

Effectiveness Study of the Financial Inclusion Efforts of Four Rabo Partnerships (2015-2019)

Thorsten Beck¹ and Michael King²

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¹ Thorsten Beck is professor of banking and finance at The Business School (formerly Cass), University of London, Director of the Florence School of Banking and Finance at the EUI and CEPR research fellow. Previously, he worked at Tilburg University and the World Bank and has over 20 years of experience in financial sector research and policies in developing and advanced countries.

² Michael King is assistant professor at Trinity College, University of Dublin and Director of the Trinity Impact Evaluation Research Centre (TIME). He specialises in the economics of financial inclusion and financial sector development, social protection and household economics.

Executive Summary

Introduction

While the traditional model of banks across developing countries focused on large corporate clients and on the upper segments of the household and enterprise population, recently there has been improved diversity in the channels of financial outreach by banks, often led by telecommunication firms, such as agency banking, mobile banking, and internet banking. However, the final outreach steps of banking into the agricultural economy remain to be achieved, while in many countries the products that will ultimately provide welfare improving financial solutions to the masses, including low income segments, remain yet to be perfected and rolled out. Expanding outreach is made more difficult for stand-alone domestic banks in developing countries, given the challenges of product, channel and IT infrastructure development, coupled with ever rising regulatory requirements and the increasing complexity of banking and consumer protection regulations.

Rabo Partnerships (RP) provides technical assistance to financial institutions in emerging markets and developing economies with the aim to increase access to finance in a sustainable manner and has cooperated with the Ministry of Foreign Affairs and Embassies of the Kingdom of the Netherlands in several countries in the form of public-private partnerships to support partner financial institutions to develop their internal capabilities and improve financial access in their home countries. This collaboration, active since 2013, has now been extended through the end of 2023 and in preparation of this extension, an effectiveness study has been commissioned to gain insights on the impact of these interventions, between November 2013 to June 2019, and learn lessons for the future.

This study focuses on four institutions across four countries, National Microfinance Bank (NMB) in Tanzania, FED Invest in Albania, Yoma Bank in Myanmar and dfcu in Uganda, chosen because of ongoing engagement under existing public-private partnerships (PPPs) and hence immediate learning opportunities and easier availability of data. The objective of this report is to ascertain whether the involvement of RP and the Ministry of Foreign Affairs contributed to an increase and improvement of access to finance by marginalised groups (financial inclusion), private sector development and financial stability. The study combines quantitative and qualitative evidence, including bank-specific data, in comparison with peer banks in the respective country, where data availability allows.

Theory of change

Financial inclusion refers to the access by enterprises and households to reasonably priced and appropriate formal financial services that meet their needs. Access to financial services can be defined along several dimensions, including geographic access (i.e. proximity to a financial service provider) and socio-economic access (i.e. absence of prohibitive fees and documentation requirements). Appropriate design of products that meet the needs of clients, are sustainable for both providers and users, but do not involve abusive pricing, are other important aspects. Financial stability is a precondition for sustainable provision of financial services without disruption. Financial intermediaries face a number of risks, including liquidity, credit and price risks (such as interest rate, asset price and exchange rate risks), many of which are more pronounced in emerging markets. Effective risk management is thus at the core of banking, ranging from defining risk appetite at the institutional level over appropriate risk information and management systems and reporting lines to compatible incentives

structures for decision takers. The challenge of effective risk management looms even larger for financial institutions that aim to push towards and beyond the access frontier, providing services for previously unbanked population groups and economic and geographic segments, using new delivery channels and products.

The theory of change, which underpins this study starts from inputs by Rabo Partnerships (investment, management support and technical assistance) and their effect on activities (lending to agriculture and the small and medium enterprise (SME) sector, financial literacy, gender equality, expanding distribution channels), with the outputs being a financially sustainable partner bank, an increased agri- and SME loan portfolio, increased access to financial services by previously unbanked population segments, and an increase in financially literate population. The link between output and outcome/impact (increased income and increased food security) has been documented by an extensive empirical literature that is referenced in the report.

dfcu

Uganda has a small and underdeveloped financial system, but a competitive banking system. The Development Finance Corporation of Uganda (DFCU) was established in 1964 (later renamed dfcu). Over the past decade, dfcu has acquired several smaller banks. Arise (owned by, among others, Norfund, FMO and Rabo Partnerships) is majority owner of the bank (59%), with the remainder held mostly by (foreign) institutional investors. It is among the five largest banks in Uganda. Over the past five years, dfcu has aimed at transforming from a niche bank into a universal bank and into one of the leading market players within the Ugandan banking system.

dfcu has been successful across several dimensions: between 2017-19 it increased lending to rural private customers individuals by 70% and the number of rural credit clients by 119%, as well as the number of female credit customers in rural areas by 128%. It also deepened value chain agribusiness lending (increase in volumes) in agriculture in specific products and deepened lending to cooperatives and increased SME lending by 91% between 2016 and 2019. While there has been a recent decrease in savings/deposit clients, this is due to the recent take-over of some of Crane Bank's assets and liabilities and subsequent consolidation process in clientele. While it is not clear the Public-Private Partnership (PPP) has changed much the level of outreach, however the level of risk has been better managed, which in turn will allow for further innovation and growth rates in next 5 years.

dfcu's non-performing loan (NPL) ratio has been relatively stable around 6%, but above that of the Ugandan banking system. In the long-run, financial sustainability of dfcu has been improved significantly due to PPP, including improvements in risk management. In the short run, the capacity to manage the impacts of the pandemic was higher due to PPP. dfcu also supported overall financial stability in Uganda with the takeover of some of the assets and liabilities of Crane Bank assets.

Since 2015, dfcu has increased, to over 200, the number of cooperatives it has trained. The Women in Business financial literacy programme has provided support to women including training, coaching and mentoring. Although, no sophisticated evaluation has taken place, there is reason to believe the programme supports outreach and financial literacy.

In summary, the partnership can be seen as successful and as having achieved its objectives. The main success factors can be found in dfcu being a financial institution that was eager to take up technical assistance (TA) and leverage this help to improve and expand its banking business. dfcu was pro-active

in its approach; combining such a partnership with a strategic plan clearly has its advantages. In spite of this successful partnership, it is harder to attribute gains in financial inclusion in Uganda to dfcu and the partnership. The Ugandan banking system is characterised by high degree of competition (between banks but also with a significant role for mobile network operators (MNOs)) and several banks that have introduced financial innovations over the past years (including Standard Bank and Centenary Bank, two direct competitors of dfcu). Notwithstanding this more sceptical view, dfcu has contributed to this innovation process and thus to the expansion of financial inclusion in Uganda in a financially sustainable manner.

FED Invest

Albania has a small and concentrated banking system, dominated by foreign banks. While generally well capitalised and liquid, Albanian banks still suffer from a high non-performing loan (NPL) ratio, legacy of the boom-bust period in the late 2000s and early 2010s. Most banks focus on urban areas, which leaves the rural areas to cooperative and microfinance institutions (MFIs).

FED Invest is the largest financial institution operating in rural Albania, with roots going back to the transition period of the early 1990s. In February 2016, 70 savings and credit associations consolidated into FED Invest, licensed by the Bank of Albania and adopted the strategy of transitioning from a fragmented cooperative system towards a stronger consolidated financial services provider based on a cooperative governance structure.

The PPP has had a critical role in the licensing and transformation process. Technical assistance has been provided across all necessary dimensions (including risk management, IT capabilities and governance structures) and has helped bring FED Invest to a level from which it can expand and introduce new products and services in the future. Over the past years, however, there has been only a modest expansion given the need for institutional focus on transformation. A dedicated SME department was established in 2017 and expansion in this area was directly supported by RP. An agricultural business assistance (ABA) centre for financial education and extension services has been established, with further ones in different locations in Albania to be established in the coming years.

While it is too early to speak of any significant impact since the start of the PPP on agri-security and poverty reduction in rural Albania (beyond what has been achieved by FED Invest and its individual parts over the last 25 years), the fundament has been set for future achievements. However, it is also clear that FED Invest is far from being able to achieve such progress by itself, without further assistance. Further support will be needed to consolidate the advances and FED Invest's position as leading rural finance institution in Albania.

NMB

Tanzania's banking system is small and underdeveloped, in spite of having a large number of banks. The two largest domestic banks that focus on the mass market are CRDB and NMB. NMB emerged from the split of the government-owned National Bank of Commerce (NBC) in 1997. In 2005, a consortium led by Rabo Development, the predecessor of Rabo Partnerships, acquired 49% of NMB's shares and started providing management services in a limited number of key positions, which in the meantime has largely been ended. In the current shareholding Rabo Partnerships holds 35% of equity, which was transferred to Arise in 2020.

NMB is the third largest bank in Tanzania by assets and largest by number of branches. In many aspects, NMB has been at the forefront of financial inclusion initiatives in the Tanzanian banking system over the past 15 years, including offering an account that can be opened at an agent rather than a branch (Chap Chap account) and offering a mobile phone platform for its clients (recently rebranded as NMB Mkononi).

NMB has been trying in a systematic manner to reach out to farmers across all segments of the agricultural pyramid, using a variety of different approaches across agricultural segments and in agriculture the performance was strong. Between 2016 and 2019, the number of individual farmers with credit increased by 1,600%, the number of farmer cooperatives by 318% and the number of private rural credit customers by 42%. Over this time frame, lending also grew in several new markets, including in coffee (+5,569%), paddy (+5,138%), sunflower (+5,069%), sugarcane (+906%) and cashew nuts (+234%). Similarly, the number of agri-business clients increased by a factor of 23 between 2014 and 2019, while the volume of lending increased by a factor of 4.6 over the same period. There has been an increase in the share of female clients.

Given its systemic importance within the Tanzanian banking sector, a number of improvements in risk management and corporate governance have likely improved sustainability and contributed to banking sector stability in Tanzania. The partnership has been successful and has been helped by the (now closed) history of management support and the governance structure through RP's continuous equity investment. The partnership has been critical in the digital transformation process and thus ultimately also for the stability of NMB and – given its systemic importance– for the Tanzanian banking system.

Overall, the long-standing partnership between Rabo Partnership and NMB has helped increase outreach to marginalised groups and thus expand financial inclusion in Tanzania as well as contributed to NMB's stability. It is more difficult, however, to ascertain to which extent this can be attributed to the long-standing relationship or to the more recent PPP.

Yoma Bank³

Myanmar only a few years ago opened up its economy and financial system and its banking system is thus at an early stage of development. The banking system is still considered undercapitalized and facing rather rudimentary supervision. In addition, there might still be an important lack of trust, given that Myanmar suffered a systemic banking crisis in 2003. Until 2019, significant restrictions on longer-term loans and interest rates were in place. This also implies enormous growth potential for the financial sector.

Yoma Bank, founded in 1993, is Myanmar's fifth largest private bank and is regarded as a typical SME bank for Myanmar, though with exemplary governance structure. After the 2003 crisis, Yoma Bank's activities were restricted by the Central Bank and only in August 2012 the full banking license was reinstated. Yoma Bank, together with Telenor, founded Wave Money, Myanmar's first mobile financial service provider and now the largest mobile money platform in the country, with 38,000 agents by end-

³ This analysis was undertaken in autumn 2020 before the military coup on 1 February 2021. The coup has had a strong effect on Myanmar's society, economy, and specifically also its financial sector. For these reasons it is expected that part of the impact achieved is negated. Detailed and reliable information, however, is not available at this stage. Therefore, this document reflects the finding based on the autumn 2020 analysis, and readers are cautioned not to extrapolate findings to the present-day situation.

2018. Yoma Bank has committed itself to developing agricultural finance and mobilising rural savings in Myanmar. Rabo Partnerships helped Yoma Bank with technical assistance to set up a tractor financing programme, sponsored by Livelihoods and Food Security Fund (LIFT), involving dealers. This has led to an on-line dealer portal, where dealers can arrange for loans for tractor purchase on behalf of Yoma Bank. Another major outreach effort has been the financing of MFIs by Yoma Bank. Its successes have resulted in other private banks introducing similar products.

Between 2016 and 2018, Yoma Bank experienced a growth in rural credit clients of 20%. However, in 2019, only 20% (24%) of urban (rural) credit customers were female, while about half of their savings/deposit clients. Yoma Bank has experienced a similar strong growth in deposit/savings clients. Yoma Bank supports financial literacy and inclusion through events and other investments. The partnership with RP and the Ministry has contributed to this outreach effort and growth; while the technical assistance has also contributed to better risk management and thus stability of Yoma, our information does not allow us to infer on the impact of this assistance for overall stability of the Myanmar banking system.

While it is hard to infer from hard data to the financial stability implications of the partnership, the rather careful approach to expansion by Yoma Bank, the improvements in risk management, and the hiring of experienced expats and local staff as department heads gives a certain reassurance. In summary, the partnership has been successful, driven by the needs of the partner institutions and the growth opportunities in a heavily underbanked market.

Summary and recommendations

In summary, the four partnerships have been successful, though in different ways and achieving different outcomes. In some cases (e.g., FED Invest) the basis for future outreach efforts was laid, in others (e.g., NMB and Yoma Bank) significant outreach to previously unbanked population segments was achieved. For all four institutions there is reason to believe that contributions to financial stability were made, with each performing well compared with its local peers across a number of financial dimensions and with examples of improvements in risk management frameworks, compliance processes, core banking systems. We also identified specific examples of additionality and attribution to the PPP. However, we also stress that in several cases, the success of the partnership were contingent on governance structures in the partner institution and on a longer-term relationships, so that easy replication is difficult to undertake. Further, in most cases, continued cooperation is advisable (also see below in recommendations).

While it is hard to infer key recommendations across four very different institutions operating in very different market environments, the analysis allows some general recommendations for partner institutions and the design of future partnerships:

1. *The Last Mile in Agriculture*: Lending to smallholder farmers remains in its infancy in the emerging world. As this remains the most challenging banking segment an increase in support from Rabo Partnerships (agenda setting, coordination of resources and technical support) will be needed to realise the ambition of finance driven smallholder farming.
2. *Catching the Technology Frontier*: Profound technological advances are changing, and will continue to change, banking in emerging countries over the next ten years. The constant game of catch up will define which institutions will successfully emerge as important players in financial

services by 2030. All four partner institutions have made progress in this area but have to continuously keep moving in order to keep up with developments and the market. Technical support by Rabo Partnerships can be important in this context.

3. *Continuous upgrading of risk management system*: with further moves towards digitalisation, new sources of risks and fragility are arising, which require adaptation of risk management systems across the financial system.
4. *Balancing expansion with financial sustainability*: while many of the key performance indicators are focused on client growth, especially among previously underserved population segments, financial history is full of financial institutions and systems, where rapid growth (especially in credit) has resulted in bank failures and systemic banking crisis. The technical assistance (TA) programmes evaluated in this report have managed this balance well and are to be commended for this. It is important to keep this trade-off in mind in any future support programme.
5. *Better evaluation of financial literacy efforts*: where financial literacy and general training is being offered to clients and non-clients, a more rigorous evaluation is recommended to maximise the benefits of these efforts.
6. *Systematic approach to product innovation*: Much remains to be achieved in financial product design, including digital products, for vulnerable groups. While we have seen evidence of improvements in innovation processes at the partner banks, a rationale for continued improvement can be made given the need. For example, a case can be made for the development of female specific products, particularly for female entrepreneurs who tend to be less formal. The involvement of vulnerable groups and their advocates could also add value to this effort.
7. *Regular collection of competitor and sector data*: Databases of bank level data in the emerging world are weak and as previously noted somewhat reduced the level of analysis in this report. We recommend that each partner bank keeps an annual database of financial and infrastructure data of its competitor banks and/or undertakes local benchmarking studies every few years. This exercise is of value to the management of each bank in addition to allowing for improved evaluation every five years.
8. *Rabo secondment programme*: We see value in supporting a secondment programme where longer term technical expertise/divisional manager level Rabo staff join partner banks for one to three years. The partner banks should make requests to Rabo based on their needs. Secondees act as an important bridge between Rabo and the partner bank and improve outcomes for the technical assistance programme.
9. *Reciprocal exchanges*: Opportunities for talented staff of partner banks to spend time at Rabobank, or other partner banks, should be encouraged and supported. We were struck by the effect that time at Rabo had on the careers of some of the partner bank staff we interviewed.
10. *Improved preparation*: Consideration should be given to how best to prepare Rabo staff for short (and longer term) assignments from a cultural perspective. Topics should include communication styles, building professional relationships, understanding local decision making process, and include meeting previous consultants to the partner institution.
11. *Longer duration of partnerships*: To properly benefit from technical assistance and training, a sufficiently long duration of partnership is needed, preferably five years or longer.

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Glossary

ABA - Agricultural Business Assistance Centre, Albania
AGD - Asia Green Development Bank, Myanmar
AML/CFT - Anti-Money Laundering/Combat the Financing of Terrorism
ASCU - Albanian Savings and Credit Union
ATM - Automated Teller Machine
AYA - Ayeyarwady Bank, Myanmar
BCP - Business Continuity Planning
CBA - Commercial Bank of Africa, Uganda
CBS - Core Banking System
CEO - Chief Executive Officer
CRDB – Cooperatives Rural and Development Bank, Tanzania
DAC - Development Assistance Committee
DFCU - The Development Finance Corporation of Uganda
EASI – EU Programme for Employment and Social Innovation
EFSE – European Fund for Southeast Europe
EIB - European Investment Bank
EIF - The European Investment Fund
ERBD - European Bank for Reconstruction and Development
FMO - Netherlands Development Finance Company
FSDT - Financial Sector Deepening Tanzania
FSDU - Financial Sector Deepening Uganda
GDP - Gross Domestic Product
GIZ - German Agency for International Cooperation
ICB - International Commercial Bank, Tanzania
IFC - International Finance Cooperation
JICA - Japanese International Cooperation Agency
KBZ - Kanbawza Bank, Myanmar
KPIs - Critical Performance Indicators
KYC - Know Your Customer
LIFT - Livelihoods and Food Security Fund
MEB - Myanma Economic Bank
MFIs - Microfinance Institutions
MFSPs - Mobile Financial Services Providers
MNOs - Mobile Network Operators
MSMEs - Micro, Small and Medium enterprises
MTN – Mobile Telephone Network Group, Tanzania
NBC - National Bank of Commerce, Tanzania
NMB - National Microfinance Bank, Tanzania
NPL - Non-performing Loan
OECD - Organisation for Economic Cooperation and Development
PFI - Partner Financial Institution
POS – Point of Sale
PPP - Public Private Partnership
ROA - Return on Assets

ROE - Return on Equity
RP - Rabo Partnerships
S&P - Standards and Poor's
SCA - Savings and Credit Associations
SDGs - Sustainable Development Goals
SME – Small Medium Enterprises
TA - Technical Assistance
TADB - Tanzanian Agricultural Development Bank

1. Introduction

Banking has a long tradition across developing countries, going back to pre-independence days. While the traditional model of banks across developing countries focused on large corporate clients and on the upper segments of the household and enterprise population, recently there has been improved diversity in the channels of financial outreach by banks, often led by telecommunication firms, such as agency banking, mobile banking, and internet banking. However, the expansion of banking deep into agriculture has remained elusive, leaving much to be achieved, with greater expansion into burgeoning SME sectors and natural resource economies. As a result, the final outreach steps of banking into the agricultural economy remain to be achieved, while in many countries the products that will ultimately provide welfare improving financial solutions to the masses, including low income segments, remain yet to be perfected and rolled out.

Reaching out to low-income and rural segments of the population is challenging due to (i) the demand for small-scale transactions, deposits and loans and limited clientele in many rural locations, which does not allow financial institutions to spread the fixed costs sufficiently; (ii) the high risk of these segments, as they lack stable income sources and formal identification documents and titles to properties; (iii) decrepit infrastructure in large parts of the rural areas, which makes traditional delivery channels of financial services more difficult; and (iv) frequent government interference in agricultural policy and policy volatility and uncertainty more general, which impedes long-term planning.⁴

The past ten years have seen a sustained process of financial deepening across developing countries, with aggregate financial development indicators showing positive trends.⁵ Financial innovation, relying on technology and new delivery channels, has contributed to increasing the outreach potential of formal finance; overcoming some of the aforementioned challenges. New products and new providers have increased competition across financial systems, to the benefit of existing and new clients who have access to more and cheaper services.

The challenges facing a domestic bank cannot be overstated. The challenges of product, channel and IT infrastructure development, coupled with ever rising regulatory requirements and the increasing complexity of banking and consumer protection regulations, mean that successful stand-alone domestic banks will be the exception. The banks that will prosper will be banks with international parent banks or banks with partnerships that allow them to keep pace with the aforementioned challenges and deliver growth. This has become clear both from this specific study as well as from previous experience of the consultants in emerging markets. Subsidiaries of international parent banks can benefit from accumulated experience across the region or globe, while banks with partnerships as discussed here can draw on such expertise on a custom-made basis. In addition, efforts to keep pace with market change, technological development and regulatory upgrading are characterised by significant economies of scale.

