KfW

Rwanda: Development Bank - BRD IV

Ex-post evaluation

OECD sector	24030 – Formal sector financial intermediaries	
BMZ project number	1990 65 251	
Project executing agency	**B**anque **R**wandaise de **D**eveloppement (BRD)	
Year of evaluation	**2002**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	Ist quarter/1991	IIIrd quarter/1991
Finance, of which FC funds	1.38 million EUR	1.38 million EUR
Other institutions/donors involved	None	None
Performance rating	3	
• Significance/Relevance	3	
• Effectiveness	3	
• Efficiency	4	

Brief description, overall objective and project purpose with indicators

By providing long-term finance to private SMEs via the BRD development bank the aim was to create the maximum possible number of cost-effective jobs in profitable farming and commercial enterprises (project purpose) as well as to make a contribution to stabilizing and diversifying the Rwandan economy (overall objective).

The following indicators were stipulated for project objectives achievement:

- After three years, 70% of borrowers earn a profit and meet their financial obligations on time.
- The average costs for creating a job do not exceed EUR 10,000.

Project design/Major deviations from original project planning and their main causes

None

Key results of impact analysis and performance rating

BRD issued altogether 100 loans to 92 borrowers worth a total of RWF 480 million (EUR 779,000 at today's exchange rate). The average loan amounted to about EUR 13,500. Twenty-five per cent of the total volume of credit (54 loans) were paid out prior to the genocide in 1994. They were used to finance farming enterprises (bananas, sugar cane, potatoes) as well as isolated projects in the livestock sector. After 1994, 46 enterprises were financed (75% of the whole line). The majority of loans granted after the genocide (91%) were for German dairy cows (altogether 500).

Largely due to the events of 1994, 46 of the 100 financed projects recorded a delinquency of over a year and the bulk of these loans are definitively lost. Most entrepreneurs financed before 1994 were murdered or expelled or the enterprises broke down due to the crisis. Formally, then, the indicator on timely repayment and profit earnings was not met. Leaving aside the loans granted before 1994 - with 100% value adjustment – 70% of the loans are in less than 90 days default, which just about meets the indicator set.

According to BRD, the 46 projects financed after 1994 created approximately 300 jobs. Local visits to several enterprises revealed, however, that this figure had to be corrected to approximately 200. Considering the low degree of mechanization in the financed dairy enterprises, the costs per new job ought to come to about EUR 5,000, which was also confirmed during the visits. So the second indicator was also met.

Due to the relatively large number of defunct enterprises, the contribution of the project to overall objective achievement is limited. Despite a restricted spread effect, however, the project has made a major contribution to developing the Rwandan economy. BRD is still virtually the only financial institution that issues long-term loans and also the only one that promotes the agricultural sector on a larger scale. The FC funds were not deployed over a wide range as planned (trade, crafts, services), but in agreement with the KfW largely to finance dairy enterprises. Many of the owners of these dairy enterprises belong to the national elite. Account must be taken, however, of the exceptional situation in Rwanda after 1994: The SME sector had almost collapsed and into the late nineties is was very difficult to find projects to finance at all. Milk is in short supply in Rwanda. After 1994, Rwandan dairy farming had almost come to a standstill. By importing German cows domestic milk production could be raised considerably, partly because the productivity of the imported cows was 3 to 5 times higher than that of local cattle breeds.

A diversification in the way planned at project appraisal was not achieved. Considering the concentration of the economy on coffee and tea planting, however, the project as a whole can be seen as making a certain contribution to diversification.

The developmental impacts of the project can be summarized as follows:

Despite BRD's institutional weaknesses, the bank plays a major developmental role in the specific context of the Rwandan financial sector. Lack of access to long-term loans is a key constraint on the Rwandan financial sector and thus hampers economic reconstruction. BRD contributes to closing the finance gap in this area. The FC project enabled BRD to expand its loan portfolio and finance projects in the critical phase of reconstruction that would otherwise not have been feasible. Unlike many classic development banks BRD exerts no adverse influence on the financial sector thanks to the interest rate arrangements and the lending technology applied.

Remaining risks for the sustainable developmental effectiveness of the project are still posed by the latent unstable political situation in the country, the impending consolidation of the financial sector and the institutional weaknesses of BRD.

Summarizing all the above cited impacts and risks, we assess the developmental effectiveness of the project as follows:

- Under extremely difficult conditions, the project has made a major contribution to creating low-cost jobs in profitable farming enterprises. About a quarter of the FC-refinanced portfolio must be written off without any sustainable real economic effect due to the genocide, but three-quarters of the FC funds were used for developmentally useful projects. The costs per job created were much lower than expected; the delinquency of the portfolio after 1994 is in the target range. Altogether, we therefore consider the project purpose to have been achieved within limits and gauge the **effectiveness** of the project as **sufficient** (**Subrating 3**).

- The project has made a relevant developmental contribution to reconstructing the economy of Rwanda after the genocide. Though within limitations as concerns diversification of the Rwandan economy as well as the spread effect, the overall development objectives were achieved. Due to the sectoral focus on dairy farming agreed with KfW, the contribution of the project diversification was limited. Supplying the population with basic foodstuffs, however, is of great importance in a post-conflict situation; milk is still a scarce and coveted product in Rwanda. BRD was and is the only Rwandan bank that provides the agricultural sector with long-term finance at market conditions. This way it contributes to deepening the Rwandan financial sector. Altogether, then, we assess the **relevance/significance** of the project as **sufficient** (Subrating 3).

The institutional deficits of BRD, particularly at governance level and in implementing the lending technology as well as the relatively high administrative costs make for a **slightly insufficient** assessment of **efficiency** (**Subrating 4**).

Weighing up the effectiveness, efficiency and significance/relevance, we rate the project's **developmental effectiveness** overall as **sufficient** (**Rating 3**).

General conclusions applicable to all projects

In the Rwandan financial sector BRD is the main provider of long-term project finance – particularly for the agricultural sector – and the commercial banks are not expected to take over this role in the foreseeable future.

When organizing future FC measures in the Rwandan financial sector, therefore, it makes sense to include BRD. In view of the clear institutional weaknesses of BRD, however, the following aspects should be taken into account in possible future cooperation:

a) To make the loan portfolio quality more transparent BRD should remove defaulting loans disbursed before 1994 from the balance sheet.

b) Government influence on operative business should be prevented by amending the statutes.

c) In view of the limited commercial bank know-how at BRD, the bank's strategy should focus clearly on its present core segment.

d) BRD's operative and financial efficiency should be improved by enlarging the loan portfolio and raising its quality while retaining the same level of personnel.

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 sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient 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 classification during the final evaluation into one of the various levels of success described in more detail below concentrate 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** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?
- 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 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 that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on its own and generate positive results after the financial, organizational and/or technical support has come to an end.