KfW

Sri Lanka – Development Bank DFCC III

Ex-post evaluation

OECD sector	24030 / Financial intermediaries of the formal sector	
BMZ project number	DFCC III 1999 66 300	
Project-executing agency	DFCC Bank	
Year of evaluation	2002	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	02/00	02/00
Financing, of which FC funds	EUR 30.68 million (FC EUR 7.67 million)	EUR 30.68 million (FC EUR 7.67 million)
Other institutions/donors involved	None	None
Performance rating	3	
• Significance / relevance	2	
• Effectiveness	3	
• Efficiency	3	

Brief Description, Overall Objective and Project Purposes with Indicators

The purpose of the project DFCC III was defined as the efficient, sustainable provision of medium and long-term investment loans by the DFCC in compliance with companies' needs. The overall objective of the project was to create and protect jobs and additional income in the private sector.

The target group of the project DFCC III is private Sri Lankan enterprises that to date had difficulties in accessing medium and long-term refinancing facilities in a foreign currency.

The following indicators of achievement of the project purpose of DFCC III were defined:

- The DFCC Bank carries out its function as a finance institution properly, including appraisal and monitoring of the financed projects according to standard banking practice (indicator 1).

- The DFCC's portfolio at risk (outstanding accounts >90 days) does not exceed 12% of the loan portfolio less provisions and realizable security (indicator 2).
- The loan losses (outstanding accounts >180 days) do not exceed 4% of the loan portfolio (indicator 3).
- The DFCC has generated an above-average increase in its holdings of medium and long-term loans (number and volume) (indicator 4).

The project goals can be considered met if the indicators are satisfied two years after full disbursement of the composite loan.

Regarding the indicators of achievement of the project goals it is to be noted that no quantitative and clearly verifiable threshold values were determined for indicator 1 and that, consequently, an accurate evaluation is not possible. Indicator 4 cannot be evaluated because the actual situation at the beginning of the project was not defined accordingly.

The overall objective of DFCC III is considered met if, two years after full disbursement of the composite loan,

- at least 2,000 new jobs (with each job costing no more than KEUR 25.6) were created.
- at least 90% of the supported companies are generating a profit.

The overall objectives should be examined via spot checks of at least 30% of the sub-loans.

Key Results of the Impact Analysis and Performance Rating

Altogether, 376 companies were supported with loans averaging EUR 80,000 each at standard market conditions. Most of the loans had a maturity of between 3 and 5 years. Sectoral priorities are trade (14% of the loans) and food processing (13%). The Colombo city and north-western regions dominate the regional distribution.

At the time of the ex-post evaluation, in relation to the DFCC III portfolio indicators 2 and 3 were met with 1.9% and 1.0%, respectively. Yet both figures need to be relativized since the majority of the loans were not granted until 2001, and these loans have longer terms of between 5 and 8 years with a redemption-free period of up to one year. The quality of the DFCC's total portfolio is unsatisfactory, but in national comparison it is just slightly above the figures for other banks conducting comparably risky lending transactions (SMEs, medium and long-term loans). Overall the examination of the indicators set to measure achievement of project goals is plagued by uncertainty. Nevertheless, in light of the still acceptable figures indicating financial and operative efficiency of the DFCC Bank we still presume that the provision of medium and long-term investment loans is as efficient and sustainable as possible and complies with companies' needs as far as possible. The project purpose is also presumed to be fulfilled.

According to the project-executing agency, through the DFCC III project a total of more than 11,500 jobs were either maintained or created. 93% of the supported companies are generating a profit. This figure was confirmed by a local consultant in an impact analysis conducted on the basis of an examination of 50 borrowers selected at random. The costs per new job created were approx. EUR 4,150, far below the target limit of EUR 26.600.

Numerous clients had access to other loans apart from the DFCC III credit line. This borrowing from several sources suggests that the companies' problem with accessing credit was less acute than presumed in the project appraisal report. Altogether, the overall project objective was achieved, however.

Our summarized assessment of the pending impacts brings us to the following ratings of the developmental effectiveness of project DFCC III:

a) Effectiveness

Taking the reservations mentioned above into consideration, the project purpose has been fulfilled. The quality of the DFCC's total portfolio is unsatisfactory but becomes relativized when the portfolio quality of other banks, the comparably riskier lending transactions of the DFCC and the difficult political and economic conditions of the last few years are taken into account. In general the project purpose has been fulfilled, albeit with cutbacks, making the project's **effectiveness sufficient** (partial evaluation: **rating 3**).

b) Significance / relevance

By providing medium and long-term investment loans the project made a substantial contribution to creating and safeguarding jobs and additional income in the private sector. The indicators of achievement of the overall objective have been met. The project counteracted the continuing ‘crowding out’ in the private sector caused by the financing needs of the national government. Altogether we assign the project a **satisfactory** degree of **significance/relevance** (partial evaluation: **rating 2**).

c) Efficiency

Thus far the DFCC Bank’s return on equity has been positive in real terms, and its total capital available is still satisfactory. However, the high portfolio at risk (18.6%, > 60 days) is reason for concern, especially since 66% of the companies have not made any payments for over 12 months and the bad debt provisions seem insufficient. The operative efficiency, measured by comparing operative expenses to total capital, is an acceptable 2.28%. Overall, we classify the project’s **efficiency** as **sufficient** (partial evaluation: **rating 3**).

After weighing its **effectiveness**, **efficiency** and **significance/relevance** we assess the project overall as having **sufficient developmental effectiveness (rating 3)**.

General Conclusions applicable to all Projects

None

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 no longer sufficient 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.