India: National Renewal Fund – Support for Business Start-ups – SEWA Bank (Shri Mahila SEWA Sahakari Bank)

Ex post evaluation report

OECD sector	24040 - Informal and semi-formal financial intermediaries	
BMZ project ID	1995 66 076 (2008 random sample)	
Project executing agency	SEWA Bank (Shri Mahila SEWA Sahakari Bank)	
Consultant	---	
Year of ex post evaluation report	**2009**	
	Project appraisal (planned)	**Ex post evaluation (actual)**
Start of implementation	QI 2000[1]	QI 2004
Period of implementation	9 months	33 months
Investment costs	EUR 1.23 million	EUR 1.23 million
Counterpart contribution	--	--
Financing, of which Financial Cooperation (FC) funds	EUR 1.23 million	EUR 1.23 million
Other institutions/donors involved	--	--
Performance rating	4	
• Relevance	4	
• Effectiveness	4	
• Efficiency	4	
• Overarching developmental impact	3	
• Sustainability	4	

Brief description, overall objective and project objectives with indicators

The reform of private and state-owned companies which began in 1991 involved extensive redundancies. To cushion the social effects, support was provided for the creation of sustainable employment opportunities. However, this comprehensive programme ('National Renewal Fund – Support for Business Start-ups' – DEM 55.70 million/EUR 28.48 million), which aimed to help those affected by redundancies avoid slipping below the poverty line by creating opportunities for generating income, was not completed, and was eventually restructured to a large extent. Only the 'SEWA component', for which DEM 2.40 million/EUR 1.23 million was allocated from the total National Renewal Funds amount, reached implementation. Part of the programme for reducing poverty through indirect action, this component was specifically aimed at women in the informal sector. Microloans, refinanced from FC funds, were to be issued

[1] After reprogramming of the original more comprehensive programme of EUR 28.48 million

though the 'Shri Mahila SEWA Sahakari Bank' (SEWA Bank) in Ahmedabad, in the Indian state of Gujarat. Basic training, further training and consultancy services would also be financed.

As stated in the Project Appraisal Report (PAR) of 8 September 1995, the overall objective was to contribute to the employment and income of redundant industrial workers and their dependents. No indicator was set against the overall objective. For the SEWA (Self-Employed Women's Association) component, which was modified in 2000 to suit the change in circumstances, the programme objective was to provide basic training, further training and an efficient loans service to women microentrepreneurs in the Ahmedabad district of Gujarat.

Indicators for programme objectives were:

1. At least 80% of the women entrepreneurs to have successfully completed training by SEWA

2. At least 80% of borrowers' debts to be serviced within 180 days of due date.

Further particulars can be found in Appendix 1.

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

The FC funds were transferred to SEWA Bank in Indian Rupees (INR) through the Housing Development Finance Corporation (HDFC), the official beneficiary. The HDFC took on the task of monitoring SEWA Bank, and received a commission of 1% for so doing. In accordance with the agreement, SEWA Bank utilised the funds, which were accounted for in the bank's equity capital as 'Sanjivani' funds, to finance the agreed lending.

SEWA Bank is a co-operative bank, founded in 1974 as part of SEWA, a movement established in 1972. SEWA is a self-help organisation dedicated to improving the living and working conditions of poor women in Ahmedabad, Gujarat. Alongside SEWA Bank, SEWA includes a host of other organisations whose objective is to lead their members out of poverty. These include health care services, child care stations, legal services and a training academy. The initiative to form a bank came from within the self-help and savings groups which were established by the SEWA movement.

The project's target group were women whose families had been affected by the closure of the large state-owned textile businesses in Ahmedabad and who belonged to SEWA Bank's target group. These were women who earned their own living, or contributed to family income, as self-employed workers in microbusinesses (in the informal sector).

