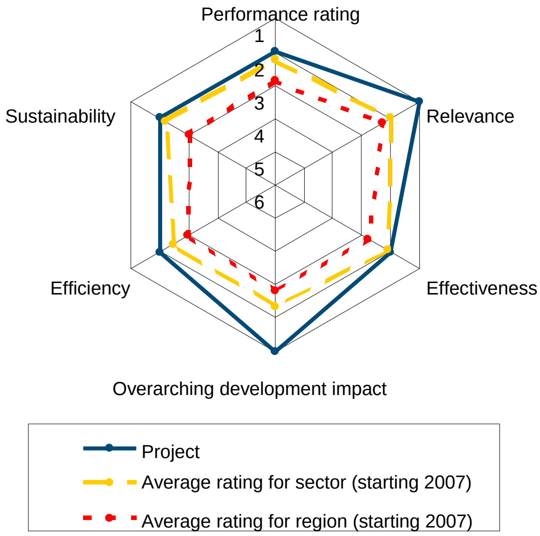
Target group: MSMEs operating in both the formal and informal sectors in the Democratic Republic of the Congo. However, savings deposit facilities are particularly targeted on the general population.

Overall rating: **2**

As the overall outcome of this evaluation, we have concluded that this investment in PCBC has made - and will continue to make - an important contribution to opening up and developing the microfinance sector. Using its capacity to adapt and innovate in a difficult environment, the bank is adjusting to challenging local conditions and having a positive effect on the wider Congolese finance sector.

Of Note: This project's success in breaking new ground in a difficult environment shows that microfinance can even work in post-conflict countries

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: As the overall outcome of this evaluation, we have concluded that this investment in the PCBC has made an important contribution to opening up and developing the Congolese microfinance sector, and that it will continue to do so. Working in a difficult environment, the bank has managed - within a very short time - to become profitable and, through its capacity to adapt and innovate, to adjust to challenging local conditions. As a result, it has had a positive effect on the Congolese finance sector. **Rating: 2**

Relevance: In the past, inadequate access to financial services available to MSMEs represented a major obstacle to growth and development in the Democratic Republic of the Congo (DRC), and it still does so today. When the PCBC was founded in 2005, the microfinance sector was principally comprised of cooperatives and NGOs, and the service they provided to the MSME (micro, small and medium-sized enterprise) sector was inadequate. The priority for those banks which then existed was to serve major customers. Hence, at the time of project appraisal neither the majority of MSMEs nor the wider population had access to financial services such as money transfers, loans and savings deposit accounts, and even today such access is confined to a few major commercial centres. The impact hypothesis assumed in the project appraisal - that investing in a microfinance bank with private and public shareholders (a public-private partnership) would open up sustained, long-term access to formal financial services for MSMEs - still stands. This access is facilitating investment and thereby contributing to job and income creation. The PCBC was the first bank in the DRC to provide financial services to MSMEs. Although the bank has been active to date primarily in major commercial centres, it is increasingly expanding, albeit slowly, into rural areas.

The development of the new microfinance bank PCBC, supported by this fiduciary holding, aimed to introduce an internationally successful model to the local market. As a full-service bank, PCBC offers a broad spectrum of financial services which were only being provided by the existing banks and MFIs to a partial extent. Furthermore, the bank was intended to function as a ‘best practice’ project, helping to raise standards across the entire sector, and to contribute to building a working corporate governance structure which would serve as a model in the industry. Given that the existing MFIs were few in number, small in size and were doing little to improve their professionalism, the establishment of a new microfinance bank (i.e. a ‘greenfield approach’) seemed an appropriate way to support sectoral development.

The project’s objectives conformed with BMZ development goals and guidelines - ‘sustainable economic development’ being a focal sector here - as well as with the objectives of the other PCBC shareholders and the strategies of the Congolese government. Cooperation between the different donors operating within PCBC is working well. Other donors active in the sector had no direct points of contact with PCBC. Hence the project demonstrates - both at the time of project appraisal, as well as during ex post evaluation - a high degree of relevance (Sub-Rating: 1).