Rabo Partnerships

Rabo Partnerships (RP) provides technical assistance to financial institutions and cooperatives in emerging markets and developing economies with the aim to increase access to finance in a sustainable manner. RP has cooperated with Embassies of the Kingdom of the Netherlands and the Ministry of

⁴ See, for example, the discussion in Honohan and Beck (2007) and Beck et al. (2011).

⁵ See, for example, the discussion in Beck, Cull and Valanzuela (2020) for Sub-Saharan Africa.

Foreign Affairs in several countries in the form of public-private partnerships (PPPs). The purpose of technical assistance programmes is to support partner banks and cooperatives to develop their internal capabilities and improve financial access in their home countries. This collaboration, active since 2013, has now been extended through the end of 2023 and in preparation of this extension, an effectiveness study has been commissioned to gain insights on the impact of these interventions, between November 2013 to June 2019, and learn lessons for the future.

In the context of the PPP, Rabo Partnerships started to work with partner banks – banks with a minority equity stake held by Rabo Partnerships (and now placed in Arise, an investment vehicle partly owned by Rabobank). Along the way parties agreed to include financial institutions into the PPP framework where Rabo Partnerships would not have a direct interest or ability for equity participation, but which have a clear potential to impact the market (e.g., banks in Ethiopia, where foreign direct investment in financial institutions is still prohibited). The ongoing dialogue between the Ministry and Rabo Partnerships to include partners that have the potential to contribute to financial inclusion and food security made it possible to start projects in Myanmar, Bolivia and Albania.

To come up with leads for PPP projects Rabo Partnerships has put effort in the analysis of the countries eligible for PPP projects with regard to financial inclusion, private sector development and food security. Basically, a subset of countries was created that would be close to strengths of Rabo Partnerships in terms of region, language, agri potential and financial inclusion gap. The subset of countries has been helpful in following up on a number of leads that popped up over the last years.

If a potential partner has been identified, Rabo Partnerships will conduct a diagnostic mission to (i) (i) the intrinsic motivation and the ability to contribute towards the defined programme goals financial inclusion, food security and rural development, (ii) gauge in which of these areas technical assistance could accelerate the contribution towards these goals, and to (iii) translate the needs of this local partner into a technical assistance project.

Rabo Partnerships will write a project proposal if the outcome of the diagnostic mission would be positive and this project proposal will be submitted to the Ministry for a ‘Quality at Entry review’. The individual projects are monitored with each a dedicated set of KPIs defined in the project proposal. These numbers are provided by the partner institutions and monitored in relevant Steering Committees following a regular pattern. These KPIs relate to the overarching objectives of the PPP framework.

This study focuses on four institutions across four countries, NMB in Tanzania, FED Invest in Albania, Yoma Bank in Myanmar and dfcu in Uganda, chosen because of ongoing activity, which facilitates immediately relevant learning lessons and eases the availability of data. The objective of this report is to ascertain whether the involvement of RP and the Ministry of Foreign Affairs contributed to an increase and improvement of access to finance by marginalised groups (financial inclusion), private sector development and financial stability.

This study uses quantitative and qualitative data to assess the effectiveness of outreach efforts by dfcu, FED Invest, NMB and Yoma Bank. We assess each institutions both on their own, but also comparing them to peers in the respective banking system where possible. It is worth noting that while many of the traditional measures of bank performance are used in this study, these measures are considered from the perspective of financial inclusion. There are other perspectives from which the bank could be assessed such as for example risk profile, profitability and market share which when taken together contribute to complete picture of the bank’s performance.

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The remainder of this study is structured as follows. The next section provides a deeper look at the evaluation questions and the scope of this exercise. Section 3 describes the methodology of the study. Section 4 describes the key concepts of financial inclusion and financial stability used in this study. Section 5 discusses the theory of changes underlying the analysis. Section 6 presents a summary of the findings. Sections 7, 8, 9 and 10– the core of the study – discuss the effectiveness of outreach efforts, by dfcu, FED Invest, NMB and Yoma Bank, respectively. Section 11 concludes and offers some recommendations.

2. Evaluation Questions and Scope

The objective of this report is to ascertain whether the involvement of RP and the Ministry of Foreign Affairs contributed to an increase and improvement of access to finance by marginalised groups (financial inclusion), private sector development and financial stability. As per the terms of reference, the specific research questions of this study are:

- A. Has the involvement of RP and the Ministry of Foreign Affairs contributed to an increase and improvement of access to finance by marginalised groups (including retail, SMEs and agricultural clients) and thus to financial inclusion and private sector development?
- B. Has the involvement of RP and the Ministry of Foreign Affairs contributed to improvements in banking system stability?

In consultation with RP and the Ministry of Foreign Affairs the overarching questions were turned into a set of sub research questions as follows and an evaluation matrix (see appendix).

Research Question 1: Access

1. To what extent and how has the involvement of RP and the Ministry of Foreign Affairs contributed to an increase and improvement of access to financial services by marginalised groups (including retail/SMEs, and agricultural clients) and thus to financial inclusion and private sector development?

Agricultural clients

- a. Did the Partner Financial Institution (PFI) increase agricultural lending (relative to the country's financial system) during the PPP? How did the agri loan portfolio perform? [Output]
- b. Did the PFI increase agricultural consumer's access to other financial services (relative to the country's financial system) during the PPP? [Output]
- c. Has the output, performance and vulnerability of bank's agri clients improved due to access to bank products? [Intermediate Outcome]

SME/retail clients

- d. Did the PFI increase SME lending (relative to the country's financial system) during the PPP? How did the SME loan portfolio perform? [Output]
- e. Did the PFI increase SME consumer's access to other financial services (relative to the country's financial system) during the PPP? [Output]
- f. Has the output, performance and vulnerability of bank's SME clients improved due to access to bank products? [Intermediate Outcome]

Other outreach

- g. Did the PFI increase the outreach, especially in rural areas (relative to the country's financial system) during the PPP? [Output]
- h. During the PPP, have financial literacy efforts by the PFI been effective in improving financial literacy and contributing to outreach efforts, especially in rural areas? [Output]

Research Question 2: Stability

2. To what extent and how has the involvement of RP and the Ministry of Foreign Affairs contributed to the improvements in banking system stability? [Intermediate Outcome]
 - a. Has the stability and performance (sustainability) of the PFI (relative to the country's financial system) improved during the PPP? [Output]

- b. How stable is the employee base of the bank (turnover ratio)? And what is the average investment in training per staff member? What is the level of staff gender equality?
[Output]

For each of these (sub-)questions we will specifically explore the gender dimensions, the role of innovation and attribution back to the PPP.

3. Methodology

The study will combine quantitative and qualitative evidence to assess the extent to which the four institutions have contributed to financial inclusion and deepening in their respective countries and the extent to which the public-private partnership (PPP) has contributed to this effect. The metrics examined will flow directly from the theory of change discussed in section 5, and the focus will be on tracking progress and assessing attribution back to inputs from the partnership.

Quantitative evidence was to be based on three main sources: (i) data collected through Rabo Partnerships directly from the four banks, (ii) bank-level information from the Central Banks on loan, account and branch distribution within the respective country where feasible, and (iii) end-user surveys that are undertaken every few years in some of the countries and that gauge access to and use of financial services by households and enterprises. As discussed below, we could not rely on end-user survey data and had limited information from central banks.

The study will combine these different datasets to assess the absolute and relative performance of the four institutions, compared to the rest of the banking system in terms of outreach. Given the important changes that all financial systems have undergone over the past years, it is important to gauge the four institutions' performance relative to the host financial systems' overall performance.

In March 2020, all four banks were asked to fill out an Excel data ask and questionnaire. The data ask was designed to comprehensively capture all the data we need from the partner banks. While bank-level data allow testing for bank strategies and their impact on the bank-level, the effect on users can only be assessed with household surveys. We also hoped to be in a position to access before and after household level surveys in Myanmar, Tanzania and Uganda, as well as Enterprise Surveys in recent years in Albania and Myanmar, however. In addition, we employed the Global Findex data from the World Bank that provides detailed data on the access to and use of financial services across the globe every three years as well as across different income, educational and geographic groups within each country.

Supporting these efforts was the qualitative component of the research. Between April and July 2020 a series of visits to the partner banks were planned. Following the curtailment of international travel due to the COVID-19 pandemic, these planned visits were transformed into an extensive list of Microsoft Team interviews with senior and middle management of the partner banks. In addition, we spoke with former employees and sector specialists. It is important to stress, however, that virtual meetings are a poor substitute for personal, face-to-face meetings. There is certain soft information that cannot be captured in virtual meetings; follow-up is not easy to undertake and the context for qualitative information is missing. As a consequence, it was more challenging to get the necessary quantitative data from the partner institutions and we experienced limits in the quality of the qualitative information. We would strongly recommend that future evaluations do not rely on remote communication.

While we have received extensive data from each partner institution, we received limited if any data on other financial institutions from the respective central banks. Specifically, we have not received bank-by-bank information and have therefore relied on some indicators taken from annual reports of the main competitors of each partner institution. These indicators, however, are mostly of financial nature and do not necessarily refer to outreach indicators as we received them from the partner institutions. This made the comparison between the partner institutions and other financial institutions in the country difficult. And while we have access to a number of surveys, we found that there is no identifier for financial institutions in these surveys, so that we cannot link the experience of households or enterprises to specific financial institutions.

4. Definition of Financial Inclusion and Financial Stability

An extensive literature has documented a positive relationship between financial development and economic growth and poverty reduction, especially in emerging markets (see, e.g., Popov, 2018, for a recent literature survey). Financial institutions support the efficient exchange of goods and services by providing payment services and thus reducing transaction costs. By pooling savings from many individual savers, financial institutions can help overcome investment indivisibilities and allow scale economies to be exploited, ultimately resulting in higher firm growth. By economizing on the costs of screening and monitoring borrowers, financial institutions improve over a world where each saver would have to screen and monitor herself, which renders capital allocation more efficient. Financial institutions transform short-term liabilities into long-term assets, providing access to savings at sight, while at the same time enabling long-term investment, critical for innovation and sustainable growth. Finally, financial institutions enable risk diversification and offer insurance mechanisms against socio-economic shocks.

Financial inclusion

While financial development refers to the overall efficiency and functioning of a country's financial system, financial inclusion and stability can be seen as specific dimensions of financial development. Financial inclusion refers to the access by enterprises and households to reasonably priced and appropriate formal financial services that meet their needs. Access to financial services can be defined along several dimensions, including geographic access (i.e. proximity to a financial service provider) and socio-economic access (i.e. absence of prohibitive fees and documentation requirements). Appropriate design of products that meet the needs of clients, are sustainable for both providers and users, but do not involve abusive pricing, are other important aspects.

Financial inclusion, i.e., direct access to formal financial services allows the poor to integrate into modern market economies, smooth consumption and invest in their human capital and household enterprises, which will ultimately also lead to higher growth and lower poverty levels. There are also important indirect effects of financial sector development on raising the incomes of the poor; by, for example, changing the structure of the economy, increasing productivity, and allowing more entry into the formal labour market.

Financial inclusion is inhibited by different characteristics in emerging markets. First, the small scale makes high fixed cost investments in standard delivery mechanisms, such as a branch network,

prohibitively expensive, as does a disperse population and decrepit road infrastructure. Second, lack of ID systems and high incidence of informality (and thus absence of formal jobs) renders large parts of the population unbankable. This is often exacerbated by regulatory requirements designed for circumstances in advanced countries, most prominently Know-Your-Customer requirements in the context of Anti-Money Laundering/Combat the Financing of Terrorism (AML/CFT) frameworks.

Mobile phones have enabled a quantum jump in financial service provision in developing markets. Specifically, the combination of using mobile phones to undertake basic financial transactions and access to a wide agent network for cash-in/cash-out and identification purposes has allowed financially including a large part of the previously unbanked population. East African societies have shown the potential for a rapid increase in financial inclusion and similar solutions have been adopted in other developing economies, as for example Myanmar.

Beyond basic transaction services, mobile phone and Internet technology have also enabled the delivery of other financial services, including credit services. The combination of agent network and digital financial service delivery has also served as complement to the traditional brick-and-mortar network, allowing more cost-effective delivery of financial services and higher outreach.

Financial exclusion - the lack of financial inclusion - has traditionally affected some sectors and population segments more than others. Financial inclusion is traditionally lower in rural areas given the high costs of brick-and-mortar branch networks and high incidence of informality, resulting in a dearth of assets that can be used as collateral and limited contract enforcement mechanisms. Further, the agricultural sector is subject to a variety of risk factors that reduce their attraction for financial service providers: first, disperse population and decrepit road infrastructure make financial service provision with standard delivery channels prohibitively expensive; second, widespread informality of smallholder farmers, the lack of formal titles and the existence of competing land right system; third, high volatility in agricultural prices and weather risks; and fourth, political interference in agriculture - subsidised lending by government banks, repeated debt forgiveness and non-financial sector government interventions in the agricultural sector. Similarly, SMEs face higher financing constraints, as banks face higher costs reaching out to them: on the one hand, they are riskier, as less likely to have reliable and audited financial statements and to have collateralizable assets than large enterprises, on the other hand, they are more heterogeneous than retail clients and thus require more customized service.

Another important dimension of financial inclusion relates to the gender gap in access to and use of financial services. While factors explaining the gender gap are more fundamental to economies and societies - ownership rules, education, labour market participation, cultural biases, among others- there are also biases within the financial system, ranging from products that might not be adequate for female customers over own-gender bias of bank staff to limited financial literacy and capacity of customers. There are no easy solutions to overcome this gender gap and a multi-pronged approach is necessary.

Financial stability

Financial stability is a precondition for sustainable provision of financial services without disruption and thus stable economic growth. The intertemporal nature of financial contracts and the liquidity/maturity transformation undertaken by financial intermediaries make them susceptible to bank runs (sudden withdrawal of sight deposits by depositors or refusal to roll-over short-term funding by wholesale funders). Given the need on both client and bank side to invest in relationships with the other side, the abrupt loss of such a relationship and the need for clients to search for new banks implies additional costs and market frictions. Analysts have focused on capital and liquidity buffers as necessary

(though not sufficient) conditions for stability of individual financial institutions and access to lender of last resort facilities (typically the central bank of a country) and more broadly the financial safety net as conditions for systemic financial stability (c.g., Allen, Beck and Carletti, 2013).

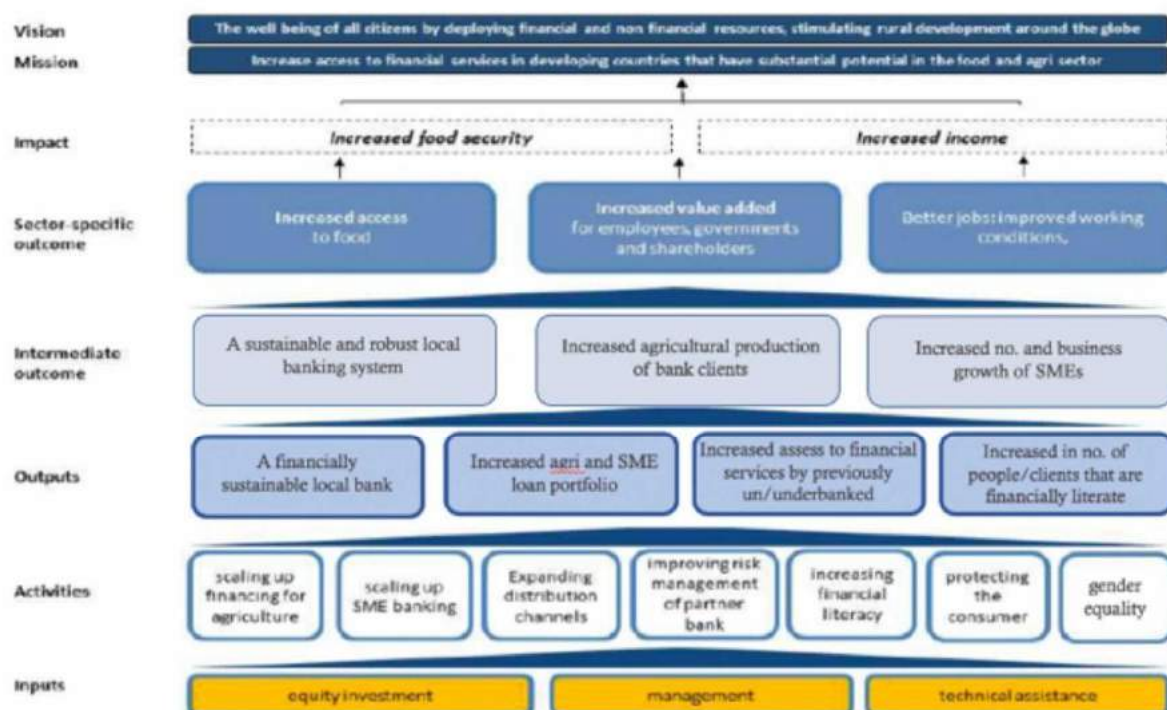
Financial institutions face a number of risks, including liquidity, credit and price risks (such as interest rate, asset price and exchange rate risks). Many of these risks are more pronounced in emerging markets, for several reasons. First, less diversified economies and the absence of deep and liquid capital markets reduce the ability to cushion the impact of economic shocks, and consequently prices tend to move more strongly. Second, high informality across the economy and the consequent fluctuations in income streams for many microenterprises and households imply heightened risks for financial intermediaries, with the result that many financial intermediaries rather not serve such population segments. Third, governance problems and a limited institutional infrastructure (such as credit information sharing systems, reliable accounting standards, property and collateral registries and effective contract enforcement systems) render financial intermediation riskier and costlier in emerging markets.

These risk factors pose specific problems for financial institutions. Effective risk management is thus at the core of banking, ranging from defining risk appetite at the institutional level over appropriate risk information and management systems and reporting lines to compatible incentives structures for decision takers. The challenge of effective risk management looms even larger for financial institutions that aim to push towards and beyond the access frontier, providing services for previously unbanked population groups and economic and geographic segments, using new delivery channels and products.

5. Theory of Change

We employ the theory of change illustrated in Figure 5.1 as the basis for our analysis. This theory of change, developed for the public-private partnership, has been updated from previous versions⁶ to reflect (i) the inclusion of gender equality as an activity, (ii) the inclusion of a sustainable and robust local banking system as an intermediate outcome and (iii) improved delineation between outputs which are in the direct control of the partner bank and intermediate outcomes which remain outside the direct control of the bank. In addition, we will (i) analyse at a high level the effectiveness of the three types of inputs (equity, management support and technical assistance), (ii) assess the effectiveness of efforts under each of the seven activities (including a new addition gender quality), and (iii) assess progress on outputs and intermediate and ultimate outcomes. These changes allow a more direct link with the existing literature on the relationships between activities/outputs and outcomes and impact and enable a more direct link between the evaluation exercise and the theory of change. We propose that the theory of change has reached a maturity after this, and a number of previous amendments. However, we recommend consideration be given to a process of jointly determining the focus of a specific technical assistance programme with a partner PFI, prioritising some parts of the overall theory of change, and as a result, arriving at a more narrow set of prioritised key performance indicators for a given programme period and partner.

Figure 5.1: Theory of Change



The effectiveness study primarily focuses on the links between inputs, activities and outputs, i.e., to which extent the investment, management support and technical assistance by the partnership have resulted in increased outreach and lending to agriculture and SMEs, in the expansion of delivery channels and improved risk management, and in financial literacy. We then assess whether these

⁶ We reviewed the Theory of Change at the start of the project and adjusted it accordingly, in line with literature and experience.

activities by the four banks have resulted in better access by previously under- or unbanked population to financial services, a more literate clientele and the emergence of a financially sustainable bank with higher levels of lending to key sectors.

Inputs

Rabo Partnerships has traditionally deployed three types of inputs – investment, management support and technical assistance -, with the latter growing in importance over the last decade. For each partner bank, we will assess the effectiveness and impact of Rabo inputs, drawing learnings from the evolving nature of each partnership and what is valued by local management. We will attempt to draw insights on attribution to activities, output and outcomes where feasible.