SEWA Bank considers safeguarding customers' money and offering them savings schemes to be its primary activities, and its lending procedures are based around this vision. This leads to a relatively close relationship between customers and bank staff. The customer advisors ('banksaathi') gain an insight into their customers' personal and economic situation from observing their savings and commercial transactions. After a minimum of three months, the customer becomes entitled to an initial loan with a term of up to 15 months. The loan amount is not set in a specific ratio to savings, but is determined on an individual basis. Since it is not usually possible to secure the loan effectively against tangible assets, either one or two guarantors are required, dependent upon the amount loaned.

<u>Main conclusions from the impact analysis and performance rating</u>

The NRF (National Renewal Fund) programme was conceived as a scheme for reducing poverty through indirect action which, by creating opportunities for generating income, would help to prevent employees made redundant by state-owned businesses (and their families) from sliding below the poverty line. Following the restructuring of the overall programme, the SEWA component was delineated more clearly as a financial sector project, and was targeted specifically on the provision of loans to the SEWA Bank's female customers. This was a useful development, since there were (and still remain) significant access barriers to the financial system, especially for women from the lower economic strata. However, it should be noted that the financial products were offered on secured terms, even when customers already had commitments to the institution for other funding, and lending criteria were not of an exclusively economic nature. Commonly associated problems, such as increased administration expenses and unsatisfactory loan portfolio quality, are in evidence at the SEWA Bank.

Our detailed conclusions on the project's overall developmental efficacy are as follows:

In principle, this attempt to provide women affected by mass redundancies with the opportunity to improve their economic and social situation through improved access to credit is both understandable and useful. The acute crisis had passed by the time the loans were due for disbursement (2001), but the national poverty rate for India still stood at around 30%. Hence it was useful, even under these changed circumstances, to implement a programme whose objective was to improve access to credit for the poorer strata of the population. From today's perspective, further efforts might have been made to put compensation considerations aside and, through this project, to strive for progressive structural objectives in the provision of sustainable financial products, as had been envisaged in the revised format of the programme objective. Even so, in the 2001/2002 financial year, when disbursements began, the total of EUR 1.23 million made available equated to 8% of total assets and 49% of the credit portfolio at that time. However, the pursuit of structural objectives only began with the follow-up programme. From a financial business perspective, the project under review was limited in its approach; and, conceptually, it was not suitably arranged from its initial implementation. In view of these limitations we have evaluated the project's relevance as unsatisfactory. (Rating: 4).

The programme objective was to provide an efficient loans service, as well as basic training and further training, to women microentrepreneurs in the Ahmedabad district of Gujarat. SEWA Bank used the refinancing to expand its range of financial services offered to the target group. At the same time, however, SEWA Bank sees itself primarily as an institution which supports its customers' savings activities, with lending being of somewhat secondary importance. Although the project objective indicators (POIs) were indeed achieved, these corresponded to the original project concept, which is no longer appropriate today. The POI "At least 80% of the women entrepreneurs to have successfully completed training by SEWA" is not defined in results-oriented terms – attending training sessions does not in itself raise financial proficiency or business literacy. The general conflation of advice and credit also merits critical attention. From today's perspective, an arrears level of up to 20% (payments overdue by more than 180 days after due date) does not represent an appropriate measure for improved, sustainable access to credit. It should be noted that capital is being consumed in real terms at SEWA Bank, since the return on equity is slightly below the inflation rate. The level of aspiration, therefore, was set rather low; systematic and structural elements were not of primary import in the overall conception. Furthermore, the institutional conditions prevailing at SEWA Bank at the time of project appraisal were accepted as they stood; under these, SEWA Bank's greatest advantage was clearly its closeness to the target group. Neither SEWA Bank nor KfW were responsible for the considerable delays that occurred. Due to the clear limitations evident from today's perspective, we consider the project's effectiveness to be unsatisfactory. (Rating: 4).

