Ex Post-Evaluation Brief

El Salvador: SMEs – Credit Line for Environmental Loans Via Cabei

Programme/Client	Credit line for environmental lending to SMEs through CABEI (IVF) – 2005 66 232	
Programme executing agency	Banco Multisectorial de Inversiones (BMI)	
Year of sample/ex post evaluation report: 2011*/2011		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	EUR 11.25 million	Unchanged
Counterpart contribution (company)	EUR 4.25 million	Unchanged
Funding, of which budget funds (BMZ)	EUR 7.00 million EUR 3.50 million	Unchanged

* random sample

Project description: This FC measure, which was a pilot programme for the region, comprised a loan to Banco Centroamericano de Integración Económica (CABEI, the regional development bank) in the amount of EUR 7.0 million. The purpose of this funding was to establish a refinancing credit line at El Salvador's national development bank, the Banco Multisectorial de Inversiones (BMI, the project executing agency), which could be used by commercial banks to refinance their lending for environmental investments, especially those made by small and medium-sized enterprises. Complementary to this, funding in the amount of EUR 380,000 was provided out of the El Salvador SEF for consulting services on the planning and implementation of environmental measures. These consulting services were delivered via CNPML (Centro Nacional de Producción Más Limpia). A total of 211 loans were issued, with an average loan amount of approx. EUR 43,000.

Objective: The project's overall developmental objective (its intended impact) was, by establishing mechanisms for the financing of operational environmental investments, to make contributions in the following areas: reducing environmental pollution; encouraging a more efficient use of natural resources; and deepening the financial system. The project objective of this FC measure (the desired outcome) comprised the efficient, needs-based provision of loans and leases for operational environmental investments.

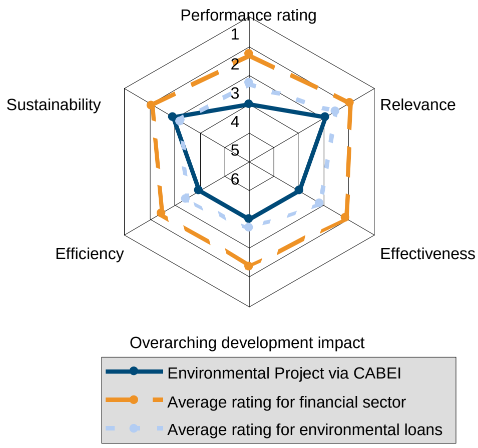
Target group: SMEs in the industrial sector in El Salvador, whose production processes have negative effects on the environment and who are prepared to modify their production processes.

Overall rating: **4**

The credit line was implemented proficiently; effects on the environment (project impact) were only limited.

Points worth noting: The project design was constrained by the fact that the lending conditions attached to development loans did not offer companies sufficient incentive to make further environmental investments. In the case of credit lines for environmental purposes, lending conditions must be more flexible to achieve an appropriate level of environmental impact.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: except for its unfortunate initial phase - shows proficiency in the implementation of the credit line, but with only a low level of environmental impact (impact). Since the credit line had no more than limited effects with regard to environmental protection and resource conservation, the project has been assessed overall as 'unsatisfactory'. **Rating: 4.**

Relevance: The lack of access to financing options which would make environmental investments attractive presents an obstacle to SMEs in El Salvador undertaking such initiatives. A pilot project to promote environmental investments therefore made good sense.

However, it was not unequivocally clear that this credit line was aimed at supporting a certain standard type of investment by small and medium-sized businesses, in which positive environmental impacts would be accompanied by economic benefits for the SMEs (in view of the financing terms offered). National controls in the environmental arena are still being applied with little vigour. As a result, the credit line's relevance from the SMEs' perspective lay less in its focus on environmental effects and much more in the low-cost financing it offered for measures that were only vaguely connected with the environment.

For the SMEs, the credit line is certainly relevant in terms of financing their investments; however, with regard to the original intention of the credit line as an instrument specifically aimed at environmental protection, only a very limited degree of relevance can be assumed.