We will also use the DAC evaluation criteria to assess the effectiveness of these inputs for activities and outputs (OECD, 2019).⁷ Specifically, we will assess for each of the four partnerships:

- **Relevance:** The extent to which the intervention objectives and design respond to beneficiaries', global, country, and partner/institution needs, policies, and priorities, and continue to do so if circumstances change.
- **Coherence:** The compatibility of the intervention with other interventions in a country, sector or institution.
- **Effectiveness:** The extent to which the intervention achieved, or is expected to achieve, its objectives, and its results, including any differential results across groups.
- **Impact:** The extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects.
- **Sustainability:** The extent to which the net benefits of the intervention continue or are likely to continue.
- **Additionality:** The extent to which an intervention has an effect compared to a baseline.
- **Attribution:** The extent to which improvements can directly be attributed to the intervention and ultimately the partnership

Activities

In the area of access to finance, we will be able to track progress on lending to agriculture and the SME sector for each partner bank, and benchmark progress against relevant peer institutions where data availability allows. Key elements of institutional capacity will be examined such as the deepening of distribution channels, including performance compared with peers, and changes in risk management using measures of asset (credit risk) and liability diversification (liquidity risk). From the consumer side, we are able to track progress towards financial inclusion, financial literacy, consumer protection and gender equality. Gender equality will also be assessed within the bank.

Outputs

Outputs pertain to metrics within the full control of the bank. We will track four outputs as follows: (i) financial stability of the bank, (ii) growth in agricultural and SME lending, (iii) increased access to financial services by previously un- and underbanked populations and (iv) increase in the level of financial literacy among clients. Outcomes can be measured through critical performance indicators

⁷ <http://www.oecd.org/dac/evaluation/revise-evaluation-criteria-dec-2019.pdf>

(KPI's) for the partner institutions and through consumer surveys where the bank name is mentioned (such as a sub-set of FinScope/Access surveys in Africa).

Outcomes (Intermediate, Sector specific and ultimate)

Moving from outputs to outcomes, the theory of change makes a distinction between intermediate, sector-specific and ultimate outcomes. First, intermediate outcomes refer to (i) a sustainable and robust banking system, (ii) increased agricultural production of clients and (iii) higher intensive and extensive growth of SMEs. These intermediate outcomes can be gauged through economy-wide indicators but also, if sufficiently detailed, through client data of the partner institutions. When considering intermediate outcomes, we will gauge multiplier and demonstration effects of the partner institution on the rest of the financial system in the respective country. Much of this analysis, however, is of qualitative nature, given that we do not have beneficiary data, i.e., information on the client level,

Second, the assessment of the sector-specific and ultimate impact of interest is beyond this study and we rely on existing empirical evidence as detailed in the following paragraphs. Beyond the sector-specific outcomes of increased access to food, increased value added, employees, government and shareholders, better jobs and improved working conditions and the ultimate outcomes of increased food security and increased income, the following discussion also refers to the possible impact of better and more effective banking systems on several of the 17 Sustainable Development Goals (SDGs).

There is an expanding literature showing a positive relationship between an efficient and inclusive financial system and more inclusive and faster growing economies, ultimately contributing to various Sustainable Development Goals, including the sector-specific and ultimate impact objectives mentioned in the Theory of Change.

Increased value added: an extensive literature has shown that deeper and more efficient financial systems are associated with higher growth, especially in developing and emerging markets (Beck, Levine and Loayza, 2000; Arcand, Berkes and Panizza, 2015; see Popov, 2019, for a recent overview) as well as faster reduction in poverty rates and reductions in income inequality (Beck, Demirguc-Kunt and Levine, 2007), thus directly relating to the SDGs 1 and 10 and to increased value added, one of the sector-specific outcomes, and increased income, one of two impact criteria in the theory of change.⁸ There is also evidence on the country-level for Thailand (Gine and Townsend, 2004) and India (Ayyagari, Beck and Hoseini, 2020) that financial deepening can help reduce poverty rates, mainly through labour and internal migration effects.

Better jobs: The literature has also provided evidence on the positive effect that financial deepening has on employment (Pagano and Pica, 2012, thus relating to SDG 8 and to one of the outcome criteria (better jobs)).⁹ Beck, Homanen and Uras (2019) show that lower financing constraints result in more hiring of permanent and skilled workers in Uganda, while Popov (2015) finds in a cross-country sample that credit constrained firms have a 38 per cent lower probability of investing in on-the-job training.

⁸ End poverty in all its forms everywhere (SDG1) and reduce inequality within and between countries (SDG10).

⁹ End hunger, achieve food security and improved nutrition and promote sustainable agriculture (SDG2) and Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG8).

Increased access to food: There is also evidence that financial development can support agricultural production and distribution and thus better access to food and thus SDG 2 and the first of the sector-specific impact and one of two ultimate impact objectives (Claessens and Feijen, 2006).

As discussed in the previous section, financial inclusion can be seen as a dimension of financial development, but it has only been over the past 15 years or so that it has gained the attention of empirical researchers. There is no conclusive evidence on the relationship between financial inclusion and aggregate outcomes, given the difficulty to infer causality, with the notable exception of Burgess and Pande (2005) who show that mandated branch openings by commercial banks in rural India resulted in higher credit and poverty reduction. However, there is convincing empirical evidence on the micro-level and/or for specific financial services.

Take first credit. Kaboski and Townsend (2011, 2012) use the Million Baht village banking programme in Thailand in 2001/2002, which involved the transfer of 1.5 percent of the Thai Gross Domestic Product (GDP) to the nearly 80,000 villages in Thailand to start village banks and show that it had redistributive consequences but limited if any long-term growth effects. Randomised control trials of microcredit interventions– field experiments under the control of researchers and thus often seen as gold standard to infer causality- have shown that there is “a consistent pattern of modestly positive, but not transformative, effects” (Banerjee, Karlan and Zinman, 2015) on different outcomes, including entrepreneurship, income growth, health, gender equality and education. On the other hand, there is an extensive literature that has shown that access to external funding can increase firm investment, innovation and ultimately firm growth (among others: Ayyagari, Demirgüç-Kunt and Maksimovic, 2011; Banerjee and Duflo, 2014; Beck, Demirgüç-Kunt and Maksimovic, 2005), thus relating to SDGs 8 and 9. One important distinction in this context, however, is between subsistence and transformational entrepreneurs, where only the latter have the capacity and ambition to grow and expand employment on a large scale.

Second, improved access to savings services has been shown to have positive effects on gender equality Ashraf, Karlan and Ying (2010), investment and healthcare spending (Dupas and Robinson, 2013a,b; Brune et al. 2013), more spending on education and food consumption (Prina, 2015) and a higher probability of children enrolling in secondary school (Habyarimana and Jack, 2016). Better access to savings services also allows for better consumption smoothing, with positive implications for schooling (as families have to no longer rely on child labour during hard times) and health, relating thus to SDGs 3 and 4. One of the critical mechanisms through which better access to savings achieves these outcomes is a better control by females over household income and wealth and lower risks of access to cash flow by other family members and friends.

Third, better access to payment services, especially if undertaken through digital channels, has been shown to have quite large effects. Several studies show that the use of more effective payment methods cannot only reduce costs and connect more people to national and international payment systems, but also allow more effective inter-personal exchange and risk sharing across space and over time (e.g., Blumenstock, Eagle and Fafchamps, 2013; Jack and Suri, 2014). For example, Suri and Jack (2016) document that M-Pesa has reduced the poverty rate in Kenya by 2%, while Beck et al. (2018) show that the adoption of M-Pesa by small entrepreneurs in Kenya to pay their suppliers was associated with increases in trade credit, with positive repercussions for firm and aggregate growth. Patnam and Yao (2020) show for India that, at the district level, adoption is associated with greater resilience of economic activity and household consumption to adverse rainfall shocks.

In summary, the outputs and intermediate outcomes outlined in the Theory of Change have been shown by an extensive literature to be related to the sectoral outcomes of increased access to food, increased value added, employees, government and shareholders, better jobs and improved working conditions and the ultimate outcomes of increased food security and increased incomes.

6. Summary of Findings

Summary of Findings						
Research Question 1: Access to Financial Services						
	Level	Evaluation Questions	dfcu	FED Invest	NMB	Yoma Bank
Increased Agri/SME Portfolio						
Agri	Output	Did the PFI increase agri lending during the PPP (relative to the country's financial system)? How did the agri loan portfolio perform?	Between 2016 and 2019 dfcu increased lending to the agricultural sector by 179% to 292 billion TSh, the equivalent of 104 million euros. The number of borrowing clients in the sector increased from 309 to 581, an increase of 88%.	Individual farmers experienced a 5% cumulative growth rate over the five years, which is lower than the overall growth in credit customers of 10%. Agriculture makes up 33% of the total FED Invest SME loan book, whereas only 1.4% of the aggregate loan portfolio of Albanian banks was in agriculture at the end of 2019.	In agriculture the performance was strong. The number of individual farmers with credit increased by 1,600% from 308 to 5,278 and the number of borrowing farmer cooperatives grew by 318% from 450 in 2016 to 1,879 in 2019. The number of clients in the broad agri-business increased by a factor of 23 between 2014 and 2019, while the volume of lending in agri-business increased by a factor of 4.6 over the same period.	Between 2018 and 2019 Yoma Bank experienced a growth in rural credit clients of 20%. Over three years' time of the first phase, Yoma Bank financed 6,530 assets (tractors, harvesters, tillers and transport vehicles) for a total value of MMK 183bn.
	Output	Did the PFI increase the agri lending towards female clients (relative to the country's financial system) during the PPP?	Between 2017-19 the number of female credit customers in rural areas rose by 128% to 2,597.	Between 2017 and 2019, the proportion of female customers rose slightly for rural private individuals.	The trends in the number of female clients mirrored the trends in the number of overall clients. Female clients made up 33% of rural credit customers, 12% of SME credit customers and 8% of individual farmers with credit. Steady growth was recorded in the number of rural female customers and female farmers.	In 2019, 20% of urban credit customers were female and 24% was the corresponding figure among rural customers. Between 2018 and 2019, the proportion of female customers with credit products rose slightly for urban private individuals.
	Output	Has the PFI been at the forefront of financial innovation in agri finance during the PPP?	Deepened value chain agribusiness lending in agriculture in specific products and deepened lending to cooperatives.	FED Invest's membership model and focus on rural areas is unique in Albania. Product innovation, especially in the digital space, is a priority for the next five years.	Development of new markets was achieved. Between 2016 and 2019 lending grew significantly in the following sectors: coffee (+5,569%), paddy (+5,138%), sunflower (+5,069%), sugarcane (+906%) and cashew nuts (+234%).	Yoma bank has been a leader in innovation for agricultural value chain with the hire purchase portal (causing copycat initiatives) and corn sector financing.
	Output	To what extent can changes in the level of agri finance extended by the PFI be attributed to the PPP?	PPP helped dfcu absorb new customers from Crane Bank. CBS (Core Banking System), analytics team, Branch 21 and innovation hub all core capacities developed under PPP that can be leveraged to expand agricultural lending in next five years.	The modest gains in agricultural lending can loosely be attributed to the PPP. However, in our assessment the PPP has laid the institutional capacity for larger gains in customer numbers over the next five years.	The new loan centre has played a central role in increases in lending to farmers, cooperatives and new agribusiness sectors.	Technical support from Rabo directly help design and establish the hire purchase portal and the corn financing initiative. The imminent SME portal is a forthcoming example.
SME	Output	Did the PFI increase SME lending (relative to the country's financial system)? How did the SME loan portfolio perform?	91% increase in SME lending between 2016 and 2019.	A dedicated SME department was established in 2017 and expansion in this area was directly supported by Rabo. Tourism is the largest SME segment for FED Invest, representing 15% of the total SME loan book. However, if a number of agricultural segments are combined, agriculture	The number of SME clients increased by a factor of 23 between 2014 and 2019, while the volume of lending increased by a factor of 4.6 over the same period.	Qualitative evidence suggests that the PPP did support growth in SME lending indirectly through improvements in risk management and IT systems.

				makes up 33% of the total SME loan book.		
	Output	Did the PFI increase the SME lending towards female clients (relative to the country's financial system) during the PPP?	No available data on female headed SMEs. No direct innovation or marketing on/for female orientated products.			
	Output	Has the PFI been at the forefront of financial innovation in SME finance during the PPP?	Establishment of the innovation framework and hub improved the review and implementation of new products.	Expansion to new SME sectors have been supported by the new SME department.	Tailoring of credit products to different sectors has been successful to date.	It is expected that the new SME portal with products digital integration will be an important innovation to establish Yoma as the leading SME bank in Myanmar.
	Output	To what extent can changes in the level of SME finance extended by the PFI be attributed to the PPP?	Many indirect links between capacity building efforts and SME finance extended including the improved CBS, risk management systems and innovation processes.	Indirect links between capacity building efforts and SME finance extended including improved CBS, risk management systems, and directly the building up of the SME department.	It is fair to say that the new loan centre and associated process has been crucial to the increase in lending over the period.	It is hard to say precisely but the qualitative (interview) evidence is suggestive of an important indirect link.
Increased Access to Financial Services						
	Output	Did the PFI increase the outreach, especially in rural areas during the PPP (relative to the country's financial system)?	Between 2017 and 2019 the number of rural private customers at dfcu fell by 12%. Some of this can also be attributed to the cleaning up of the Crane loan book, including different documentary requirements, and not solely customer attrition on the demand side. More positively, the number of private rural credit customers rose by 119% and the number of agro-dealers with loans by 67%	individual farmers make up the largest segment of FED Invest's borrowing (55% of all customers), as shown in Figure 8.10. This segment experienced a 5% cumulative growth rate over the five years, which is lower than the overall growth in credit customers of 10%. The number of rural private credit customers declined by 9% between 2016 and 2019 .	A strong performance. The number of individual farmers with credit increased by 1,600% from 308 to 5,278 and the number of farmer cooperatives grew by 318% from 450 in 2016 to 1,879 in 2019. The number of clients in the broad agri-business increased by a factor of 23 between 2014 and 2019, while the number of private rural credit individual customers by 42%.	The number of rural private customers with savings or deposit accounts grew by 49% between 2018 and 2019. Success with the tractor leasing project has been followed by LIFT encouraging Yoma to move into irrigation and low carbon projects.
	Output	Did the PFI increase access to non-lending financial services for agri customers (such as payment services, current accounts, savings accounts, insurance and mobile/internet banking)?	Decline in rural savings and deposit customers of 12% respectively between 2017 and 2019. This performance can, in part, be attributed to the acquisition of Crane bank assets and hides 5-year increase.	The number of rural private customers with savings or deposit accounts grew by 12% over the four years, a quarter of the urban growth rate.	Number of farmers with checking accounts has increased exponentially between 2014 and 2019 from 1,780 to 373,262, while the number of farmer cooperatives with checking accounts increased from 200 to 1,875 over the period.	The number of rural private customers with savings or deposit accounts grew by 49% between 2018 and 2019 – a very strong performance.
	Output	Did the PFI increase access to non-lending financial services for SME customers (such as payment services, current/ savings accounts, insurance and mobile/internet banking)?	27% decline in SME savers/depositors between 2017 and 2019 again can be attributed to the cleaning up of the Crane client book and hides a the 5-year increase.	The number of SMEs with credit from FED Invest grew by a factor of 5 from 8 to 48 in 2019.	The number of SME clients with savings and deposits has plateaued since 2016, after a very strong period of growth between 2014 and 2016, when the number of SME customers rose by 370%. The performance for SME checking account is less strong, falling from 36,337 in 2014 to 26,657 in 2019.	Yoma experienced a strong performance for SME customer deposit/savings accounts with a 57% increase between 2018 and 2019.
	Output	Did the PFI help increase outreach towards female clients during the PPP (relative to the country's financial system)?	Decline in female customers more pronounced for rural savings/deposit customers between 2017-19 (16%), in contrast to the decline in urban	Half of urban private savings/deposit customers were female (49%); however only 28% of private savings/deposit customers in rural areas are female. However, many rural	There has been a slightly higher growth rate in female rural savings and deposit clients over the period and this is reflected in the percentage of female savings and deposit customers. The percentage of rural private savings and deposit	Half of urban private savings/deposit customers were female (49%), while 46% of private savings/deposit customers in rural areas are female. For both segments,

			savings/deposit customers (10%).	customers of FED Invest can be considered households, with the account in the husband's name, and so outreach to females is likely higher than reported.	customers that are female rose from 37% in 2014 to 43% in 2019, while the corresponding figure for urban rose from 40% to 44%.	the proportion of females grew strongly between 2018 and 2019.
	Output	Has the PFI been at the forefront of innovation in outreach, especially in rural areas during the PPP?	Much of the gains of mobile phone linked banking in rural areas are yet to come.	Product innovation has not been a particular feature of the PPP programme with FED Invest.	Despite only scratching the surface of a very large and challenging sector, NMB has been a leader in rural expansion to individual farmers and cooperatives.	As previously stated, the HPR tractor portal and corn sector lending represent important innovations. There is potential for phase 2 of the LIFT programme to deliver innovate female centred digital products.
	Output	To what extent can changes in outreach by the PFI be attributed to the PPP?	Not clear PPP has changed much the level of outreach but level of risk for given outreach has been better managed. This will allow for further innovation and growth rates in next 5 years.	Incremental improvements in branch management and application processes have been achieved and these can be considered innovations for FED Invest. PPP has supported level of outreach during transition. Risk management, IT capabilities and governance structures are much improved due to PPP. This should allow for innovation and greater outreach achievements in next 5 years if a reasonable balance between risk and expansion is struck.	There is no doubt the PPP helped increase outreach through support for IT systems and digitisation of products.	The Myanmar financial system is engaged in a long-term process of catch-up and so increasing account numbers is common across institutions. It can be argued that capacity building in core functions of the bank including IT has supported Yoma's impressive performance.
Increase in Client Financial Literacy						
	Output	During the PPP, have financial literacy efforts by the PFI been effective in improving financial literacy and contributing to outreach efforts, especially in rural areas?	Since 2015, dfcu has increased to over 200 the number of cooperatives it has trained. This has been supported by a combined 2.8m USD investment by dfcu and Rabo Foundation into dfcu's Agribusiness Development Center (ADC). dfcu's Supportive of business growth, the true effects of these efforts are unmeasured.	With support of JICA, FED Invest established an agricultural business assistance (ABA) centre, the ABA centre, in Lushnje, south of Tirana, for financial education and extension services. The centre, in particular, potential plans to digitise its outreach and link it to mobile products has much potential for impact if the right support is provided.	In 2019, 561 farm organisations with an average membership of 150-200 received training on good governance of cooperative and financial literacy and practices. This is an increase of 56% on the number of farm organisations that received training in 2014.	Yoma Bank supports financial literacy and inclusion through events and other investments. Twenty-three learning events were organized in 2018/19 to promote financial literacy, inclusion and digital payments with over 77mn MMK invested into the awareness of responsible lending and financial literacy. Although, no sophisticated evaluation has taken place, there is reason to believe the programme supports outreach and financial literacy.
	Output	During the PPP, have financial literacy efforts by the PFI been effective in improving financial literacy and contributing to outreach efforts for women?	Women in Business financial literacy programme began in 2007 and provides additional financial support to women including training, coaching and mentoring. Although, no sophisticated evaluation has taken place, there is reason to believe the programme supports outreach and financial literacy.	No PPP supported programme for women's financial literacy.	For women NMB organises networking events and trainings on topics women in business find highly relevant, like technological advances, corporate governance, marketing, import/export and financial literacy, via 34 Business Clubs in the country. Although, no sophisticated evaluation has taken place, there is reason to believe the programme supports outreach and financial literacy.	Although, no sophisticated evaluation has taken place, there is reason to believe the events supports outreach and financial literacy, particularly the former. A focus on focus on women is pursued and the LIFT programme is an opportunity to increase the financial inclusion of rural women at Yoma.
	Output	Has the PFI been at the forefront of innovation in financial literacy, especially in rural areas during the PPP?	Yearly incremental organic improvements in cooperative and women in business training takes place.	The ABA centre has significant plans to innovate in financial literacy.	Yearly incremental organic improvements in cooperative and women in training modules takes place.	No significant innovation of note.
	Output	To what extent can changes in financial literacy in PFI	Direct financial support and technical support in initial stages	Other partners, such as JICA, have led support for FED Invest's financial literacy efforts.	Direct financial support and technical support in initial stage of the farmer training.	No evidence of a clear link between the aforementioned events and the PPP.