The bank's production efficiency is poor. So although compared to 2002 the number of loans approved more than doubled, in the years from 2006 to 2008 it either stagnated or declined. Less than half of the deposits are converted into loans. The rest are invested at reasonable rates in government securities. Relative to average loan portfolio, administration costs amount to as much as 15%. Although interest receivable is positive in real terms, interest income is below lending costs. This has a negative influence on allocative efficiency. Even if improvements are made to credit control, the bank's loan portfolio is burdened with significant default risks. Despite clearly recognisable positive developments, the outlook is dominated by the negative prospects for the long-term viability of the credit business, particularly in the field of allocative efficiency. We therefore consider the project's efficiency as unsatisfactory. (Rating: 4).

This project sought to improve the economic position of its target group by issuing microloans. No indicator was defined for the overall objective. Through a variety of individual studies, SEWA has demonstrated that poor women microentrepreneurs in Ahmedabad can make better use of the economic opportunities available to them given improved access to financial services, and to loans in particular. The fact that the bank staff also advise their customers on operational matters certainly merits critical attention. Overall, however, SEWA Bank supports entrepreneurial initiative among these women, which reduces vulnerability to risk in their business activities and either raises or stabilises their incomes. Access to these loans results in a direct liquidity transfer in the women's favour, which is equivalent to the difference in interest payable when compared with alternative sources of finance in the informal sector. However this is at the expense of SEWA Bank savers, who receive interest rates which, dependent on the product, are not always above the rate of inflation.

The project had further effects; mechanisms were put in place which empower the women and ultimately lead to integration into the formal economic cycle. Further effects in the sector such as, for example, other financial institutions getting closer to the target group (a demonstration effect), were not observed. The increasing attention being paid by the banks to microfinance shows, however, that indirect positive structural influences are possible. Due to these limitations, we assess the effects and the "overarching developmental impact" of the project as satisfactory. (Rating: 3).

Demand for the bank's savings and credit products has developed, with fluctuations, over 35 years. The bank is also achieving modest profits; in real terms, however, these constitute small losses. Ahmedabad is a substantial size (the city has approx. 5 million inhabitants) and the Indian financial sector still has limited depth; in view of this, there are, in principle, good growth opportunities for the bank, which it could exploit even better. SEWA Bank is working at improving its internal processes, in which endeavour it is also supported by the FC. On the other hand, when it comes to adapting the bank's organisational structure to the changed circumstances, a certain 'status quo' mentality prevails. This is also connected to the fact that the bank does not seem completely clear as to which role it should play in relation to its customers: that of a friend/relative, or that of a commercial lender. Since refinancing is assured, SEWA Bank is not compelled to make the pursuit of commercialisation its highest priority. A recently completed follow-up programme aims at addressing the above deficiencies and extending the range of activities. Should the current economic crisis lead to renewed unemployment, the programme's significance for the target group would grow; on the other hand, it could be weakened by possible loan defaults. Due to the limitations mentioned above, we assess the project's sustainability as unsatisfactory. (Rating: 4).

Overall rating: having weighed the individual evaluation criteria, we assess the overall developmental efficacy of the project as unsatisfactory. (Rating: 4).

General conclusions and recommendations

Under the original concept, this project aimed to make use of SEWA Bank's services to fund a quite specific target group, which would receive special treatment. In general, loans routed in such a manner lead to increased administration costs for the bank (in this case SEWA Bank) and often to deficiencies in credit quality. There is another reason why this is onerous: it is often associated with a relaxation of bank rules, which undermines efforts to motivate the bank toward a sustainable lending policy.

Since its foundation, SEWA Bank's top priority has been to provide its members with secure facilities to safeguard their money. This is the main motivation behind their practice of using only around 44% of their funds for lending, and buying Indian government bonds with the rest. Although this may often be criticised, it must clearly be regarded as a serious motive for granting a high priority to financial security considerations, even if this is at the expense of one of the traditional functions of a credit institution.

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”) <u>and</u> the sustainability are considered at least “satisfactory” (rating 3).