



Financial Sector Development, PR China

Final evaluation 2009 - Brief Report

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This report was produced by independent external experts.
It reflects only their opinion and assessment.

Eschborn, May 2010

Tabular overview

The evaluation mission

Evaluation period	16/11/09 – 18/12/09
Evaluating institute / consulting firm	SÜDWIND-Institute
Evaluation team	Dr. Pedro Morazán (international consultant) Dr. Reng Changqing (national consultant)

The development measure

Title according to the offer	Financial Sector Development Programme, PR China
Number	2006.2144.1
Overall term broken down by phases	<p>Overall term: 4 years and 6 months (11/05 - 04/10)</p> <ul style="list-style-type: none"> ○ Phase I: “Micro-finance and Rural Sector Reform” (PN: 2005.2094.0). The programme has a duration of 4 years (from 11/2005 - 10/2009). From 2007 onwards integrated in: ○ Phase II: Overall term: 3 years and 4 months (01/2007-04/2010) <ul style="list-style-type: none"> Component 1: 3 years and 4 months Component 2: 3 years (01/2007-12/2009) Component 3: 2 years (02/2008-01/2010)
Total costs	The German contribution amounts to up to 6.6 Mio EUR for the Technical Cooperation (TC), of which 600,000 is co-financed by the Deutsche Postbank Group. The microfinance programme of the Financial Cooperation (FC) has a budget of 5,000,000 EUR.
Overall objective as per the offer, for ongoing development measures also the objective for the current phase	The effectiveness of institutions by which the financial sector is structured and supervised (supervision authorities, the People’s Bank of China, and the State-Owned Assets Supervision and Administration Commission of the State Council), and promoted (service providers, such as property rights exchanges, training institutions, associations, consulting firms, auditors, and owners of financial institutions) is

	increased.
Lead executing agency	The Chinese central bank – People’s Bank of China (PBC, <i>Zhongguo Renmin Yinhang</i>), the Municipality of Tianjin and the Chinese postal service <i>China Post</i> as owner of the Chinese Postal Savings Bank.
Implementing organisations (in the partner country)	The three lead executing agencies are also the implementing organisations. Additional implementing agencies are: <ul style="list-style-type: none"> • State-owned Assets Supervision and Administration Commission of the State Council (SASAC), • Tianjin Propertz Rights Exchange (TPRE), • Postal Savings Bank of China.
Other participating development organisations	<ul style="list-style-type: none"> • Micro –finance Programme of the Reconstruction Loan Corporation (<i>Kreditanstalt für Wiederaufbau, KfW</i>) • TC-FC strategy for the Chinese micro-finance sector. Formalisation of the cooperation is not possible from the part of the Chinese partner. • In the framework of component 2 (capital market development) there is a PPP (Public Private Partnership) with the Deutsche Börse AG.
Target groups as per the offer	Target Group is the economically active population that to date doesn’t have access to formal financial services. Special focus is on founders of new businesses, as well as owners of micro, small, medium-sized, and rural farming businesses.

The rating

Overall rating <i>On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)</i>	1
Individual rating	Relevance: 1; Effectiveness:1; Impact: 2; Efficiency: 1; Sustainability: 2

The present evaluation assesses the programme 'Financial Sector Development Programme in the People's Republic of China'. The SÜDWIND Institute has been commissioned by the evaluation unit of the GTZ to conduct the final evaluation of this programme. The evaluation team consisted of Dr. Pedro Morazán (international consultant) and Dr. Reng Changging (national consultant). The most important evaluation methods of the on-site mission (16/11/09 – 18/12/09) have been structured interviews and the analysis of project documents.

The programme consists of three components: component 1: "Microfinance and Rural Sector Reform", component 2: "Asset and Equity Market Reform", and component 3: "Reform of the Postal Savings Bank of China". Corresponding to thematic priorities, within the framework of the present evaluation only the impacts of component 1 and 3 have been assessed. The overall objective of the programme 'Financial Sector Development' is to increase the effectiveness of institutions by which the financial sector is structured, supervised and promoted. As part of the development focus "Sustainable Economic Development" the programme aims to increase the access of households, micro, small and medium sized enterprises (MSMEs) to financial services particularly in rural and poor regions by means of improved capacity of institutions of the financial system. The consultants judge the concept of the programme, especially the objective and the indicator system of component 1 and 3 as adequate. Objectives such as poverty reduction are mentioned; however, they are not the explicit development justification of the programme.