		client base be attributed to the PPP?	was provided by Rabo Foundation.			
Intermediate Outcomes						
	Intermediate Outcome	Has the output, performance and vulnerability of bank's agri clients improved due to access to bank products?	Empirical literature suggests that agri clients with improved access to financial services can invest to raise profitability, better manage risk, and reduce vulnerability to, and better overcome shocks.			
	Intermediate Outcome	Has the output, performance and vulnerability of bank's SME clients improved due to access to bank products?	Empirical literature suggests that SME clients with improved access to financial services can invest to raise profitability, better manage risk, and reduce vulnerability to, and better overcome shocks.			
Research Question 2: Financial Stability						
	Level	Evaluation Questions	dfcu	FED Invest	NMB	Yoma Bank
Financially Sustainable Bank						
Financial	Output	Has the stability and performance (sustainability) of the PFI improved during the PPP (relative to the country's financial system)?	Improved capitalisation due to Rabo ownership stake. dfcu's NPL ratio has been relatively stable around 6%, above that of the overall banking system since 2017 and above that of Standard Bank and Centenary Bank. There was a sharp increase in the cost-income ratio between 2017 and 2018, as well a sharp drop in profitability. This can be explained with the acquisition of Crane Bank assets in 2017 and consequent costs and losses. upward trend in profitability for 2019.	NPL ratio seems rather high, but the non-performing assets are concentrated in a few urban branches. However, the Albanian banking sector showed a higher NPL ratio with 8.4% at the end of 2019. Profitability has been quite low though constantly increasing.	Improved capitalisation due to Rabo ownership stake. For loans, NMB has performed better than the sector and has – in line with the overall sector- seen a decline in the NPL ratio between 2017 and 2019. We note that Standard Bank is the only large competitor with profitability significantly above that of NMB	It is hard to infer from hard data to the financial stability implications of the partnership. However, the rather careful approach to expansion by Yoma Bank and the hiring of experienced expats and local staff as department heads gives a certain reassurance. Profitability is very low, not only for Yoma Bank but also for some of its competitor banks, for which we have financial statements on the Internet. Similarly, ROE stood at 12.6% for Yoma Bank in 2019, up from 8.3% in 2018.
	Output	What innovations and business decisions during the PPP have impacted on or may impact on the sustainability of the PFI?	Improvements in risk management and improved CBS have supported sustainability.	Improvements in risk management and improved CBS have supported sustainability.	NMB continues to be a systemically important bank in Tanzania. A number of improvements in risk management and corporate governance over the period have likely improved sustainability.	Improvements in risk management and improved CBS have supported sustainability. Carefully planned expansion of lending into new areas has minimised credit risk.
	Output	To what extent can changes in the sustainability of the PFI be attributed to the PPP?	In long-run financial sustainability of dfcu has been improved due to the PPP due to improvements in risk, credit and compliance and management functions. In short run, capacity to manage the impacts of the pandemic higher due to PPP.	In short run, capacity to manage the impacts of the pandemic higher due to PPP. In the long-run improved internal capacity around risk management and IT, if built on, should improve financial sustainability depending on the level of risk appetite chosen.	Capacity to manage the impacts of the pandemic higher due to PPP. Also, NMB has continued to perform well despite political uncertainty and a period of uncertainty in its internal governance. Many of the capacity building efforts achieved through the PPP have played a role in ensuring this contributed performance.	Of particular note is the distinct improvements in the risk management function at Yoma Bank. Also worthy of note is the impact of seconded Rabo staff to the performance of specific business areas and related innovation processes.
Human Resources	Output	How stable is the employee base of the bank (turnover ratio)? And what is the average investment in training per staff member? What is the level of staff gender equality?	dfcu experienced a turnover rate of greater than 10% in 3 of the last 4 years. This turnover rate can be attributed to the specific challenges of post-acquisition integration with Crane bank. Through the merger, dfcu received 829 staff and 60% left, many of their own accord, retaining only 261. Increasing training spending per staff	The growth in staff between 2016 and 2019 was 19%. FED Invest provides staff with the equivalent of 100 euros in the form of a training grant each year and turnover can be considered low at 6%. A majority of staff at FED Invest are female (a common trend across the Albanian financial system). In 2019, the proportion was 53%.	Staff turnover in 2019 was an acceptable 5% but the level of investment in training per staff member has fallen in absolute terms by 25% since 2015. The proportion of female staff at NMB has grown steadily between 2014 and 2019 from 45% to 48%.	Progress on gender balance has been achieved in recent years. 54% of leaders at Yoma are women and over 50% of promoted employees in 2019 were women. The annual report states that 100% of employees received relevant industry training during the financial year, average of 12.5 hours of training per employee per year.

			member since 2017 and a slight majority of staff in dfcu are female (52% in 2019).			
Sustainable Local Banking System						
	Intermediate Outcome	Has the PFI contributed to the sustainability/stability of the local banking system?	dfcu supported financial stability with the takeover of Crane Bank assets at the request of the Bank of Uganda. Improved risk management processes, spillovers of trained staff and a conservative approach to expansion have all helped the sustainability/stability of the sector.	FED Invest is not part of the official banking system. The lobbying conducted by FED Invest, supported by the PPP, has made a significant contribution to financial stability of the microfinance sector with higher regulatory standards.	NMB financial performance makes it clear that it has a positive influence on financial stability of the sector. In addition, NMB trained staff play significant roles in a number of competitor banks.	Yoma's financial performance, the leakage of well-trained staff to competitors and development of profitable areas of lending that have been copied by the sector are three ways in which Yoma as contributed to financial stability of the sector.

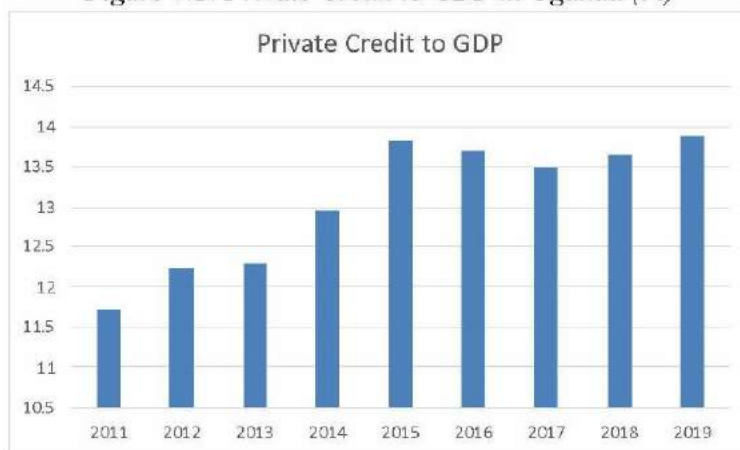
7. dfcu Analysis

Rabo Partnerships initiated its relationship with dfcu in 2013. Formally, the PPP under review began in 2014 and comprised of an ownership stake, management support (until 2016) and technical assistance. dfcu Bank is a leading banking and financial services company domiciled in Uganda. It came into existence in May 2000 following dfcu's acquisition of Gold Trust Bank. dfcu Limited was started by the Commonwealth Development Corporation (CDC) of the United Kingdom and the Government of Uganda through the Uganda Development Corporation (UDC) in 1964.

A. Context: Ugandan Financial System

Similar to other financial systems in the region, Uganda has a small and underdeveloped financial system. After a moratorium on new banks was lifted in 2007 (when there were 15 banks), the number of banks has increased rapidly and stands now at 25.¹⁰ The banking system is dominated by foreign-owned banks, including Standard Bank, Absa (formerly Barclays) and Standard Chartered, but also several other banks headquartered in Africa, with the remainder made up of small domestic privately-owned banks. While banks are well capitalized, profitable and liquid, there have been several failures of smaller banks in recent years. Uganda has a strong regulatory and supervisory framework and has dealt relatively well with these failures. In spite of the expansion of the financial system, financial deepening has stalled over the past five years, with Private Credit to GDP between 13% and 14% (see Figure 7.1) - similar to other small financial systems in the region, but below many other African countries. Uganda is part of the East African Community, with increasing cross-border trade and cross-border financial flows, but also regulatory alignment and cooperation.

Figure 7.1: Private Credit to GDP in Uganda (%)



Source: World Development Indicators, World Bank

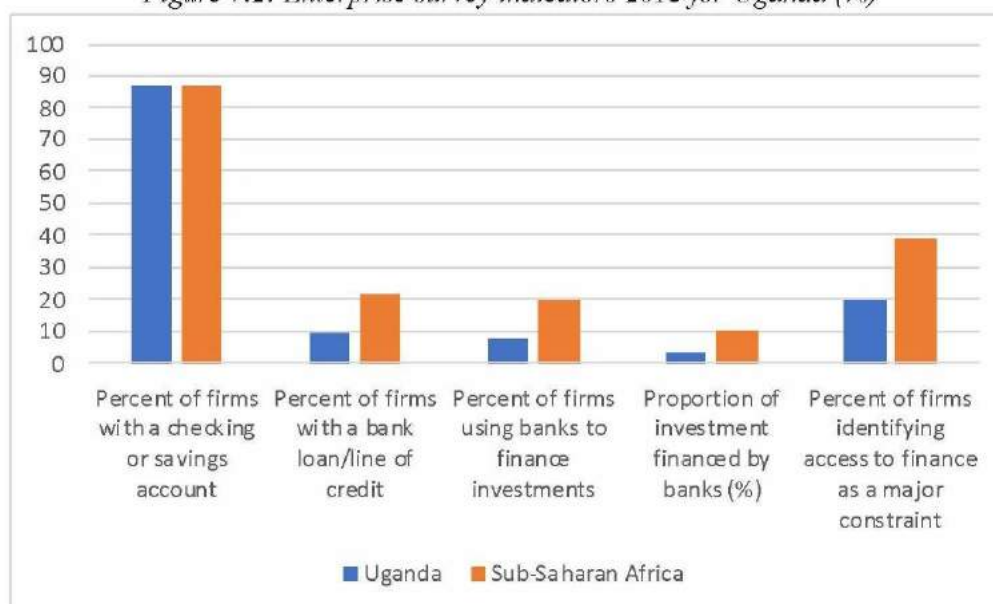
In terms of firms' access to finance, Uganda performs well below the regional average (Figure 7.2). Unfortunately, the last enterprise survey was undertaken in 2013 so that we cannot track progress since then. While 87% of all surveyed firms had a savings or checking account in 2013, only 10% had a loan or line of credit (compared to a regional average of 22%). Only 8% of firms used bank to finance investment, with only 3% of investment being, on average, financed by banks. Surprisingly, only 20%

¹⁰ The information in this subsection is based on Bank of Uganda documents and assessment by the authors from other projects.

of surveyed firms identify access to finance as major operational or growth constraint, half the regional average; this rather low number cannot be explained by the lack of need for finance (which at 42% is only slightly above the regional average), but maybe by the prominence of other growth constraints that are more binding than access to finance.

As important as the structure of the financial system is the institutional underpinning for financial transactions. Uganda introduced a credit reference bureau over ten years ago, which – with minor exceptions – mirrors international best practice, although so far only 7% of the adult population have a record in the bureau (World Bank, 2020). One major difficulty that authorities had to overcome was the introduction of an ID system, which did not exist before 2015. It will turn into digital ID cards in the coming years. The legal framework for creditor rights (which directly affects banks as lending institutions) is rather weak in Uganda (5 out of 12 in Doing Business), with the lack of a unified legal framework for secured transactions, no possibility to extend security rights to future or after-acquired assets and the lack of a collateral registry secured creditors not paid first in liquidation. Property registration takes at least 42 days and 10 different procedures, although the cost is relatively low (compared to the regional average), with 3.9% of the typical property value (World Bank, 2020). The quality of land administration is assessed as relatively low (10.5 out of 30) with deficiencies across all areas but especially with respect to coverage of private land. Finally, enforcing contracts is lengthy and costly. In a nutshell, while the information environment has improved significantly, the legal and institutional frameworks still show substantial deficiencies.

Figure 7.2: Enterprise survey indicators 2013 for Uganda (%)



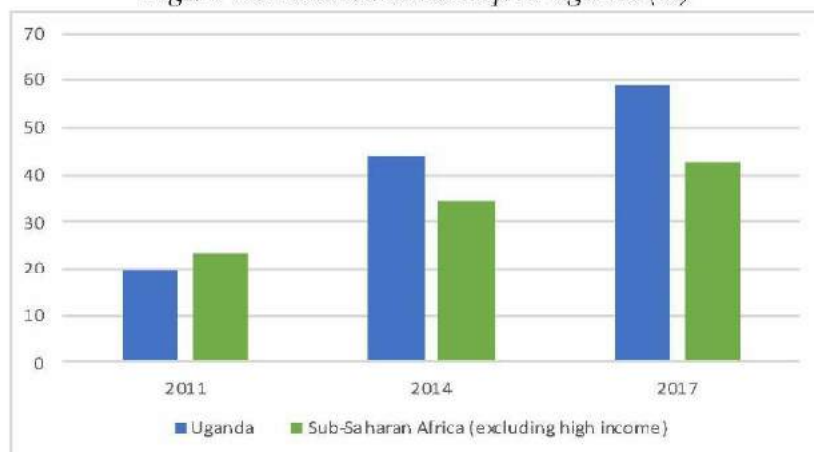
Source: Enterprise Surveys, World Bank

In terms of financial inclusion, Uganda has made enormous progress between 2011 and 2017, more so than the average African country (See Figure 7.3). Specifically, account ownership has almost tripled from 20 to 59%. To a large extent this is due to the expansion of mobile money accounts; between 2014 and 2017 the share of adults with a mobile money increased from 35% to 51% (while the regional average increased from 12% to 21%). There has also been a marked increase in account ownership by young adults and in rural areas between 2011 and 2017 (Figure 7.4); among the many initiatives taken by the Bank of Uganda was a financial literacy strategy campaign focused on five key segments: schools; youth; rural outreach; workplaces, and the media. In 2018, the Bank of Uganda introduced

agency banking, allowing the delivery of financial services through non-bank outlets, such as small shops, which is expected to increase financial inclusion further. Finally, while there is a gender gap in account ownership, it has somewhat closed over the past years (Figure 7.4).

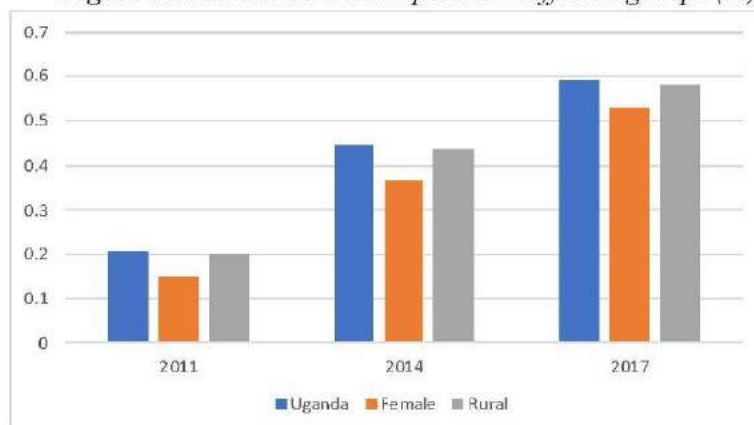
Uganda has a mobile network operator (MNO)-led model to mobile money, like in Kenya and Tanzania, i.e., MNOs are the primary providers of mobile money transaction services. Banks cooperate with MNOs to offer specific financial services (such as credit services), with banks not being limited to cooperate with only one MNO. MTN was the first MNO to enter the market in March 2009 and has become the market leader. Three other MNOs are offering mobile money services. MNOs hold account balances in escrow account with banks and have partnered with banks to offer specific financial services, starting in August 2016 with MTN Uganda launching micro-savings and microloan services, MoKash, in partnership with Commercial Bank of Africa (CBA). Like in Kenya, the initially light-touch regulatory approach has enabled rapid growth of mobile money but has also implied that regulation has been behind developments in the sector, including in measures to mitigate the impact of market-dominating MTN on competition (e.g., through banning agent exclusivity and allowing banks to cooperate with several MNOs).¹¹

Figure 7.3: Account ownership in Uganda (%)



Source: Global Findex, World Bank

Figure 7.4: Account ownership across different groups (%)



Source: Global Findex, World Bank

¹¹ For further discussions, see Macmillan, Roy, Anthea Paolo, Tamara Paremoer (2016): The “Evolution” of Regulation in Uganda’s Mobile Money Sector, in: AJIC Thematic Issue: Economic Regulation, Regulatory Performance and Universal Access in the Electronic Communications Sector.

B. dfcu Within the Banking Sector

The Development Finance Corporation of Uganda (DFCU) was established in 1964 (later renamed dfcu). Over the past decade, dfcu has acquired several smaller banks. Arise (Norfund, FMO and Rabo Partnerships) is majority owner of the bank (59%), with the remainder held mostly by (foreign) institutional investors, including CDC. Unlike in other partner banks, there has been very limited management support that has now ended; specifically, Rabo Partnerships pulled out of management support in 2016 due to new regulatory requirements, with the then deputy CEO continuing as special advisor. dfcu has always been focusing on large local corporates and middle-class costumers, in contrast to other large foreign banks in Uganda. Starting 2015, the Bank partnered with Mobile Network Operators (MNOs) and launched “Mobile Plus”, a service that enables its customers to conveniently transfer money between their dfcu bank accounts and mobile money wallets respectively. It has also started working with a large agent network to further increase its outreach.

dfcu is among the five largest banks in Uganda in terms of assets or deposits. Over the past five years, dfcu has aimed at transforming from a niche bank into a universal bank and into one of the leading market players within the Ugandan banking system. One of its closest mass market competitors is Centenary Bank, another top five bank that focuses on the lower end of the market, and mainly so in the rural area. dfcu sees Standard Bank (the largest Ugandan bank) as competitor for the middle class and Equity Bank as competitor for cross-border business.

As other banks, dfcu started rolling out agent banking after the publication of the relevant regulation in July 2017. Another major regulatory change after the amendment of the Financial Institutions Act in 2016, allowing banks to engage in insurance services with a corresponding license, has also prompted dfcu to enter the “bancassurance” segment.

While some of dfcu’s growth was organic, dfcu acquired two banks over the past years: Global Trust, a small retail bank, in July 2014 and parts of Crane Bank in January 2017 (through a purchase and assumption transaction). The acquisition of Crane Bank assets allowed to accelerate the transformation towards a universal bank.

dfcu holds strong positions in local corporates, SMEs, agribusiness, investment clubs, community groups and salaried workers. dfcu’s achievements must be considered within the context of the fact that Ugandan Development Bank benefits from lower subsidised interest rates and Centenary Bank has a market leading position in lending directly to the farmer with products for different parts of the seasonal cycle.

C. Role of the Partnership

The five-year partnership programme (combined with a five-year strategic programme of dfcu) was planned for November 2013 to December 2018 but started in April 2014 (slightly delayed) and went through June 2019 (with a short extension). The cooperation with dfcu is outside the overall cooperation agreement of Rabo Partnerships and the Dutch Ministry of Foreign Affairs. The governance structure consisted of a Tripartite Advisory Committee consisting of representatives of dfcu, Rabo Partnerships and the Dutch Embassy in Kampala and which met twice a year to review progress, activity planning, impact and budget performance of the programme and issued an annual report. The original plan,

including in terms of key performance indicators, turned out to ambitious, given the necessary focus on capacity building.

The focus of the partnership was on technical assistance in agribusiness, financial literacy, Women in Business, HR capacity building, IT and business processes. One of the dominating themes has been digitalisation.

Some of the highlights we note of the TA programme include:

- *Customer Segmentation*: This process led to improved understanding of each customer segment, tailored product offerings and internal restructuring of teams around the new customer segments. For example, different products were created for students, older people and SME/Agri clients. Rabo brought considerable expertise to this strategic project.
- *Core Banking Strategy and Implementation*: With the support of Rabo advisors the process and system's architecture were reviewed, and a layout was made for future system and process improvements, such as business process redesign, the upgrade of the Finnacle core banking system and the acquisition of an e-banking system. This was designed and guided by Rabo expertise.
- *Customer Experience*: The Branch 21 project reimagined the customer experience both within and outside of the branch. The project helped create more efficient branches that focused less on transactions and more on customer management. Rabo's vast experience in the transformation of banking in the digital age supported the project in terms of both knowledge and the reform process.
- *Data Analytics*: This project supported the development of the analytics team at dfcu. An initial success of the team has been to improve cross selling of products to customers, using for example pop-up suggestions in the core banking system. This is a clear example of improved capacity that will help dfcu improve its customer understanding in the medium term.
- *Alternative Channels*: Rabo has supported the strategic plan for growing alternative channels including the forthcoming internal Horizon 2 project designed to make dfcu the first bank for technology.
- *Innovation Hub*: With the support of Rabo, dfcu established an innovation hub; a team and process framework for identifying, developing, evaluating and then prioritising innovation ideas. It is considered an agile framework to help manage and bring innovative ideas to fruition. This initiative was much needed to keep up with peer banks.
- *Risk Management Framework*: Support from Rabo helped ensure that dfcu was ahead of the curve, having a risk framework in advance of a sector wide mandate by the central bank.

We also found reported improvements in the functioning of the compliance department and reconciliation team. Internally, the compliance department has a stronger influence over bank operations in 2020 than in previous years due to its increased sophistication and more direct reporting with management, while the reconciliation team which has improved its processes and communication channels with the rest of the bank.