For BMI as the programme executing agency, environmental policy objectives, such as those being pursued through the credit line, have major significance. For the commercial banks handling the on-lending, the focus is on securing market share and gaining access to low-cost refinancing. In terms of its basic direction, the programme conforms with environmental policy objectives in El Salvador. This also holds true for German Development Cooperation, for which environmental and climate protection represent a priority area in Latin America. Synergies emerged over time, partly through an expert from CIM (the Centre for International Migration and Development) who works for the CNPML, and also through the activities of GIZ, whose work included delivering training in collaboration with the BMI. To foster development cooperation on a more regional basis, GIZ, under the mandate of BMZ, has launched initiatives including a regional programme in the areas of renewable energies and energy efficiency. Hence coordination takes place at the level of the programme executing agency, BMI. Since the existing formulation of the credit line offers no guarantee of environmental relevance - although in principle a credit line with particular conditions attached for environmental investments is an entirely appropriate instrument - relevance overall has been assessed as 'satisfactory' (Sub-Rating: 3).

Effectiveness: The programme objective was to provide efficient, needs-based lending for operational environmental investments. Indicators to support the programme objective were only defined for the element relating specifically to the finance sector. These indicators, which document progress toward objective achievement (the outcome), focused in particular on the operational execution of the credit line, and the vast majority of them were attained. Amongst other achievements, the number of banks which participated in implementing the credit line exceeded the target. BMI responded to credit applications by the commercial banks within the required processing time, with only a few exceptions (during the pilot phase with the ProCredit Bank). We can also confirm that the benefits of this low-cost refinancing were passed on to end customers during the first phase of the credit line. Margins achieved by the issuing banks - with the exception of loans made by ProCredit, which were a special case by virtue of their small size - stood at around 4.0%, and fell within the targeted range. Repayments from the commercial banks to the BMI did not fall into default.

The programme objective indicators did not provide any clearer picture of the demand for effective environmental investments. The inclusion of ProCredit proved to be a weakness; their loans were no different from ordinary lending, but were still taken on by the programme under its selection procedures. A further weakness was that the loans that were cofinanced were frequently not purely environmental, but funded miscellaneous investment projects that had no direct correlation with the environment (e.g. land acquisition, building alterations). Due to capacity constraints, cooperation with the Centro Nacional de Producción Más Limpia (CNPML) did not proceed optimally. It is worth noting that problems which arose in the financing of environmental studies were investigated very promptly; and a mechanism was found which had the companies participate in the costs involved, but also, by taking on some of the costs, gave them an incentive to attain the environmental assessment. Since environmental considerations frequently did not play a major role, and the pilot phase with ProCredit did not proceed as desired, the project's effectiveness - despite the effectiveness of its implementation (outcome) in other respects - has been assessed as only not satisfactory (Sub-Rating: 4).

Efficiency: In terms of the impact achieved in relation to the funds deployed, the efficiency of the project can only be seen as limited. The use of subsidised loans, when compared to the effects achieved, does not seem appropriate. On the operational side, the line of credit was implemented efficiently. In the first phase of the credit line, the root causes of these poor results include the loan selection guidelines and the screening and evaluation processes employed. Improved accuracy and tighter calibration - on the part of players whose actions have otherwise demonstrated their professionalism - could increase both the impact and the efficiency of this programme in its follow-on phase (Sub-Rating: 4).

Overarching developmental impact: The credit line achieved the overall objective - reducing environmental burdens and achieving a more efficient use of natural resources - to only a small degree. It served mostly to finance investments in more efficient production technologies. However, this took place in sectors which would have made these investments even without the subsidised credit line. Furthermore, many were not directed at environmental protection, but at ordinary investments (e.g. acquiring plots of land). Alongside its limited environmental impact, the programme has however made indirect contributions to economic development, including the rapid expansion of public transport. Based on the inclusion of a contingent of smaller loans from the ProCredit pipeline in the early phase of the programme, it is reasonable to assume that end customers made some contributions toward poverty reduction. However, due to the low level of additional environmental impact achieved, overall developmental impact has been judged unsatisfactory (Sub-Rating: 4).

Sustainability: As a general rule, the sustainability of the investments that were financed, in terms of their long-term continuity, is assured by virtue of their economic viability. The investment measures continue to deliver the relevant products and services, even if the environmental impact is very low. Continued subsidies for environmental loans (and hence the sustainability of the credit line) will only be assured through further provision of suitable funding. Furthermore, the overall architecture of the credit line, under which the commercial banks organise lending on the basis of a margin, is in itself sustainable, and the project executing agency shows a high degree of knowledge and ownership. A number of improvements have been implemented in the second phase together with additional training for the environmental consultants, showing the importance of the knowledge gained in the pilot phase. It remains to be seen what impact the raising of requirements in the area of technical evaluation will have on the functionality and sustainability of the programme architecture in the second phase (Sub-Rating: 3).

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).