Sri Lanka: Development Bank DFCC II

Ex-post evaluation

OECD sector	24030 / Financial intermediaries of the formal sector	
BMZ project number	1997 65 017	
Project-executing agency	DFCC Bank	
Year of evaluation	2002	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	07/97	07/97
Financing, of which FC funds	EUR 0.97 million	EUR 0.97 million
Other institutions/donors involved	None	None
Performance rating	3	
• Significance / relevance	3	
• Effectiveness	4	
• Efficiency	3	

Brief Description, Overall Objective and Project Purposes with Indicators

The purpose of project DFCC II was to provide company start-ups and small businesses with access to investment loans and lease financing at standard market conditions. The overall objective was to create income and employment in the commercial sector by founding or modernizing small commercial enterprises (with fixed assets of up to KEUR 81.8).

Above all, the project target group was to comprise company start-ups in the small business sector with fixed assets of up to KEUR 81.8. However, it remains unclear how exactly company start-ups are to be defined and set apart from other small businesses.

The following indicators were defined for the project purpose and overall objective:

- 80% of the companies receiving support generate a profit in their second year of operation (indicator 1).
- 80% of the companies receiving support fulfill their debt service obligations to the DFCC properly (indicator 2).
- All loan losses under the programme account for less than 7% of the total volume of concluded loan and lease agreements (indicator 3).
- The average investments per job do not exceed EUR 5,113 (indicator 4).

Key Results of the Impact Analysis and Performance Rating

Altogether, 108 companies were supported with loans averaging EUR 9,000 at standard market conditions. Most of the loans had a maturity of between 3 and 5 years. Sectoral priorities are food processing with 18.5% of the loans, followed by trade with just under 17%. The Colombo city and north-central regions dominate the regional distribution. Overall, according to the DFCC the project either created or maintained approx. 538 jobs.

According to information provided by the project-executing agency, 81% of the businesses receiving support are operating profitably. The share of loans at risk of default (portfolio at risk > 90 days) in the outstanding loan portfolio was 29% at the time of the ex-post evaluation. The loan losses (claims older than 6 months) accounted for 24.8%. The average investment costs per job amount to some EUR 2,836.

Of the four project indicators, the two for the overall objective (indicators 1 and 4) were achieved. Nevertheless, 58% of the loans were used for the expansion of already existing companies, some of which were longstanding clients of the DFCC, and thus did not go primarily to start-ups. On the whole the overall objective was achieved, but with cutbacks.

In contrast, the indicators for the project purpose (numbers 2 and 3) were not achieved. The portfolio-at-risk indicator for the portfolio financed through the credit line DFCC II is much higher than the indicator for the entire portfolio. The reasons for the comparably poorer portfolio quality could not be determined during the ex-post evaluation. Yet it is probably due not so much to institutional deficits as to high risks associated with the target group (42% of the loans or 40% of the loan volume were granted to start-ups). The quality of the DFCC's total portfolio is altogether unsatisfactory, but in national comparison it is just slightly above the values of other banks conducting comparably risky lending transactions (SMEs, medium and long-term loans).

In a condensed assessment of the future impacts we have arrived at the following rating of the developmental effectiveness of project DFCC II:

a) Effectiveness

Owing to the poor quality of the loan portfolio the project purpose was met, but only with considerable cutbacks. Thus far the funds have not been used on a revolving basis. Thus the programme's **effectiveness** is rated **no longer sufficient** (partial evaluation: **rating 4**).

b) Significance / relevance

The project's relevance is basically given since the extension of medium and long-term loans made possible by the project counteracts the continual "crowding out" in the private sector caused by the national government's financing needs. The project contributed to the creation of income and employment; therefore, it achieved its overall objective. However, the loans were not used mainly to found new commercial businesses, as intended. Consequently we classify the project's **significance/ relevance** overall as **sufficient** (partial evaluation: **rating 3**).

c) Efficiency

To date the DFCC Bank's return on equity was 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.