Effectiveness: The project objective defined at project appraisal was to expand the range of needs-based financial services (loans, savings deposit accounts and money transfers) available on a long-term basis to MSMEs in the Democratic Republic of the Congo. The sector programme aimed to make this possible primarily for those who had no access to financial services before the project began - primarily MSMEs, but also the wider public.

Attainment of project objectives was measured using the indicators normally employed in the finance sector today: (i) reaching the target group: number of loans disbursed to be >10,000 and number of savings accounts >15,000 (50,000 from 2006); (ii) the operational and financial sustainability of the institution: operating revenues/(operating costs + expenses of portfolio refinancing) to be >1; together with (iii) efficiency indicators: portfolio at risk (PAR) > 30 days to be <5%).

Since the PCBC carried out an overall strategy change in 2010 and now concentrates more closely on small and medium-sized enterprises, the bank no longer meets the objective of having 10,000 borrowers. It would have been useful to modify the relevant indicator, since it was no longer possible to achieve the threshold value once the target group had been changed. By way of contrast, the threshold value for the savings account objective indicator was clearly surpassed; at the time of ex post evaluation, PCBC could show a total of over 150,000 savings accounts. In terms of overall volume, PCBC is the Congolese market leader in savings accounts. With regard to the operational and financial sustainability indicator, the figure of 98% achieved in August 2011 fell just short of the threshold value. This was due not only to the change in strategy, but also to the bank's expansion into other regions of the country. The high number of savings accounts also played a major role here: firstly, the breadth of the deposit portfolio required substantial personnel resources which led to high administrative costs; and secondly, the central bank stipulated a 7% minimum for local currency reserves, which indirectly raised the costs of those deposits for the bank. Portfolio at risk > 30 days has varied over the last six years, but at the time of ex post evaluation it meets the objective of < 5%. The bank took action in response to the volatility of the portfolio as early as June 2010, with the formation of a Recovery Unit.

Even though the objectives have been only partially met, from a developmental perspective the high number of deposit accounts carries greater weight than the reduced number of loans. Taken altogether, we have assessed effectiveness as 'good' (Sub-Rating: 2).

Efficiency: After just one year, while operating in a very difficult environment (a post-conflict country with a very poor standard of educational attainment), the PCBC had already reached profitability; and it continues to be profitable today, based on International Financial Reporting Standards (IFRSs). Internal factors that serve to reduce efficiency include the high operating costs of the existing branch network (high transaction costs), high staffing levels in the banking services area (this being a cash-oriented society), and the change in strategy referred to earlier. Added to this is the high level of financial expenditure caused by the Congolese finance sector's lack of systems to provide information on new customers (such as identification and credit checks), as there is no credit bureau in existence. One problem for the bank that originated externally is the decision of the central bank (BCC) to raise the stipulated minimum reserves held in local currency (CDF) relative to the bank's total savings deposits from 5% to 7%. As deposits at the PCBC are almost exclusively made in dollars (88% of the deposit portfolio), the bank is forced to buy local currency on the interbank market at substantial cost in order to meet its minimum reserve obligations. Due to the volatility of the local currency, the risk this poses is not insignificant; and it has an adverse effect on the bank's profitability, which still remains good despite these aggravating circumstances. Taking into account the difficult environment, we believe the comparatively high costs for training and advisory support in this project (EUR 1 million) were reasonable.

Due to the leverage that a bank's equity capital exerts over its potential business volumes, a shareholding in trust was geared to achieve the greatest possible efficiency. At the end of July, PCBC had realised a portfolio at risk (over 30 days) level in its loan portfolio of under 5%. This shows that the bank was reaching suitable, solvent small businesses. Regional expansion allowed the bank to open up new markets, thereby providing access to capital for additional micro and small enterprises. However, due to the prevailing situation in the country (political uncertainty, lack of security, the size of the country, and the lack of infrastructure) this was only possible under difficult conditions and at great expense. Furthermore, the sharp rise in the number of savings accounts shows that PCBC's deposit services are relieving a major constraint. We have assessed the project's overall efficiency as 'good' (Sub-Rating: 2).