D. Financial Outreach

dfcu's performance in financial outreach was affected by its takeover of Crane Bank assets in 2017. The nearly 600,000 newly acquired depositors are reflected in the 2017 customer figures. Urban private customers made up the largest set of depositors with 364,864; rural private customers totalled 253,857. By 2019 these numbers fell by 15% and 12% respectively (see Figure 7.5). Our view is that this decline can be attributed to consumers likely not facilitated by the new branch locations or services provided by dfcu. Customer loss is expected after any merger, but it is higher in the banking sector. As relationships with bank staff were likely important to some Crane Bank customers prior to the merger, proximity to a branch remains important and innovation in mobile banking continues at pace, it is not surprising that there was a 13.5% decline in depositors between 2017 and 2019. There was a 27% decline in SME depositors between 2017 and 2019. Although this is a high number, some of this can also be attributed to the cleaning up of the Crane loan book, including different documentary requirements, and not solely customer attrition on the demand side.

The decline in female customers was more pronounced for rural savings and deposit customers between 2017 and 2019 (16%), in contrast to the decline in urban savings and deposit customers (10%). As a result, and enhanced by growing financial inclusion in urban areas, the percentage of urban customers that are female grew from 36% in 2017 to 38% in 2019. In contrast, the percentage of female customers among dfcu's rural customer base fell from 28% to 27% (see Figure 7.6).

Figure 7.5

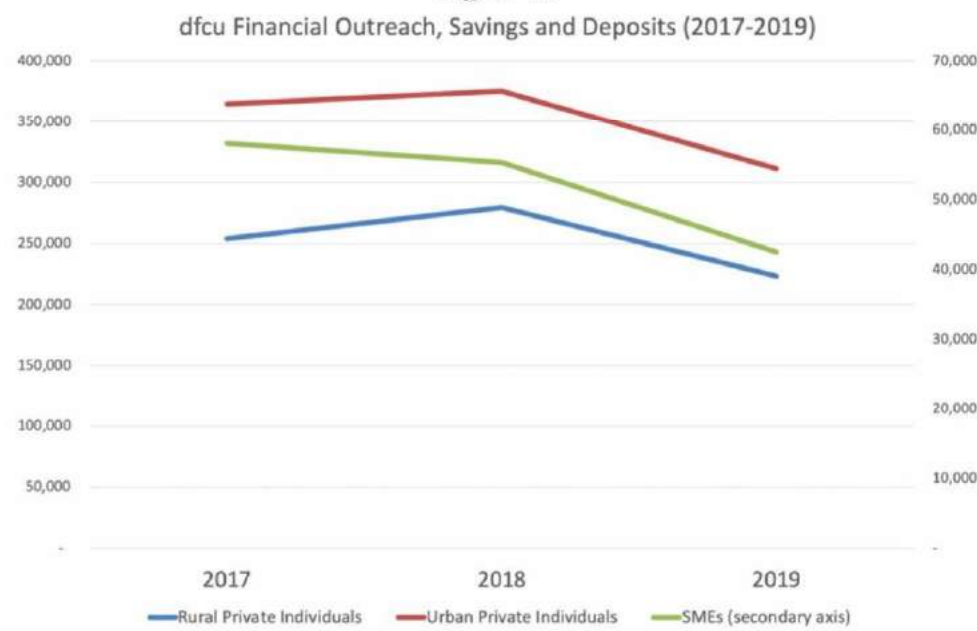
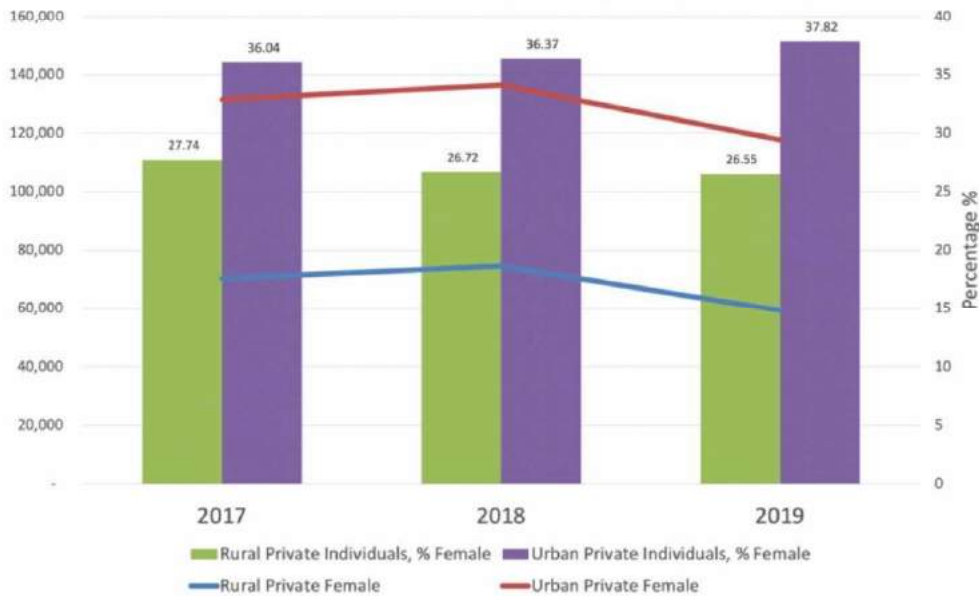
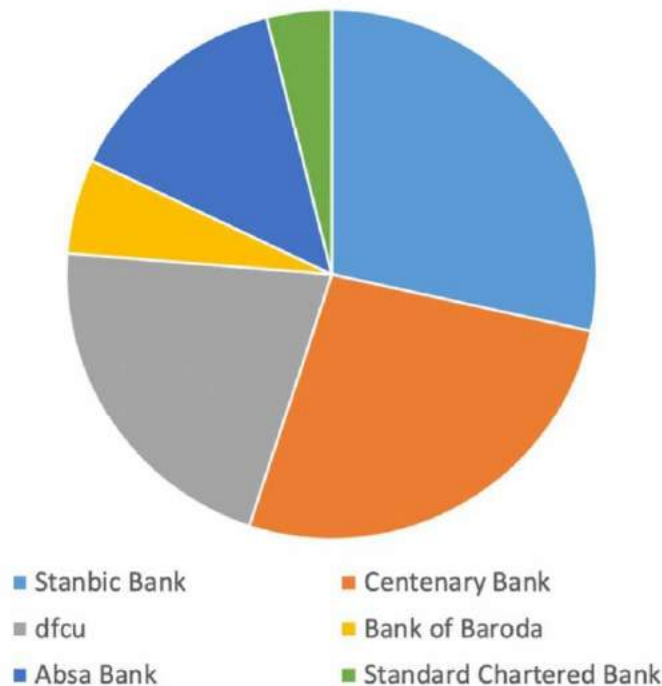


Figure 7.6
dfcu Female Outreach, Savings and Deposits (2017-2019)



dfcu is one of the top three banks in Uganda in terms of number of branches (Figure 7.7). In 2019, dfcu had 59 branches behind Stanbic Bank (79 branches) and Centenary Bank (74 branches). Of the top three banks for physical infrastructure, dfcu had the only decline in branches between 2017 and 2019, again related to the consolidation, with a 7% decrease over the three years. dfcu also has the third largest ATM network and the fourth largest agent network in Uganda. dfcu has 1,500 bank agents around the country.

Figure 7.7
Number of Bank Branches, 2019



dfcu operates across multiple distribution channels. While there has only been a 1% increase in total transactions volume between 2018 and 2019, there is a distinct pattern to the relative growth in distribution channels. This pattern mirrors many banks in the region. dfcu experienced a 14% decline in teller volume between 2018 and 2019 but recorded a 4,638% increase in point of sale (POS) volume, a 164% increase in internet banking volume, a 153% increase in mobile banking transactions volume and a 47% increase in ATM volume. However, while the growth in alternative distribution channels is noteworthy, dfcu is at an early stage in this transition. Internet, mobile, POS and ATM make up only 1% of the volume of dfcu's transactions volume (see Figure 7.8). As expected, the average transactions size for these channels is low (see Figure 7.9), suggesting that customers prefer these channels for small transactions.

Figure 7.8

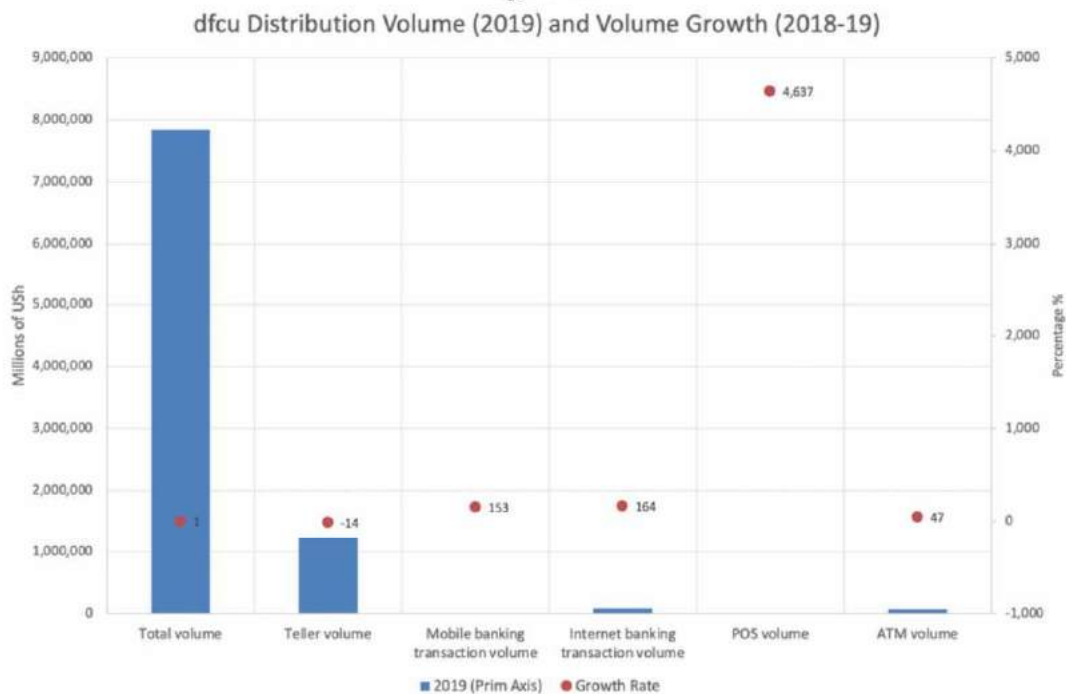
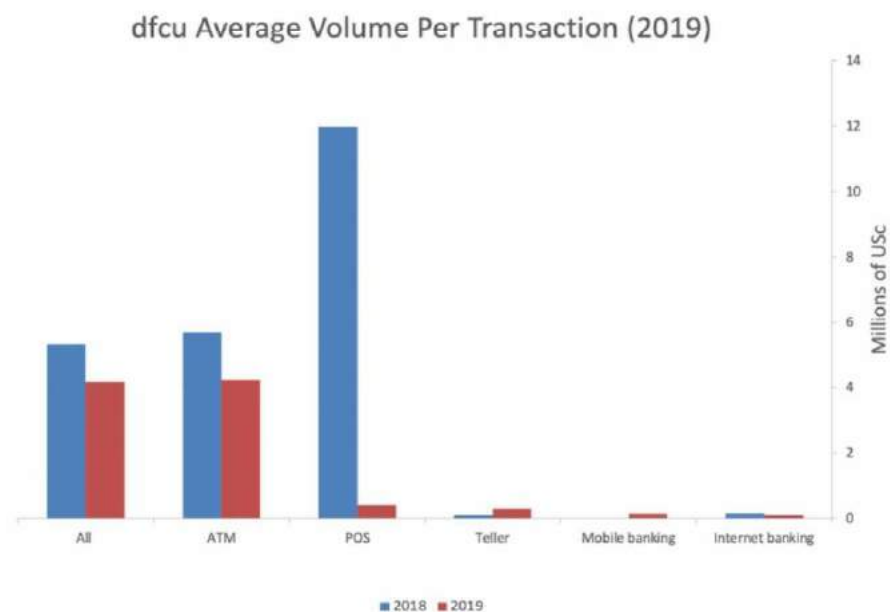


Figure 7.9



As discussed above, the mobile banking space in Uganda is first and foremost dominated by the mobile network operators (MNOs) who have made much deeper investments in technology and agent networks. The MNOs partner with banks on the financial side where the five banks in Uganda hold the escrow accounts for mobile money providers. There is also significant integration between the retail banks and the MNOs to offer integrated payment and transfer systems and in some cases offer banking products to MNO customers.

Some banks in Uganda offer their customers mobile banking solutions. dfcu is at an early stage in their mobile application development and hope to launch improvements in their mobile platform by end 2020, such as offering mobile lending and in 2021 such as the ability to open accounts electronically. dfcu is thus playing catch up with some peer banks and it is hoped that the Horizon 2 project will leapfrog dfcu into being a market leader for digital solutions. The establishment of agent banking was supported by its “Rabo cousin” NMB back in 2012. Today, dfcu is in the top three in Uganda for its scale of agency banking.

E. Performance of Sectoral Lending

The high-profile takeover of Crane Bank assets in 2017 led to a jump in number of loans in 2018. dfcu identified a large number of non-performing assets, questionable loan approvals, poor credit administration and situations where collateral that was given out with no evaluation of assets. Having led to a large jump in the number of loan customers on the dfcu balance sheet, following a review process many of the loans were concluded, and by 2019 dfcu were returned to numbers of loan customers consistent with its long term growth trajectory.

Figure 7.10 charts the growth in clients at dfcu between 2016 and 2019. We omit the number of credit clients for 2018 due to the fact that the Crane Bank asset takeover distorts the trend.¹² Omitting the numbers for 2018, the growth in dfcu clients was impressive. Between 2016 and 2019, the number of private urban credit customers grew by 150%, the number of private rural credit customers by 119%, SMEs by 74% and agro-dealers by 67% (see Figure 7.10). Overall, this represents a growth of 97% over the four years in total number of clients. In 2019, 45% of dfcu’s clients were urban private customers while 44% were rural private customers.

dfcu also deepened its level of lending to per client between 2017 and 2019 (Figure 7.11). Over these three years, the bank increased its degree of lending to SME clients by 160%, to urban private individuals by 91% and to rural private customers individuals by 70%. In absolute amounts, SME lending rose by 91%, urban private lending by 63% and rural private by 50%. The deepening of credit growth between 2018 and 2019 can be considered a strong performance.

¹² In 2018, the number of clients across most categories is a factor of 10 higher than in 2016. The number of credit clients for the most recent year of data, 2019, bears no relationship with the 2018 number. Following the acquisition of Crane Bank assets, dfcu discovered a number of non-performing assets, questionable loan approvals and poor credit administration. It seems that the 2019 numbers suggest that many of these issues were dealt with within a year.

Figure 7.10
dfcu Financial Outreach, Number of Credit Clients
(2016-2019)

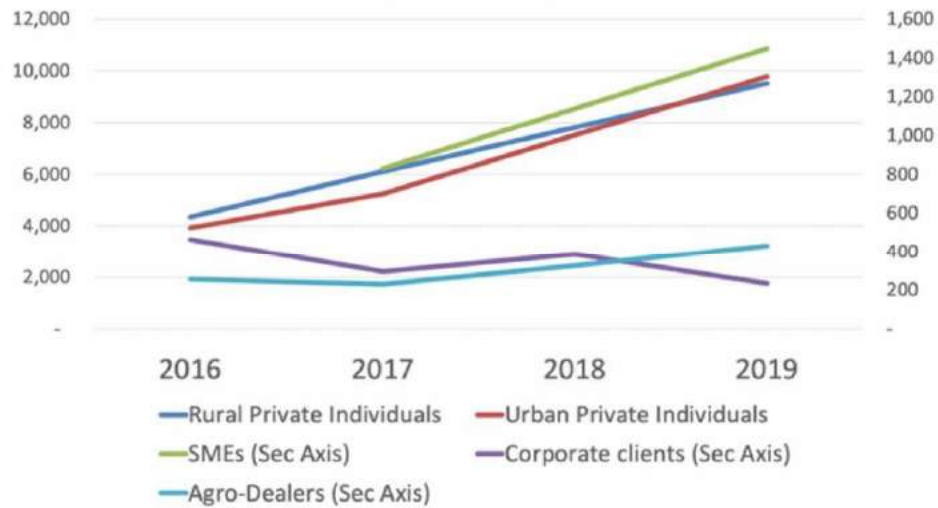


Figure 7.11
dfcu Transaction Volumes, Credit per Client Type (2017-2019)

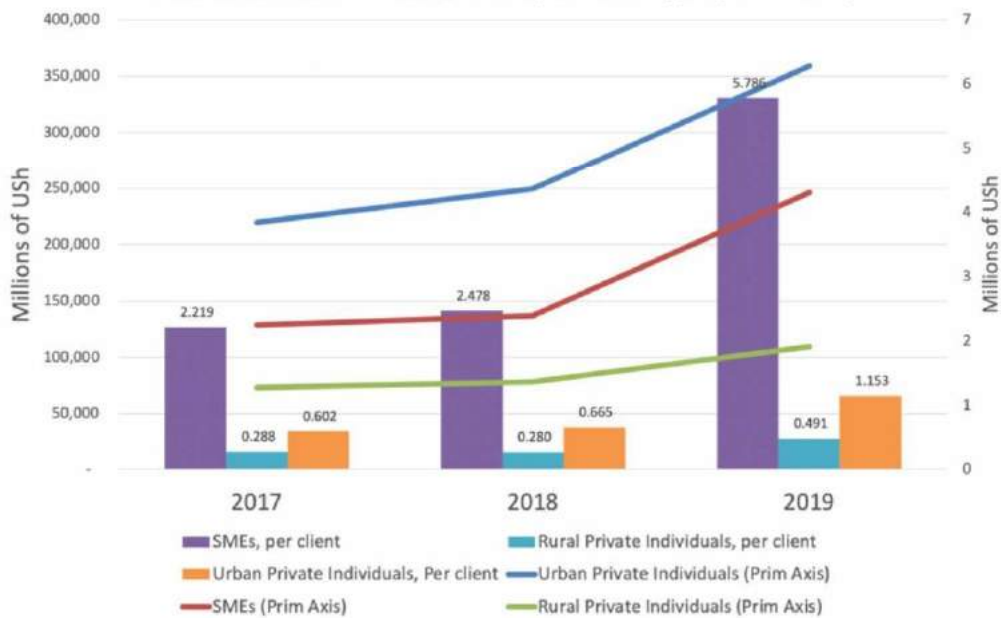


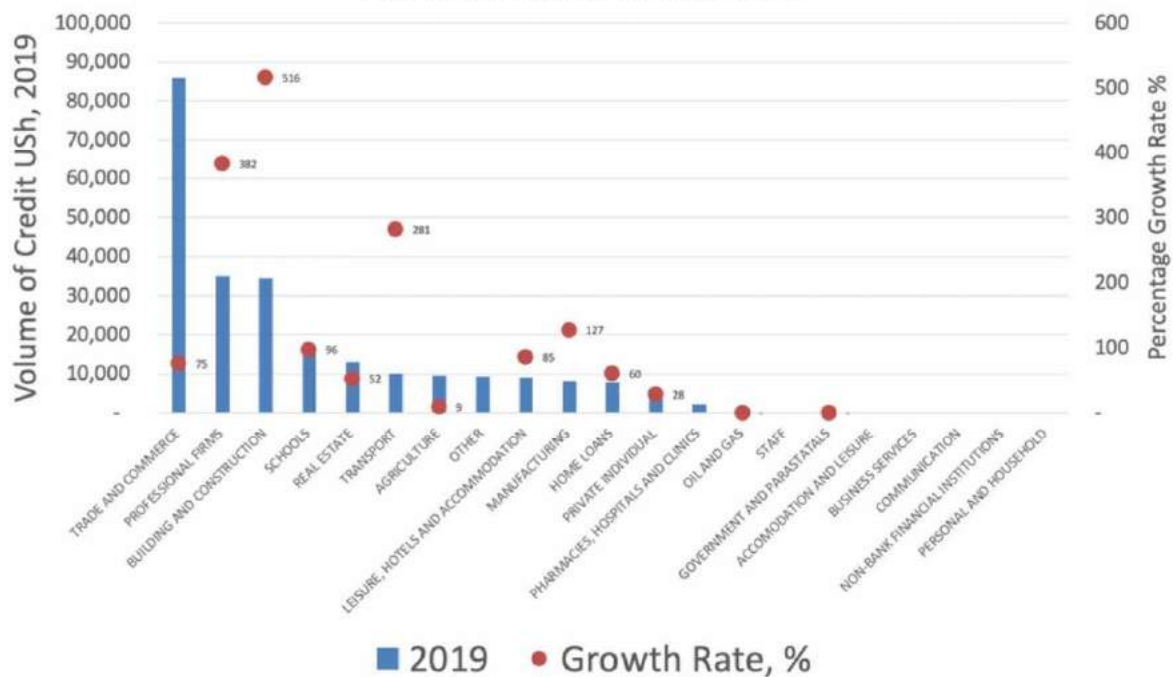
Figure 7.12 provides an illustration of dfcu's credit outreach to female clients. In 2019, 32% of urban customers were female and 27% the corresponding figure in rural areas. Between 2017 and 2019, the proportion of female customers rose. Between 2016 and 2019, the number of urban female credit customers rose by 168% to 3,166, while the number of female credit customers in rural areas rose by 128% to 2,597.

