KfW

D Kazakhstan: Sector Programme to promote the Building Materials Industry

Ex-post evaluation

OECD sector	32120 / Industrial development	
BMZ project number	1995 67 074	
Project-executing agency	Export-Import-Bank	
Consultant	GOPA, Luso Financial Systems GmbH (LFS)	
Year of evaluation	**2002**	
	Project appraisal (targeted)	**Ex-post evaluation (actual)**
Start of implementation	Q 1 1996	Q 2 1996
Financing, of which FC funds	EUR 9.77 million	EUR 9.77 million
Other institutions/donors involved	none	none
Performance rating	5	
• Significance / relevance	5	
• Effectiveness	5	
• Efficiency	5	

Brief Description, Overall Objective and Project Purposes with Indicators

The overall objective of the project under evaluation was to help stimulate and improve industrial production – focusing on economic growth and increases in incomes and employment - by refinancing medium and long-term investment loans. The target group consisted of medium-sized private-sector enterprises which were judged to be viable. Due to the difficulty of assessing impacts in transition economies, no separate indicators were specified for the overall objective.

The project purpose was to promote the use of repaired, extended or replaced machinery and equipment. Achievement of this purpose was evaluated in terms of the following indicators:

- The capacity utilization of the constructed plants is at least 70% two years after the start of operations,
- 80% of the companies are profitable and fulfil their debt-service obligations from the second year of operation onwards.

Major Deviations from the Original Project Planning and their Main Causes

Due to the special importance of building measures for the transition process as well as interest in adopting a sectoral approach for programme implementation, the project was first to focus on financing companies in the building and building materials industry. With this in mind, the Ministry of Construction submitted a priority list. In the course of the project, however, this priority listing came to be viewed as too narrow and was therefore expanded in 1997 to cover the whole range of industrial production.

Key Results of the Impact Analysis and Performance Rating

Financing was provided for a total of nine companies, six of which were from the building sector. As the average size of the loans was approx. EUR 1 million, the actual target group, comprising medium-sized enterprises, was only partly reached. The achievement of objectives at sub-borrower level, measured against the indicators specified, is summarized as follows:

- Two of the nine companies financed (22% of borrowers) failed from the outset to service their debts. Thus, the 80% target for borrowers correctly fulfilling their obligations is almost reached. However, as this indicator focuses on the number of companies and does not take into account the various volumes of the loans disbursed, it is unsuited for measuring the quality of the loan portfolio. As one of the borrowers in default is also the largest with a loan worth EUR 2.1 million, over 33% of the overall portfolio is currently at serious risk of default. Measured by the more meaningful indicator of portfolio at risk, the success rate of 80% has clearly not been achieved.

- No substantiated data are on hand concerning the capacity utilization of the financed plants, one reason being that Eximbank failed to comply with its reporting requirements. The verification of the use of funds and the internal progress review conducted at the end of 2000 found that none of the plants financed with FC funds had achieved a capacity utilization rate of 70% two years after commencing operations. Thus, the first indicator for the achievement of objectives was not met.

- It is not possible with any degree of certainty to comment on the profitability of the companies which were financed as their financial statements on hand have not yet been audited. Eximbank did not have up-to-date balance sheets adjusted to reflect the real situation of the company. However, as seven of the nine companies financed are servicing their debts, it may be assumed that they are operating profitably.

In the meantime, almost EUR 3.6 million from the credit line has been repaid, around 37% of the original credit line. As Eximbank has not been in operation since the end of 2001, funds are not being rechannelled for other purposes.

All in all, the achievement of objectives at sub-borrower level has proved unsatisfactory and unsustainable. Two of the three indicators were clearly not fulfilled.

The project constituted the beginning of German FC with Kazakhstan. At the time of the project appraisal, cooperation with private banks was not yet possible. Cooperation with Eximbank is to be seen in this context; its performance capability was viewed critically from the outset. The project appraisal conducted in 1996 found, for example, that Eximbank was not fulfilling the requirements normally made of a development bank and was therefore not in a position to execute the programme on its own. Viewed in this light, the programme did not pursue any financial objectives, and the flanking consultancy services failed to bring structural impacts to bear on the bank's institutional weaknesses.

The services provided by the management consultant received positive feedback from the sub-borrowers. As the credit department at Eximbank was no longer in existence and thus no qualified personnel were present at the time of the on-site evaluation, it is difficult to evaluate the quality of advisory services for Eximbank. However, through the involvement of the bank consultant, it was possible at least to prevent political influence on lending decisions to a large extent and to secure a certain level of information about the sub-borrowers. Nevertheless, despite considerable advisory inputs with regard to the quality of the loan portfolio the results were insufficient.

The developmental effectiveness of the project at target-group and finance-sector levels can be summarized as follows:

a) Sub-borrower level

- Due to the lack of information at sub-borrower level (target group), it is difficult to evaluate the project's contribution to raising incomes and creating jobs. In view of the unsatisfactory repayment instalments and the partly insufficient capacity utilization of the plants, in total it must be assumed that the impacts are very limited.

b) Finance-sector level

- The credit line served to support an inefficient financial institution which was not free from political influence. It reported clear losses in all fiscal years (with the exception of 1999) and was dissolved at the end of 2001.

- The credit line was extended to the sub-borrowers at clearly subsidized rates of interest.

- The FC funds could be used only once, thus limiting the broad-scale impact of the project. Long-term access to financial services was not achieved.

In summary, taking all the aforementioned impacts and risks into consideration, we evaluate the developmental effectiveness as follows:

- As the objectives were not achieved to a satisfactory degree and Eximbank failed to sustainably finance SMEs, we judge project **effectiveness** to be **insufficient (partial evaluation: Rating 5)**.

- Due to the lack of broad-scale impact and the non-revolving use of funds, the project's contribution to growth and employment in Kazakhstan's SME sector is limited. There is no evidence of positive impacts on the finance sector. Therefore, in terms of **relevance/significance,** the project is categorised overall as having a clearly **insufficient** degree of developmental effectiveness **(Partial evaluation: Rating 5)**.

- The project-executing agency showed clear signs of institutional inefficiency, manifested in the annual losses and a highly risk-prone loan portfolio of 42% according to the latest data. The transfer of know-how to the project-executing agency was limited. Eximbank was dissolved at the end of 2001. Expenditure on advisory inputs at EUR 1.18 million was reasonable in comparison to the loan amount of EUR 9.77 million (12%); however, at EUR 124,000 for each loan disbursed, this was clearly too high in relation to the goals achieved, the number of companies promoted, and also in view of the lack of sustainability of institutional consultancy services. Project **efficiency** is therefore judged to be **clearly insufficient (partial evaluation: Rating 5)**. Viewed in terms of **effectiveness, efficiency** and **significance/relevance,** the developmental effectiveness is evaluated as **insufficient (Rating 5)**.

General Conclusions Applicable to All Projects

In principle, it is inadvisable to cooperate with finance institutions which exhibit considerable structural weaknesses prior to the commencement of the project.

Credit lines extended to sub-borrowers at below-market interest rates should not be used for SME promotion in transition countries since they disrupt the development of the finance sector and inhibit the allocation of capital to the most competitive projects.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental effectiveness
Rating 3	Overall adequate degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall inadequate degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of a project's "developmental effectiveness" and its assignment during the final evaluation to one of the various success levels described below in more detail focus on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate**? How can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project concept)?
- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation (as is the case at the World Bank) but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities created over an economically reasonable period of time or to successfully continue the project activities on their own once the financial, organizational and/or technical support has come to an end.