The implementation of the programme follows the development strategy of the multi-level approach: The programme achieved to induce institutional change by supporting political decision makers, such as the People's Bank of China (PBC) on the macro level, by strengthening service providers of the financial sector, such as training institutions, associations, facilities for refinancing and guarantee etc. on the meso-level and finance intermediaries on the micro level itself. In a big and complex country such as the People's Republic of China, the first foundations for the present approach were laid through the interplay of instruments of financial co-operation (FC) and technical co-operation (TC) on the German side, and the interplay with other donors such as the International Finance Corporation (IFC), a World Bank subsidiary.

A strong impact orientation is identifiable in component 1 as well as component 3. In order to connect different processes and to accompany the reform and transformation process analyses have been performed regarding the need for consultation and advice of the PBS and the Postal and Savings Bank of China (PSBC). At the same time, control procedures have been supported by consulting the supervisory authority in terms of regulation of

microfinance products. The consultation of the PSBC in introducing the (Micro-) credit business in selected pilot provinces is an important contribution to the reform. In close collaboration with the national partners the programme succeeded to transfer values of social market economy.

The programme contributes significantly to upgrade the capacity of national lead agencies and implementing partner agencies. Technical and methodological weaknesses of the PBC, which existed despite the high level of education of personnel, have been overcome. This is particularly true for the structuring of microfinance institutions and the development and strengthening of the agricultural finance sector. In addition, the design capacity of the Central Bank in terms of micro-financing and the rural financial management have been improved through consulting and training. The programme significantly contributed to the transformation of the PSBC into a professional finance intermediary. Also, capacity development has been achieved through the training of PSBS employees with regard to credit analysis, portfolio management, risk management and controlling of credit management. The strengthening of the capacity of micro-credit companies (MCC) must be highlighted. Two micro-credit companies, Rishenglong (Pingyao, Shanxi Province) and Rongfeng (Erdus, Inner Mongolian Autonomous Region), which have been consulted in the framework of a pilot project, have been further developed to represent Best-Practice examples. Local private companies have gained a formalised scope for action through the creation of a legal framework.

The relevance of the programme is rated as 'very good' (level 1). The concept, the methodological focus as well as the objectives of the programme meet the expectations of the Chinese national partner, particularly the PBC and the PSBC, to a great extent and are geared to the needs of the target groups, especially of rural producers in the five pilot provinces. The German TC, as the only international partner in this area, succeeded to connect important aspects of the sector strategy 'Financial sector development' of the Federal Ministry for Economic Cooperation and Development with the strategy of the Chinese government. In addition, the implementation of such a programme in an anchor country like China, a country with a strategic role for stability in the Asian region and the world economy, is of very high relevance.

The effectiveness of the programme is rated as 'very good' (level 1). The overall objective of the programme has been achieved. The agreed objectives of the components have been achieved prematurely and some indicators exceeded the expectations by far. Quantitative objectives have been supplemented by qualitative results especially in the area of financial services of MCC and Postal Bank branches. In addition, they gave a powerful impetus for the

implementation of important reforms in the prudential regulation of the Chinese financial system. In line with component 1, supervisory authorities and service providers of the banking sector are in a position to structure and support rural finance. This is not only the case in the five pilot provinces, but also in most Provinces and Autonomous Regions of the People's Republic of China. Within the framework of component 3, through consultation, the PSBC has been further developed to become a professional financial intermediary for rural areas. Both components show a strong result and benefit significantly from the engagement of the national partner.

The impact of the programme is rated as 'good' (level 2). The improved access of MSMEs to important financial services can largely be attributed to the programme. The access has been improved through at least five principles of the directives adopted (a restriction on credits, property, liberalisation of interest rates, restriction on rural credits and maximum loan amount). At the time of the evaluation in November 2009 MCCs had 1.9 million clients, of which 1.26 Mio. were active clients and entrepreneurs of MSMEs. Thus, the demand for credits in rural areas has been satisfied by MCCs within a short period of time. More than 40 MCC have granted more than 30,000 micro- and small loans with an average loan of 60,000 RMB (6,397.79 Euro) and a share of outstanding credits under 5% (Int.). This not only made the development of diversified business strategies of MCCs possible, but also the introduction of a credit culture and a new generation of credit institutions and personnel, which are capable to base credit analysis on market economy principles. The logic of the result chain implies that income improvements in rural areas can occur, since, in most cases, the use of credits for productive purposes creates jobs and increases the income of rural households. However, the national fight against poverty also depends on other factors, such as government's investment and social policy, the regional distribution of growth, the regional planning policy etc. Government's social policy, for example, is outside the programme's field and sphere of influence. The situation of women has improved as well, especially in terms of the family income situation. Through the formalization and establishment of MCC, thousands of women have, for the first time in their lives, access to credit, and for this reason could not only improve their income situation but also their position in society. Impacts occurred with regard to the provision of improved financial services for private households and MSMEs, especially in the five pilot provinces that have been supported by the programme: Guizhou, Sichuan, Shanxi, Shaanxi und Inner Mongolia. Subsequently, a broader impact has been made possible in most of the provinces of the People's Republic of China through the replication of experiences¹. The extent to which households and MSMEs use the available