Figure 7.12
dfcu Female Credit Outreach (2017-2019)



SME lending rose by 91% between 2016 and 2019. Trade and commerce is the largest SME segment for dfcu, representing 35% of the total SME loan book (Figure 7.13). However, a number of other sectors experienced higher growth rates between 2016 and 2019 such as Building and Construction (+ 516%), Professional Firms (+ 382%), Transport (+281%), Manufacturing (127%) and Schools (+ 96%). Trade and Commerce grow by 75% over the four years. Categories without a growth rate recorded in Figure 7.13 are new sectors. A number of sectors remain un- or under-exploited such as transport, manufacturing, or health.

Figure 7.13
dfcu SME Sectoral Lending and Growth Rate (2016-2019)
Sectors without a growth rate are new sectors.

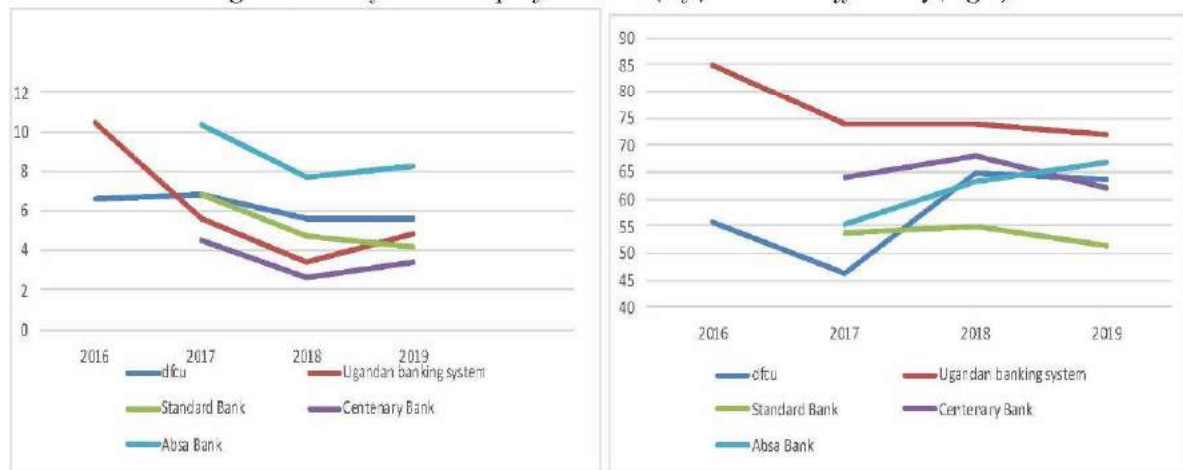


Between 2016 and 2019 dfcu increased lending to the agricultural sector by 179% to 292 billion TSh, the equivalent of 104 million euros. The number of borrowing clients in the sector increased from 309 to 581, an increase of 88%. Separately, dfcu has made efforts to lend to smallholder farmers but to date does not engage in any significant lending directly to farmers. However, opportunities remain for profitable lending to farmers in areas such as maize and oilseeds.

F. Financial Performance and Stability

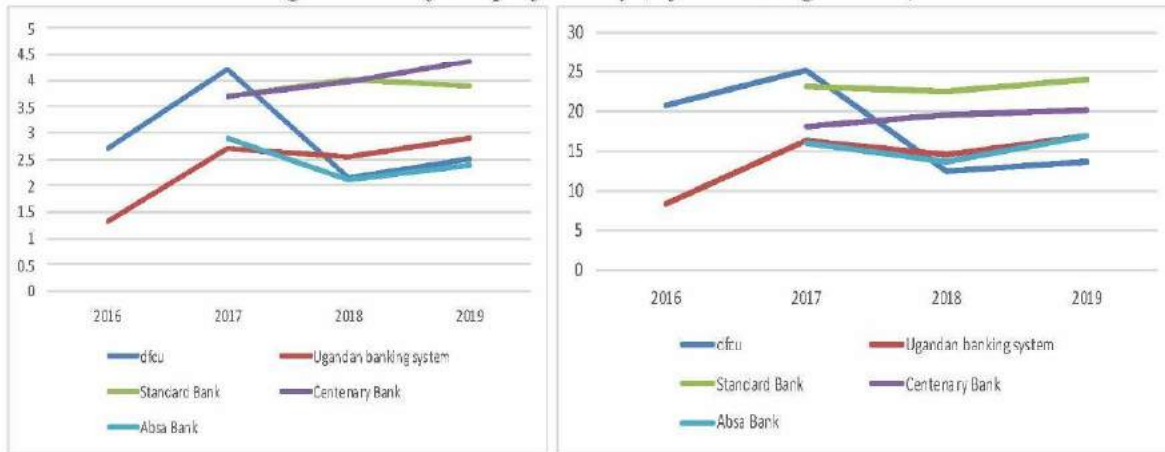
dfcu's financial performance and stability moves with the Ugandan banking system as can be seen in the figures below. Here we present data for dfcu, the Ugandan banking system and three competitors, Standard Bank, Centenary Bank and Absa Bank, collected from publicly available financial statements and the Bank of Uganda website. The NPL ratio for the overall banking sector has come down over the past years, before picking up again in 2019. dfcu's NPL ratio has been relatively stable around 6%, above that of the overall banking system since 2017 and above that of Standard Bank and Centenary Bank. dfcu has been among the more cost-efficient banks in Uganda but is now less cost efficient than both Standard Bank and Centenary Bank. There is a sharp increase in the cost-income ratio between 2017 and 2018, as well a sharp drop in profitability. This can be explained with the acquisition of Crane Bank assets in 2017 and consequent costs and losses. In the case of cost efficiency, the downward trend in cost-income ratio continued in 2019 as did the upward trend in profitability.

Figure 7.14: dfcu's loan performance (left) and cost efficiency(right)



In 2016 and 2017, dfcu had higher returns on assets (ROA) and equity than the average Ugandan bank, while in 2018/19 it has fallen below the average. It also well below the profitability of both Standard Bank and Centenary Bank, with the return on equity (ROE) also below that of Absa Bank. In a nutshell, raising profitability should be one of the focus areas for dfcu's management in the coming years.

Figure 7.15: dfcu's profitability (left: ROA; right: ROE)



While it is hard to draw definite inferences from hard data on the stability implications of the partnership, there are several positive indications: first, the integration of Crane Bank assets, has gone relatively well, with only a short-term dip in profitability; second, the partnership has supported dfcu in upgrading their risk management capacity and core banking system. As a result, of the collective efforts of dfcu and its partner RP, the NPL ratio has been relatively stable across the period of the TA programme.

G. Managing the Pandemic

Unlike many high-income countries, the Ugandan government was not in a position to provide direct financial support to businesses in Uganda. However, the Central Bank did provide liquidity to Ugandan banks who used their balance sheets to support businesses with outstanding loans. Initially, dfcu provided a loan repayment moratorium of between three and six months, in particular to the tourism and hospitality sectors, schools and transport sectors. As the pandemic continued many of the moratoriums got pushed out until 2021. While loan officers are staying in regular touch with their clients, question marks remain on how many businesses will be in a position to repay their loans, the tourism sector being a case in point. From a risk point of view, dfcu is working in its financial projections on the basis that some businesses will fail, and loan impairment will follow.

The speed of the pandemic and its global nature meant that Rabo could not provide significant direct support to dfcu. However, there is strong reason to believe that the legacy of capacity built in risk management, business continuance planning and internal reporting played a key role in helping dfcu navigate the effects of the pandemic. A practical example of this was the enhanced liquidity contingency planning dfcu employed at the start of the pandemic slow lending through tighter screening at the right moment to protect its liquidity.

H. Human Resources

Following rapid growth in staff numbers between 2016 and 2017 due the takeover of Crane Bank assets, there has been a 7% reduction between 2017 and 2019. This is not unexpected following a takeover, the integration of new staff and the streamlining of human resource structures. This is also reflected in

a high staff turnover rate. dfcu experienced a turnover rate of greater than 10% in 3 of the last 4 years. This turnover rate can be attributed to the specific challenges of post-acquisition integration with Crane bank. Through the merger, dfcu received 829 staff and 60% left, many of their own accord, retaining only 261.

Figure 7.16
dfcu Performance of Human Resources
(2016-2019)

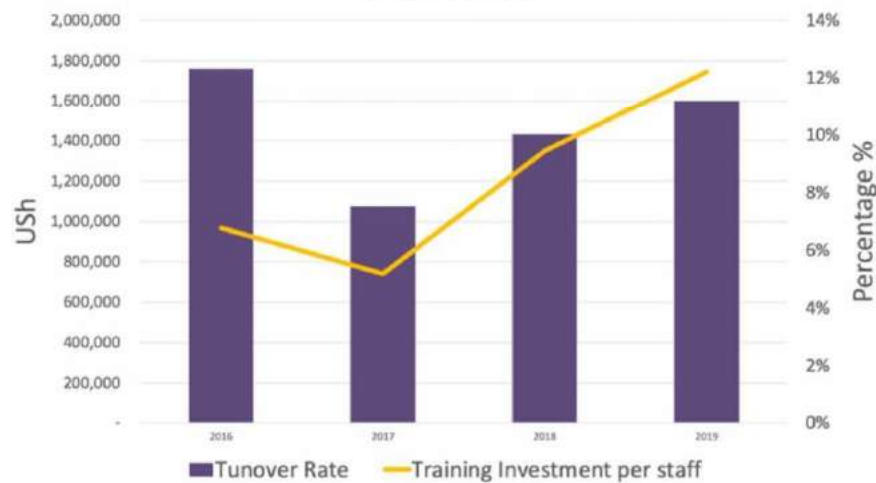
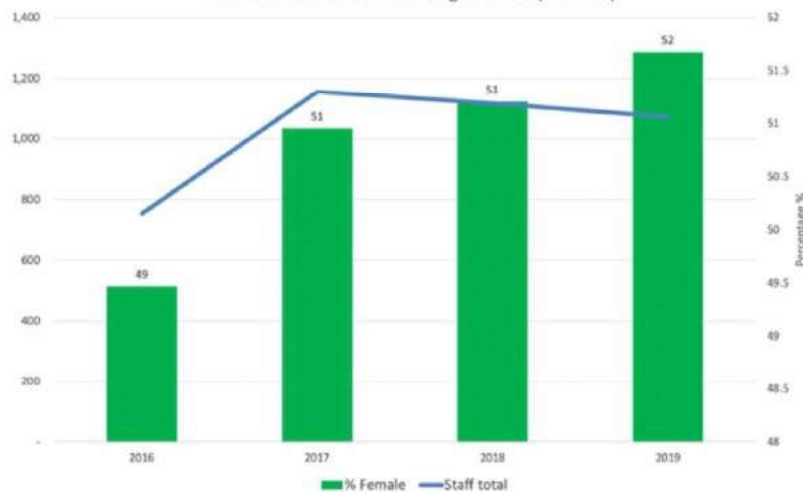


Figure 7.17

dfcu Headcount and Percentage Female (2016-19)



Importantly, we found increasing training spending per staff member since 2017 (Figure 7.16). dfcu sent approximately 75% of their staff on some form of talent programme. In our view this investment in people is important post-merger and ideally one of the goals of this investment is to support the development of a common culture across the bank. Rabo Partnerships have helped with this cultural transformation process, but it is still work in progress. dfcu remains a mixture of different cultures in relation to execution, accountability and care, and so further investment, and support of Rabo, will likely be needed.

A slight majority of staff in dfcu are female (52% in 2019), as shown in Figure 7.17. This is supported by the establishment of specific ladies' club, a mentoring programme and women's advisory council.

I. Financial Literacy Efforts

Since 2015, dfcu has increased from zero to over 200 the number of cooperatives it has trained on financial management, cooperative governance and member communications. This has been supported by a combined 2.8m USD investment by dfcu and Rabo Foundation into dfcu's Agribusiness Development Center (ADC). The purpose of ADC is to strengthen Farmer Based Organizations in respect of efficiency and creating economies of scale, in order to make them profitable, sustainable and bankable enterprises that are able to provide efficient and effective services to their farmers.

dfcu's Women in Business financial literacy programme began in 2007 and provides additional financial support to women including training, coaching and mentoring. The programme runs a calendar of networking, learning and showcasing activities. The outreach programme is supported by dedicated banking services for eligible women including a dedicated Relationship Manager to support day to day banking requirements, preferential interest rates on credit facilities and access to business trainings and mentorship opportunities. Any woman entrepreneur trading as a sole proprietor or a company where the woman holds 50% shares and above qualifies for the programme. Future hopes of the programme are to develop an e-learning portal and develop a train the trainer model.

As with most banks, dfcu's financial literacy efforts are business supporting in nature. They are run in a way that supports product selling. No rigorous evaluation of their efforts has taken place to date. Like with most banks, the financial literacy efforts would benefit from a review of the wider literature on what works and what does not work in financial literacy. Perhaps some new ideas will be generated from this process. However, there is a lot to be said for the knowledge and experience of the local team on what works and what does not work. The key is to engage in a regular process of critical reflection and commit to improve outreach efforts each year.

J. Effectiveness of the Partnership

As in the other three cases, the unique characteristic of the partnership with the embassy and Rabo Partnerships is that (i) Rabo staff has experience in rural and retail banking and in the specific areas where technical assistance has been provided, (ii) assistance is hands-on, (iii) assistance is long-term, i.e., where visits are for a short time only, there is follow-up afterwards and in some cases there are long-term advisers embedded in the partner institution, and (iv) the experience of Rabo consultants in other emerging markets and with other partner institutions has been helpful. The secondment programme where staff of partner institutions spends several weeks/months at Rabo Headquarters has also been noted as very positive for knowledge transfer and professional development. Rabo consultants being embedded directly in the partner bank also seems more beneficial than providing courses to bank employees, which might not be attended by key decision makers and might pose too high opportunity costs for the best employees. Finally, the support from the partnership and the training employees receive from Rabo consultants or through secondment to the Rabo headquarters in Utrecht might also be an important tool in employee retainment as it makes for a dynamic environment.

Some of the criticism has pointed to (i) mismatch of consultant with local culture and circumstances, (ii) too short visits, and (iii) sometimes too targeted (or not sufficiently broad) projects. It is also important to stress that this type of partnership with technical assistance will not be able to function as smoothly as the relationship between a subsidiary and its parent bank, as assistance and management

decisions are not necessarily completely aligned and there is no easy flow of staff between parent and subsidiary. A desire to improve opportunities for dfcu staff to spend time at Rabobank was expressed and we found evidence of how such secondments can be beneficial.

There have been important multiplier effects throughout the financial system in Uganda, with dfcu staff leaving the bank for other financial institutions. For example, three heads of compliance were dfcu staff (including Absa, Stanbic), while a number of executive directors at other banks came from dfcu. While negative for dfcu, this has positive repercussions for the Ugandan banking system. Additionally, it can be seen as another positive signal on the partnership and its positive impact for dfcu.

During our qualitative research we found evidence that Rabo Partnerships has provided significant support to agribusiness and trade financing, allowing, for example, dfcu to access trade finance through Rabo Nairobi. However, the last mile into agriculture, smallholder farmers in particular, remains elusive. Opportunities for such lending should be considered, within the context of defining up front the risk appetite and approach to risk management, bespoke product design and cost-effective distribution channels.

We refer to the evaluation criteria of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) that have been designed to enable the determination of the merit, worth or significance of an intervention. According to the criteria, all interventions should be relevant to the context, coherent with other interventions, achieve their objectives, deliver results in an efficient way, and have positive impacts that last. Our analysis of the dfcu partnership under the five DAC criteria plus additionality and attribution is as follows:

dfcu Partnership Evaluation - DAC Criteria	
Criteria	
(1) Relevance: The extent to which the intervention objectives and design respond to partner/institution needs and priorities, and continue to do so if circumstances change.	Technical assistance has addressed the main areas where dfcu required support, as identified by the five-year strategic plan. A key feature of the partnership is the flexibility to react to changing management priorities, market opportunities and external influences. Sometimes this flexibility compromises the initial quantitative goals of the partnership but has meant a focus on capacity building rather than customer targets. We consider this an acceptable trade-off but suggest that the next five years should be used for expanding customer numbers and moving down the value chain.
(2) Coherence: The compatibility of the intervention with other interventions in a country, sector or institution.	Donor engagement in the Ugandan banking sector is limited compared with Myanmar for example. No outside player has the potential to replicate the experience-informed technical assistance provided by Rabo.
(3) Effectiveness: The extent to which the intervention achieved, or is expected to achieve, its objectives, and its results.	The partnership with dfcu has been effective in building the capacity of the bank in a number of challenging areas including IT, risk management, compliance, data analytics, customer segmentation and branch reform. We expect that dfcu will be in a position post pandemic to grow significantly its customer numbers (although this will depend on digital infrastructure and innovative products).
(4) Impact: The extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects.	The literature is clear that better outreach of financial services can improve the livelihoods of vulnerable communities in developing countries. Digital innovation and digital financial literacy will be key to realising these benefits for rural and vulnerable micro-business and communities.

(5) Sustainability: The extent to which the net benefits of the intervention continue, or are likely to continue.	There is no doubt that the PPP has improved the financial stability of dfcu in the long run, and in the short run evidence for this can be found in how the bank navigated the pandemic and its effects on customers. Continued regulatory reform, evolution of technology and the ever present need to extend banking services to the poorest in Uganda is likely to mean a continued need for capacity building. However, it is also clear that further assistance is needed to make the gains at dfcu and the Ugandan banking system at large sustainable.
(6) Additionality: The extent to which an intervention has an effect compared to a baseline.	There is clear additionality of the intervention in terms of the different outcomes. The partnership has supported the growth process of dfcu and enabled it to maintain stability.
(7) Attribution: The extent to which improvements can directly be attributed to the intervention and ultimately the partnership	Given the prominent role of the partnership for the development of new processes and products at dfcu, one can attribute positive outcomes to the partnership

In summary, the partnership can be seen as successful and as having achieved many of its objectives set out in the original agreement, especially in financial stability, though somewhat in financial outreach. The main success factors can be found in dfcu being a financial institution that was eager to take up technical assistance and leverage this help to improve and expand its banking business. dfcu was pro-active in its approach; combining such a partnership with a strategic plan clearly has its advantages. However, this success took also place on the background of a very competitive financial system (including competition from MNOs) that pushed financial institutions towards innovation and customer orientation. dfcu has used the support through the partnership well to support its growth process.

In spite of this successful partnership, it is harder to attribute gains in financial inclusion in Uganda exclusively to dfcu and the partnership. As discussed above, the Ugandan banking system is characterised by high degree of competition (between banks but also with a significant role for MNOs) and several banks that have introduced financial innovations over the past years (including Standard Bank and Centenary Bank, two direct competitors of dfcu). Notwithstanding this more sceptical view, the partnership has identified dfcu as promising candidate to contribute to this innovation process and thus contributed to the expansion of financial inclusion in Uganda in a financially sustainable manner.

K. Recommendations

- *The Last Mile in Agriculture:* Lending to smallholder farmers remains in its infancy across Africa. Most banks, if they focus on agriculture, lend to upstream activities, or in some cases cooperatives. To reach farmers directly, significant efforts are required in product development (bespoke seasonal loan products and associated insurance), low cost but effective distribution (and monitoring) channels, improvements in financial literacy and approaches to overcoming underlying challenges such as lack of titling. As this remains the most challenging banking segment in the region, an increase in support from Rabo (agenda setting, coordination of resources and technical support) will be needed to realise the ambition of finance driven smallholder farming.

- *Catching the Technology Frontier:* Profound technological advances are changing, and will continue to change, banking in emerging countries over the next ten years. The constant game of catch up will define which institutions will successfully emerge as important players in financial services by 2030. The list of technological upgrades required at dfcu to catch up with best in case digital banking solutions in Uganda is vast and reflects the extreme changes in the industry. In the short term, priorities include enterprise architecture, hybrid integrated platform, payment systems, increasing number of touch points, improving the efficiency of agency banking, data warehousing, internet banking for retail and corporate, data security and the overall move to a virtual bank. Technical support will be required for dfcu to realise its ambitions in this space.