Overarching developmental impact: The PCBC has played an important part in the development of a sustainable microfinance sector. Over the course of the project a diversified sector has evolved, in which the various segments of the microfinance market are now being served by institutions with a range of different business models. Consequently the PCBC not only opened up the market for MSMEs and the population at large, but it also played the part of a pioneer, enabling competitors to enter the market. At the time of ex post evaluation the number of banks in the Congolese finance sector has climbed from the previous level of 10 (in 2005) to 21. Two of these banks (PCBC and Advans Bank) specialise in MSME business. In addition, the large Congolese banks and the international banks have begun to expand their loan portfolios to cover smaller amounts, as they have recognised the potential in the MSME market. MFIs such as FINCA, Hope etc and the cooperatives are focusing on microloan customers in the lowest market segment (loan amounts < USD 2,000), which is no longer covered by the PCBC now that it has raised its minimum lending amount.

By focusing on development and increasing professionalism within the sector, the PCBC is supporting the establishment of sustainable structures. The PCBC, by training and qualifying its staff to basic and advanced levels, is contributing to raising professionalism within the labour pool in both the MFI and banking sectors. As in other countries, some qualified local staff are being headhunted by other institutions in the financial sector. In addition, special customer seminars are being held to promote financial training for entrepreneurs in microenterprises and small businesses.

Because of the loans they received, MSMEs that were financed by the PCBC were able to expand their businesses. Of the bank's clients, around 40% - 70% (dependent on market segment) are repeat customers, mostly taking follow-on loans with higher loan amounts. The PCBC's main customer group consists of entrepreneurs running small businesses and microenterprises in the following sectors: trading (70%), services (25%), and agriculture and production (5%). Of these, two thirds of borrowers are primarily active in retail and the import trade).

Project appraisal had not targeted the number of savings and current accounts actually achieved. Access to (and the use of) these accounts provides an opportunity for wealth creation; it safeguards deposits, and enables those deposits to be used to smooth out consumption spending, all of which is yielding positive developmental results. Overall, we judge the overarching developmental impact of this project to be 'very good' (Sub-Rating: 1).

Sustainability: The PCBC, embedded within the network of the globally operating ProCredit group, has established itself as a stable business partner for MSMEs in 19 locations and, with the continuing introduction of new banking products aligned to the needs of this customer group, is facilitating access to a broad palette of financial services. There are plans to expand the branch network in the future into eastern Congo, an area which has not yet been developed. The ability of the organisation to adapt to the challenges of a growing market - for example through the introduction of a special Recovery Unit and raising the minimum loan amount to USD 2,000 - will have long-term benefits for the business model and help the bank to remain in business and grow. In 2009 (after four years), the bank was showing operational and financial sustainability. The break-even point was achieved as early as the second year of operation. However, in 2010 financial stability was adversely affected as a result of ProCredit Holding's change in strategy, which provided for the minimum amount of loan to be increased in stages to USD 2,000, as well as by the impact of the international financial crisis. A relaxation in this respect already seems likely. It can therefore be assumed that the PCBC will carry its successful policy forward.

The difficulties of the environment, however, continue to represent a challenge for the bank. In the dollarised Congolese economy, the central bank's stipulation on the minimum reserve level of highly volatile local currency can only be achieved at considerable expense. The absence of a central credit bureau necessitates verification processes which are expensive in terms of both time and cost. However, the german financial cooperation, in cooperation with the central bank, is supporting the formation of such a credit bureau, which should begin its work in the foreseeable future. This will also make it possible to obviate any tendency towards over-indebtedness which may arise in future within the target group. Moreover, in the banking association ‘L’Association Congolaises de Banques’, there exists an umbrella organisation which represents the interests of the commercial banks and has the capacity to take action. In view of the long-term attitude which the PCBC adopts toward the DRC microfinance market position, we anticipate - despite the difficult environment - that the bank will remain in a position to offer financial services in the future (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).