¹ These facts are based on interviews and secondary literature since statistical data in China is rare and patchy.

productive factors in a way that leads to income and employment, depends on many additional factors such as, for example, labour productivity, economic activity, price development and capital resources.

The efficiency of the programme is rated as 'very good' (level 1). The funded partners of the programme, as well as the implementing agency, which is responsible for the local provision of services, are very efficient. The cost-benefit assessment indicates that the programme achieved good effects with a reasonable use of human and financial resources. This has been made possible through an ideal combination of deployment of national and international short- and long-term personnel, as well as through minimal material costs. The engagement of the national partner has made a significant contribution to efficiency, who offered significantly more material and human resources than agreed. The programme furthermore succeeded in bringing about direct effects through an optimal cost-benefit ratio, which can be attributed to the most favourable connection of FC and TC and the adaptability of target groups and institutions.

The sustainability of the direct and indirect results of the programme is rated as 'good' (level 2). Direct and indirect results of the programme such as the establishment of MCC as micro-finance institution on a commercial basis as well as the improvement of the effectiveness of the national partner will be sustained. The establishment and the continuation of the internal training system of the PSBC as well as the Sino-German Microfinance Capacity Building Initiative are an essential basis for sustainability, which will be further consolidated. The regulatory authority and the service providers of the banking sector are in a position to permanently structure and further develop the rural financial system. These advantages are particularly visible on the Province level. The sustainability of the programme is further ensured through training and on-site consultations, which have been provided by the programme. However, these successes can be jeopardized if the developed guidelines on the macro-level are not strengthened and no clear division of labour of PBC and China Banking Regulatory Commission (CBRC) is defined in the framework of a consolidated regulation. Additional important elements of sustainability, especially in economic dimension, provide strong prerequisites for durability. Depending on the development of the national context, other aspects on the socio-cultural level will only be consolidated in the long-term. With regard to the economic dimension, the sustainability of impacts is very good, while the political dimension is rather secondary due to the programme's orientation on the strategy of sustainable economic development.

Without doubt, the programme 'Financial Sector Development' in the People's Republic of China can be rated as 'very good' (level 1) regarding the financial market components 1 and

3. The programme achieved to accomplish and exceeded the aspired direct results due to the high relevance and an efficient use of existing resources. Thus, important indirect results have been triggered, which are very likely to be sustainable.

The programme shows that it is possible to perform development cooperation with an anchor country in mutual interest. However, the concept of the federal government on anchor countries should be reconsidered. The participation of important commercial partners such as the German Postbank is of paramount importance, since it takes China's special role as an anchor country into account. It also shows that results can be more significant and profound if change strategies emerge as a result of negotiations over a longer period of time. This leads to the following evidence-based recommendations: Technical cooperation can only be a reliable partner if the dialogue with strong partners on the macro-level is supplemented by successes on the micro-level and by the inclusion of other actors, for example, from national academic sectors or media. Therefore, the experiences made in the People's Republic of China should be systematised and their replicability in other anchor countries assessed. The experiences of the MCC in Rongfend and Rishenglong should be assessed as 'good practices'. Regarding the regulatory authority on the Province level, a regulation and supervision body should be formulated and adopted. The provisions made for the refinancing policy of the MCC should be adapted to reconcile the rapid development and the growth of the MCCs. The PSBS has to make additional efforts to find a strong international partner or a possible major shareholder to improve its performance as a financial institution. The existing cooperation with the German Postbank could become a door opener for a partnership in mutual interest. The PBC should seek for possible German cooperation partners to establish a training centre. MCCs should strengthen their services in the area of micro-credit. The provisions for maximum amounts and main initiator could further remove the MCCs from the micro-credit business. There is a latent risk that MCCs, which have been initiated by large enterprises, do not have the knowledge and interest for the micro-credit business.

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