8. FED Invest Analysis

Rabo Partnerships initiated its relationship with FED Invest in November 2016 with the start of the PPP. The partnership with FED Invest has focused on technical assistance (TA). FED Invest was formed in 2015, with the support of the Bank of Albania and Rabo Partnerships, when the Albanian Savings and Credit Union and its constituent savings and credit associations (SCAs) merged into a single institution for the purpose of consolidation.

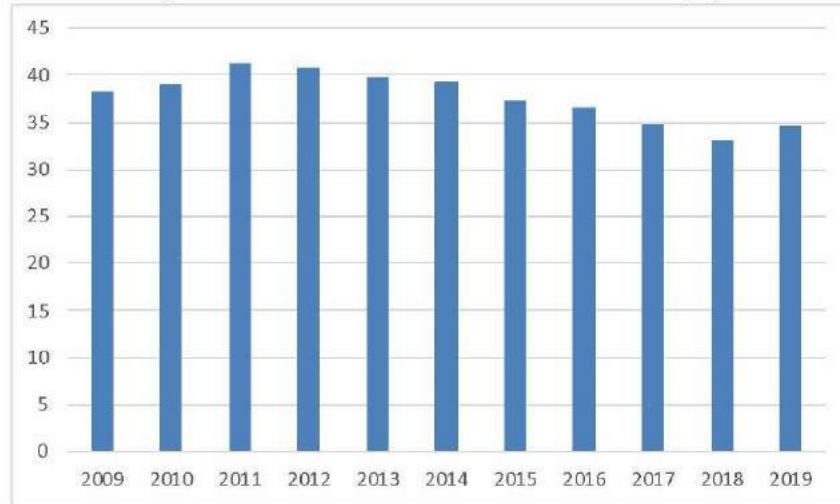
A. Context: Albanian Financial System

Albania has a small and concentrated banking system, dominated by foreign banks, including Raiffeisen and Intesa San Paolo. Société Générale and National Bank of Greece withdrew in recent years, which has left twelve banks as of 2020, eight of whom are foreign-owned. While generally well capitalised and liquid, Albanian banks still suffer from a high non-performing loan (NPL) ratio, legacy of the boom-bust period in the late 2000s and early 2010s.¹³ As in other countries of the region, bank lending has decreased over the past years, as illustrated in Figure 8.1, which shows the peak of Private Credit to GDP in 2012. This trend is due to write-off of non-performing loans but also deleveraging by EU based banks following post-crisis regulatory reforms. Compared to other countries in the region, Albania shows a relatively low level of Private Credit to GDP, partly explained by low level of household credit. However, the relatively low level of financial development is in line with socio-economic and institutional characteristics of the country, including low income and high informality. The banking system is heavily eurorised, with 50% of deposits in foreign currency in 2018 and almost 60% of loans. There are several financial institutions that specifically target the lower end of the market, including ProCredit (which has recently, however, focused more on the formal sector and on loans above 50,000 Euros), but the rural areas are primarily served by cooperative and microfinance institutions.

The cooperative segment of the financial system is subject to a new regulatory framework that came into being in 2016. There are seven cooperative institutions active in Albania, but only two of them on the national level (the other five are active only in one part of the country each). FED Invest is the larger of the two and has a very different business model from the second cooperative institution, Unifin, which works with the model of a rotating savings and credit association. Microfinance institutions have a relatively long tradition in Albania and have been supported by donors for several decades. While both cooperatives and MFIs are regulated institutions, cooperatives take deposits (like banks), while MFIs do not. Unlike banks, cooperatives can only lend to their members and can execute foreign exchange transactions with a special permit from the Bank of Albania. Banks have a very small share of loans in rural areas and limited presence.

¹³ Most of this information is from the Bank of Albania website and World Bank and IMF reports.

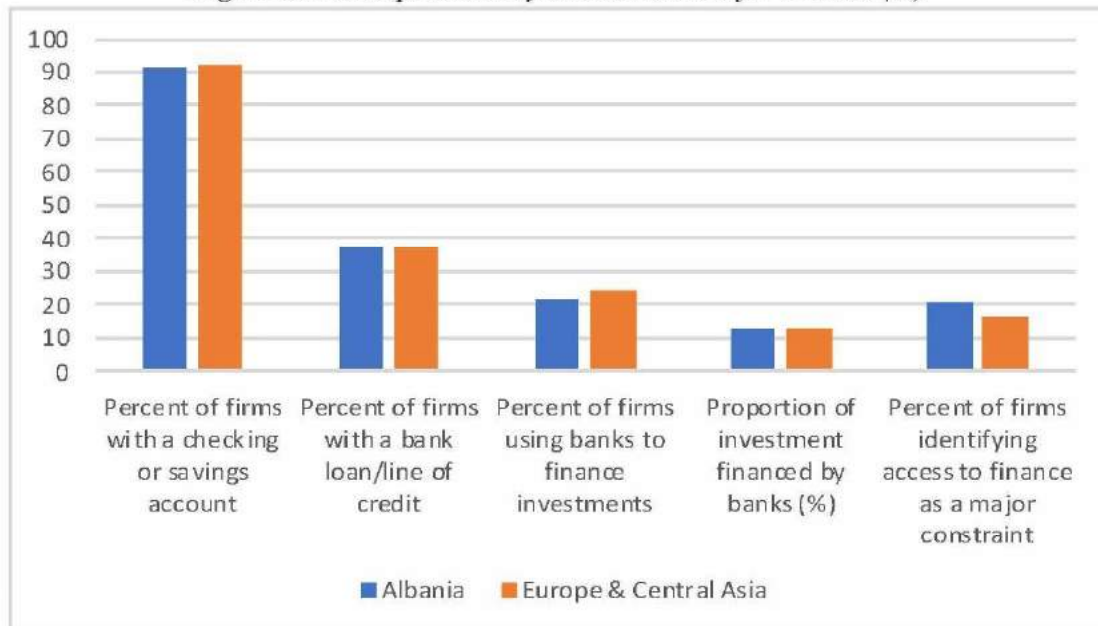
Figure 8.1: Private Credit to GDP in Albania (%)



Source: World Bank World Development Indicators

In terms of firms' access to finance, Albania is comparable to other economies in the region (Figure 8.2). While 90% of all firms have access to payment and transaction services, less than 40% have a loan or credit line with a financial institution. The share of firms using bank finance for investment purposes (as opposed to internal funds) is lower (20%). The share of investment funded with bank finance across all firms stands at 10%. In spite of this rather low use of bank finance, only 20% of firms (somewhat more than the regional average) see finance as a major constraint for their operation and growth, suggesting potential lack of demand or other major growth constraints more important than access to finance.

Figure 8.2: Enterprise survey indicators 2019 for Albania (%)



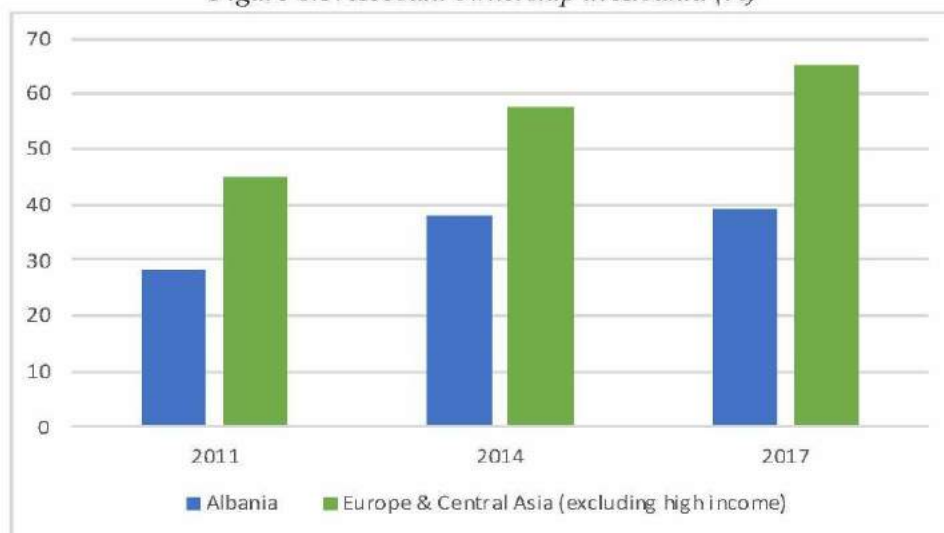
Source: Enterprise Surveys, World Bank/EBRD

In terms of financial inclusion, Albania has made some progress over the past decade, but still lags behind other non-high-income countries in the region and has failed to keep pace with regional improvements (Figure 8.3). Here, we present data on account ownership from the Global Findex

database. Considering financial inclusion in the rural areas, the gap between Albania and other countries in the region is even larger (Figure 8.4), which is relevant for the discussion on FED Invest below. While there are also several non-bank financial agency networks across the country that provide payment services like utility payments (electricity, water, gas), distribution services (e.g., payment of TV fees) and money transfers, most of them are not licensed to undertake cash-in/cash-out banking transactions.

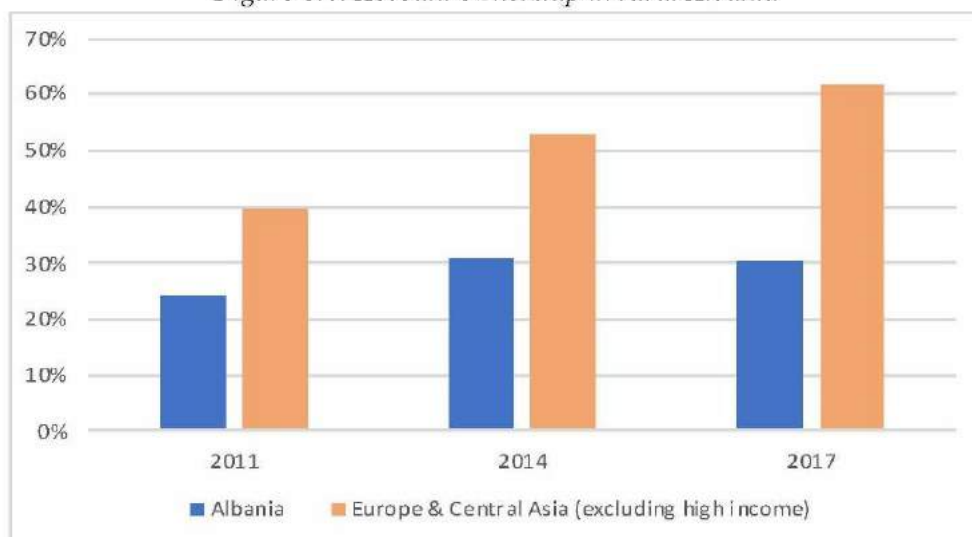
As in most developing economies, the agricultural sector, and rural economy more generally, is underserved by financial institutions in Albania, especially on the lending side. Among the factors that impede further deepening of rural finance are (i) restrictive land laws and an ineffective system of land ownership registration, (ii) small-scale farming, (iii) young and ill-functioning value chains and (iv) high risks, including flooding.¹⁴

Figure 8.3: Account ownership in Albania (%)



Source: Global Findex, World Bank

Figure 8.4: Account ownership in rural Albania



Source: Global Findex, World Bank

¹⁴ See FED Invest Business Plan 2016, by Rabo International Advisory Services.

Albania – an EU candidate country – has made progress in the infrastructure for its financial system, though it still shows some gaps. There is a credit registry at the Bank of Albania, which collects and distributes data on loans across the financial system, with a coverage of over half of the adult population. The secured creditor framework, on the other hand, shows deficiencies: there is no integrated or unified legal framework for secured transactions, and there is no notice-based collateral registry. While registration of property is a relatively swift process, it is quite costly, with 9% of the typical property value. The land administration system shows deficiencies in transparency and coverage. Finally, contract enforcement through the court system is slow and costly. In summary, in spite of improvements over the past decade, financial institutions, including FED Invest, still work in a constrained informational and contractual framework.

B. FED Invest in the Albanian financial system

FED Invest is the largest financial institution operating in rural Albania. Its roots go back to the transition period of the early 1990s. Specifically, from 1992 onwards the Albanian Savings and Credit Union (ASCU) has developed into a unique rural cooperative financial institution for Albania, serving over 40,000 rural families with micro loans. In February 2016, 70 savings and credit associations (SCA) of the original 84 consolidated into FED Invest, licensed by the Bank of Albania. It has adopted the strategy of transitioning from a fragmented cooperative system towards a stronger consolidated financial services provider based on a cooperative governance structure. FED Invest is currently not a bank (rather a cooperative) but has the option to move towards offering full-fledged banking services, which might require obtaining a banking license or regulatory approval for each product/service. As per May 2019, it has about 60,000 registered members, of which about 14,000 are active (as of December 2019), having either deposits, loans or both. The majority of FED Invest's members are farmer households that earn their income from primary agriculture, with a second significant portion consisting of micro, small and medium enterprises (MSMEs) that are either related to trade and services or agri-processing. While only 3.4 % of the loan book is officially consumer loans, fungibility of funds in household enterprises makes this likely an underestimate. FED Invest has 60 physical branches. Its governance structure is that of a cooperative, with each branch (formerly cooperative) having votes according to the number of members in the annual general meeting.

FED Invest's main competitors are other financial cooperatives and microfinance institutions. As discussed above, the other national cooperative is not really a competitor, as it is working with a very different business model, that of a rotating savings and credit association. FED Invest has a leading position in deposit taking and lending, but not in the SME segment. Despite its outreach in rural areas, FED Invest has not kept pace with urban focused banks in terms of the full spectrum of digital products. One important advantage that FED Invest has vis-a-vis banks and MFIs is the relatively lower interest rates it charges its borrowers compared to MFIs and relatively higher interest rates on deposits compared to banks. The lower margins may be explained by the cooperative rather than profit-oriented nature of FED Invest and its exemption from the profit tax.

For further growth, FED Invest requires additional capital and liquidity, the acquisition of which is most likely beyond its depositor base and relies on local and international investors. One regulatory challenge was to have Bank of Albania (the regulator) recognise subordinated debt provided by investors as regulatory capital, achieved in March 2020 through a revised regulation. Expansion plans are primarily in the Northern rural part of Albania and a deeper penetration in the rest of rural Albania.

C. Role of the Partnership

The partnership has been critical in the transformation of FED Invest from an association of individual credit and savings cooperatives under the umbrella of a union into a single, consolidated financial cooperative institution. Put differently, the transformation process clearly has the signature of Rabo Partnerships on it. The partnership with Rabo has also enabled the licensing process at Bank of Albania (by providing the regulator/supervisor reassurance) after the introduction of the new law in 2016 and FED Invest's joining of the deposit insurance scheme in 2017. A possible step towards a banking license could also be enabled with the support of Rabo Partnerships, if such interest exists. One advantage of remaining a cooperative institution is an exemption from profit tax which helps FED Invest capitalise at a faster pace. Unlike in other cases, there is no ownership stake by Rabo Partnerships or direct management support.

FED Invest has also been supported by other donors, including by EFSE¹⁵ (both in terms of funding and targeted technical assistance), JICA (the Japanese international aid agency), which provides expertise on agricultural lending and financed the new core system, and Helenos Fund¹⁶ and EIF¹⁷, which provide financial support, while EIF also the guarantee for agricultural portfolio of arrears. Rabo remains the most important partner for technical assistance. The partnership is organised by a Steering Committee, which includes representatives of FED Invest, EFSE, Dutch Government and Rabo Partnerships, which meets four times a year. The project has been planned in three phases, with the first one starting in November 2016 for two years, so that the programme is now in its third phase.

The original plan, including in terms of key performance indicators, turned out to be rather overambitious if not to say unrealistic, given the necessary focus on the transformation process and drawn-out regulatory process concerning licensing and accessing the deposit insurance scheme. Among others, a (previously non-existing) core banking system was required as was a risk management system.

FED Invest considered the Rabo partnership was very collaborative in the setting of the strategic agenda. Important outcomes of the TA programme include:

- *New Core Banking System:* Considerable effort over the course of the recent four year Rabo partnership was the procurement, installation of and relevant trainings in the new core banking system, FlexCube. The old system was not accrual based, instead interest was calculated when a client was paying. FED Invest is not only ahead of its competitors in the microfinance sector; its core banking system is now on a par with the banking sector. The new system will be the cornerstone upon which new products and services will be built. Rabo also encouraged and supported the upgrading of IT security, an area of expertise thin on the ground in, as part of recent IT improvements.
- *Overhaul of Corporate Governance and Regulatory Framework:* Significant upgrading to FED Invest governing structure and adaptation to new regulatory framework is a significant

¹⁵ The European Fund for Southeast Europe (EFSE) is an impact fund which invests in carefully selected local financial intermediaries for on-lending to micro and small enterprises and private households and provides technical assistance, training, and other non-financial support to institutions and individuals.

¹⁶ Helenos is an investment fund coupled with a technical assistance fund to strengthen the capital base and support the overall capacity of small and emerging MFIs

¹⁷ The European Investment Fund (EIF) is part of the European Investment Bank (EIB) group and focuses on investment in financial institutions to improve SMEs' access to finance.

achievement over the last few years. In addition, FED Invest successfully lobbied and led the charge for regulatory change for the microfinance sector.

- *Upgrading of Risk Management Processes:* FED Invest was subject to a range of new regulations and received support from Rabo to meeting these challenges from a risk perspective. FED Invest now has a very good risk framework and risk reporting processes that goes beyond the expectations of the Bank of Albania. Procedures and processes around risk responsibility including documents of risk policies (duties and responsibilities of board, leadership and departments), accounting risk (market risk, liquidity risk, investment risk, forex risk), operational risk (Operational and IT risk) and reputational risk were developed and implemented.
- *Branch Upgrading:* With the help of Rabo the operation of branches were reviewed and a set of KPIs were agreed for the branches. We expect that with increased digitisation over the last few years the role of the FED Invest branch is in for a decade of significant change.
- *Human Resources:* Rabo supported improved capacity of HR department the organisational structure, supported training efforts and helped with a range of practical tasks such as the HR manual, revised job descriptions, adjusted the evaluation surveys satisfaction of employees and adjusted performance formula for loan officers.

D. Financial Outreach

FED Invest steadily grew its client base between 2016 and 2019. The number of rural private customers with savings or deposit accounts grew by 12% over the four years, while urban private customers with savings/deposit accounts grew by 46% (Figure 8.5). Half of urban private savings/deposit customers were female (49%), as shown in Figure 8.6; however only 28% of private savings/deposit customers in rural areas are female. However, many rural customers of FED Invest can be considered households, with the account in the husband's name. FED Invest is relatively new in the urban market, working mostly with urban dwellers with links to agricultural areas. The growth in urban female private clients mirrors the overall growth in urban clients. It is worth noting that many of FED Invest's customers also rely on other financial service providers (other banks) for payments or mobile access.

Figure 8.5
FED Invest Financial Outreach, Number of Clients, Savings and Deposits
(2016-2019)

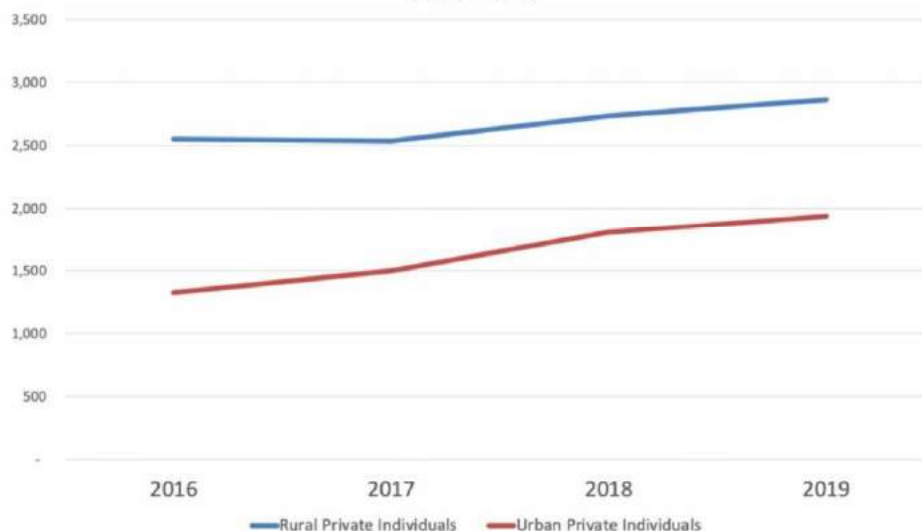
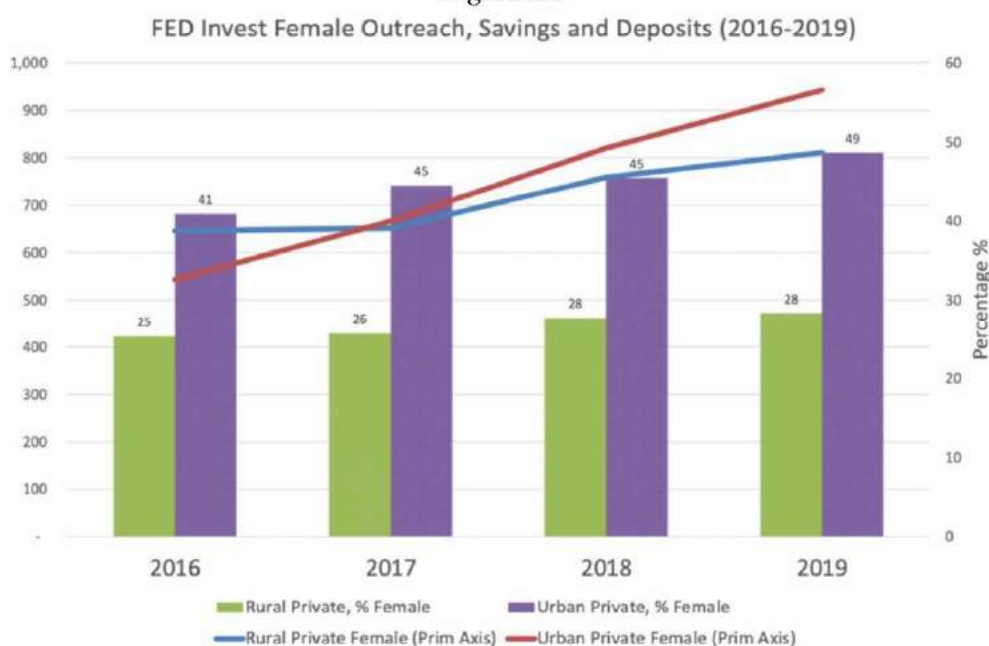


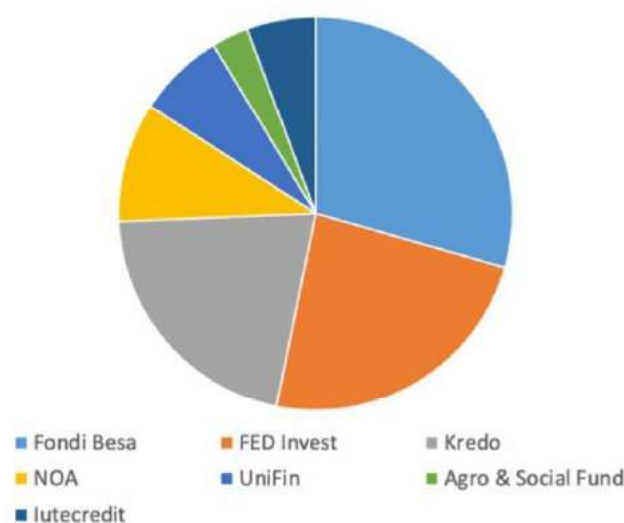
Figure 8.6



FED Invest is one of the top two microfinance banks in Albania in terms of number of branches. In 2019, FED Invest had 63 branches behind Fondi Besa (78 branches). The microfinance sector had a total of 267 branches in 2019 and 881 loan officers. FED Invest is unique in its rural presence while Fondi Besa has a five to one ratio of urban to rural clients. In comparison, the retail banks have 429 branches but mostly in urban areas.

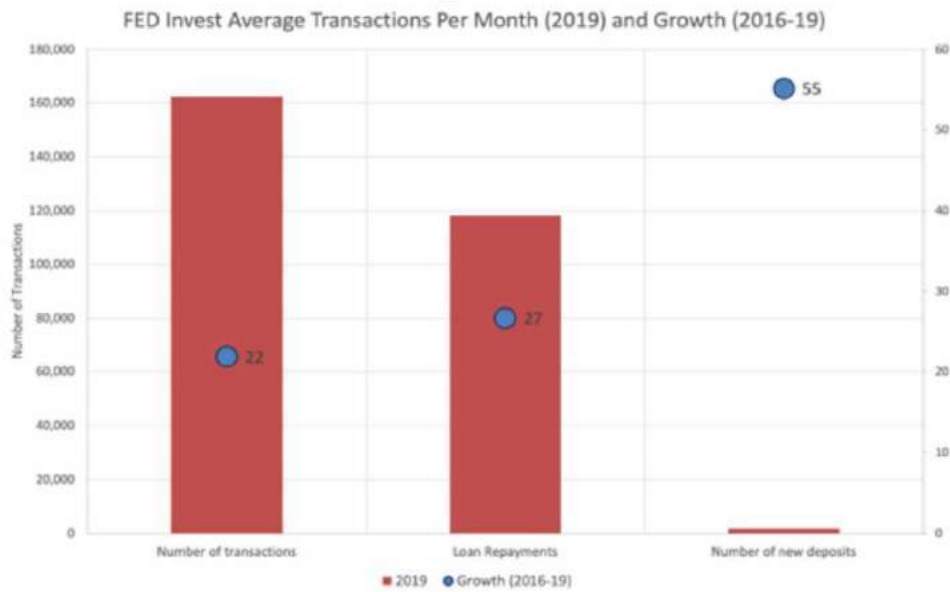
Figure 8.7

Number of Branches, Microfinance Banks, 2019



At FED Invest, loan repayments make up 73% of all transactions (Figure 8.8). While the number of deposits make up just over 1% of all transactions, deposits did experience the highest growth rate between 2016 and 2019 (55%). Overall transactions grew by 22% over the four years.

Figure 8.8



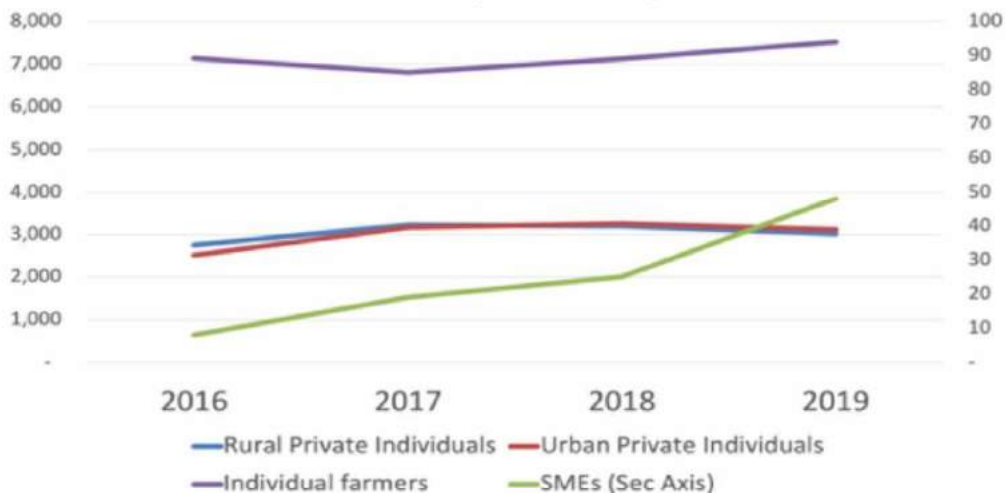
While part of the strength of FED Invest is its embeddedness within the rural communities it services, the modest growth can in part be attributed to an absence to date of mobile and internet products that will help decouple customer growth from its physical presence in rural areas. While there are no barriers for FED Invest to develop and roll-out such products, support is required. In recent years, FED Invest has focused on internal improvements to systems and IT infrastructure but much of these necessary advancements have now been made.

E. Performance of Sectoral Lending

Figure 8.9 charts the growth in lending clients at FED Invest between 2016 and 2019. Again, FED Invest’s performance can be considered as steady. FED Invest recorded a 24% growth in urban credit clients between 2016 and 2019. The corresponding figure for rural private clients was lower at 9%. The number of SMEs with credit from FED Invest grew by a factor of 5 from 8 to 48 in 2019.

Figure 8.9

FED Invest Financial Outreach, Number of Credit Clients (2016-2019)



However, individual farmers make up the largest segment of FED Invest’s borrowing (55% of all customers), as shown in Figure 8.10. This segment experienced a 5% cumulative growth rate over the five years, which is lower than the overall growth in credit customers of 10%. FED Invest’s agricultural outreach is supported by the European investment Fund’s EASI financial instruments. Under the scheme FED Invest receives four times a year a reimbursement for loans (40% of outstanding amount) which end of quarter above 30 days in arrears. This scheme acts as a highly beneficial insurance scheme allowing FED Invest to extend credit to farmers more freely.

Figure 8.10

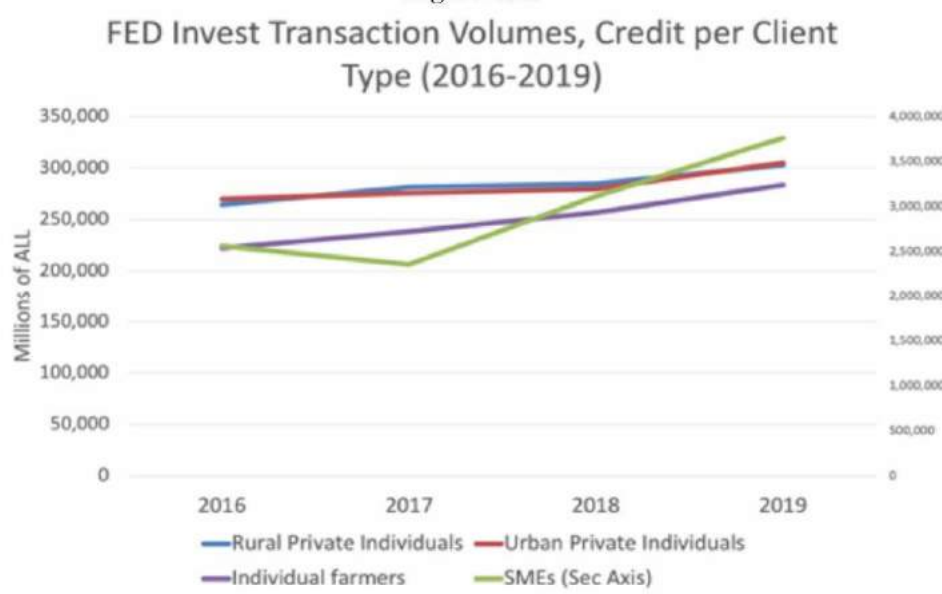
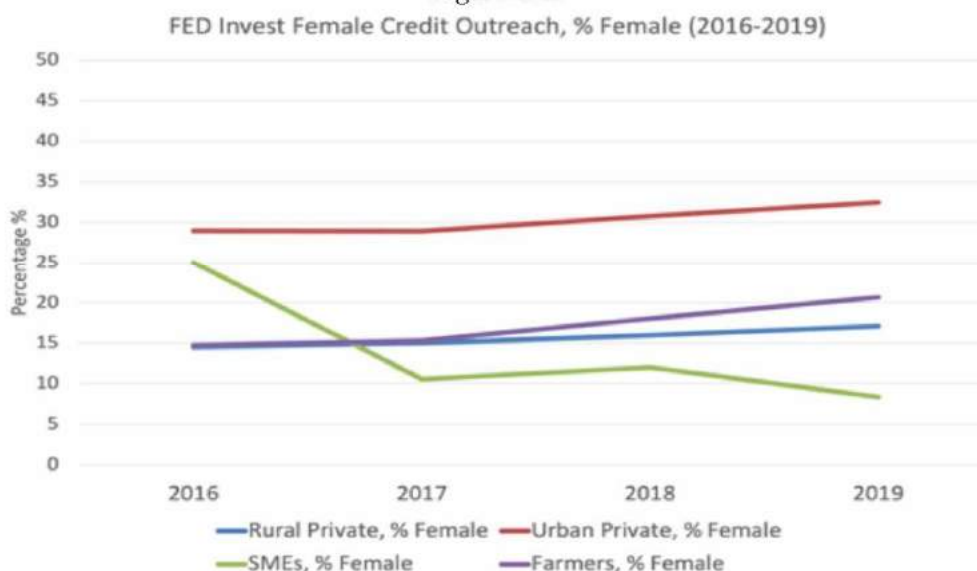


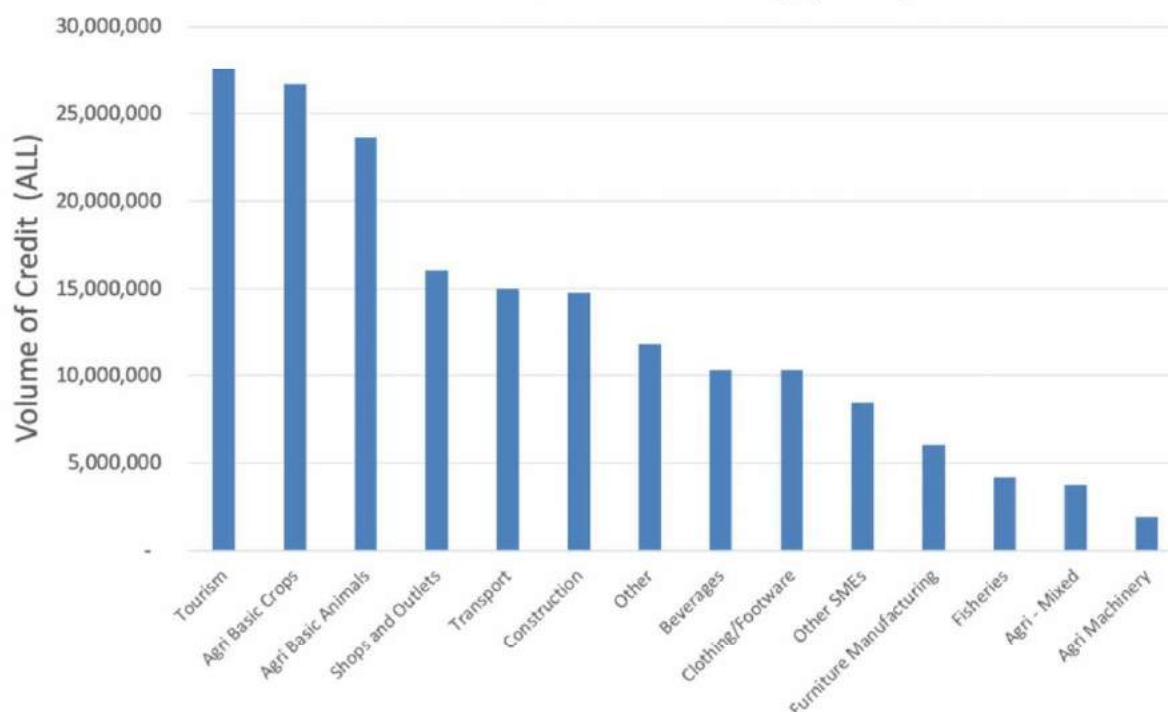
Figure 8.11 provides an illustration of FED Invest’s credit outreach to female clients. In 2019, 32% of urban credit customers were female and 17% the corresponding figure among rural customers. Between 2017 and 2019, the proportion of female customers rose slightly for urban and rural private individuals. The decline in SME female credit fell over the period but the absolute numbers are so small that it does not represent a trend of note.

Figure 8.11



A dedicated SME department was established in 2017 and expansion in this area was directly supported by Rabo. Tourism is the largest SME segment for FED Invest, representing 15% of the total SME loan book. However, if a number of agricultural segments are combined, agriculture makes up 33% of the total SME loan book. Shops and outlets (9%), transport (8%) and construction (8%) are the next three largest sectors.

Figure 8.12
FED Invest SME Sectoral Lending (2019)



FED Invest’s lending portfolio fills a gap left by banks in rural Albania. Only 1.4% of the aggregate loan portfolio of Albanian banks were in agriculture at the end of 2019; 33% were in wholesale and retail trading, while 13% were in manufacturing, in construction and in utilities, each.

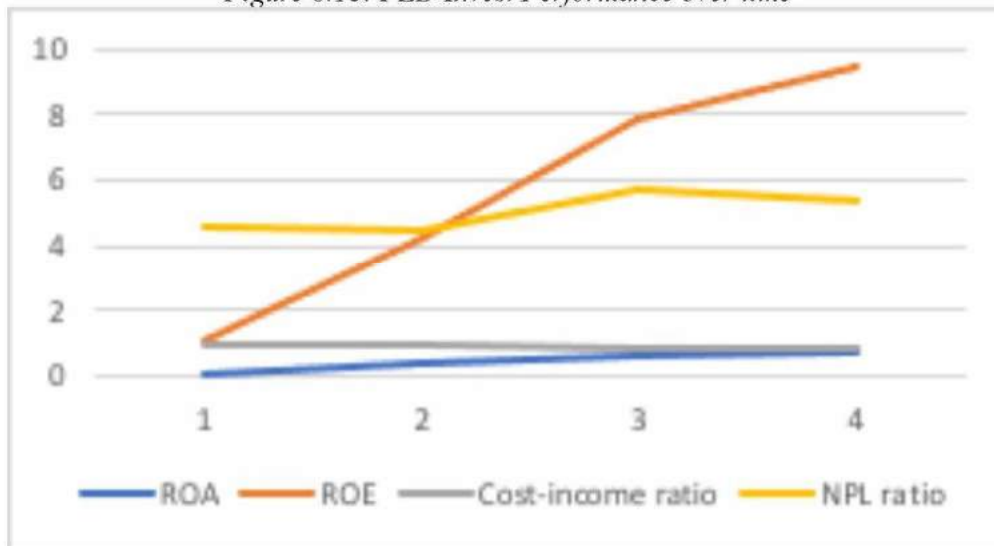
F. Financial Performance and Stability

A comparison of FED Invest’s performance with other financial institutions is not that insightful, given that the main competitors are very different types of financial institutions. We therefore provide some general comments on FED Invest’s performance. First, profitability has been quite low though constantly increasing. Expansion has resulted in higher leverage and thus higher returns on equity. Second, while the NPL ratio seems rather high, the non-performing assets are concentrated in a few urban branches. Finally, the cost-income ratio is very high, but might be related to the transformation process. One of the objectives going forward should certainly be to lower this ratio by improving cost efficiency.

Comparing FED Invest with the average for the Albanian banking sector shows that profitability is lower for FED Invest; for the banking sector ROA and ROE in 2019 were 1.4% and 13.5%, respectively, while they were 0.7% and 9.4% for FED Invest. However, the Albanian banking sector showed a higher NPL ratio with 8.4% at the end of 2019, while it was only 5.4% for FED Invest.

It is difficult to infer from hard data to the impact of the partnership on financial stability, but there are several indications: first, the partnership was critical in building up a proper risk management system, ranging from the definition of risk appetite at the institutional level to building up audit and compliance department and building up risk management capacities on the branch level as first line of responsibility. Second, the continuous focus on the corporate nature of the institution and close interaction with member-clients allows a closer monitoring and follow-up to any new risk sources arising. Third, FED Invest has not sacrificed proper risk management and careful expansion to compliance with unrealistic KPIs and expansion plans.

Figure 8.13: FED Invest Performance over time



G. Managing the Pandemic

Fortunately, FED Invest went live with its core banking system in January 2020. Albania adopted a strict lockdown policy between early March and the end of May. While FED Invest maintained a stable deposit base, demand for loans fell more than 50% and loan repayments and disbursements fell short of planned targets. FED invest had to restructure circa 22% of its loan portfolio, especially in trade, service and agro-processing sectors. At the end of the 6-month grace period about 10% of the loan portfolio showed problems.

FED Invest did not receive any financial aid from the Central Bank of Albania and maintained a good position on liquidity. FED Invest had two advantages over peer institutions. First, the focus on agriculture meant that their loan portfolio was less affected because the pandemic did not cause losses to farmers. Second, FED Invest's comparatively advanced risk management systems helped with management of the crisis.

H. Human Resources

A majority of staff at FED Invest are female (a common trend across the Albanian financial system). In 2019, the proportion was 53%. The growth in staff between 2016 and 2019 was 19%. FED Invest provides staff with the equivalent of 100 euros in the form of a training grant each year and turnover

can be considered low at 6%. FED Invest has a social mission, maintained from the original motivations of the SCA movement in Albania, and this is reflected an attractive organisational culture. Finance professionals who wish to make a different in Albania are attracted to work with FED Invest despite less competitive salaries compared with the traditional banking sector. The low turnover rate is testament to the social mission of FED Invest and improvements in salary conditions in recent years include a quarterly bonus scheme.

Figure 8.14

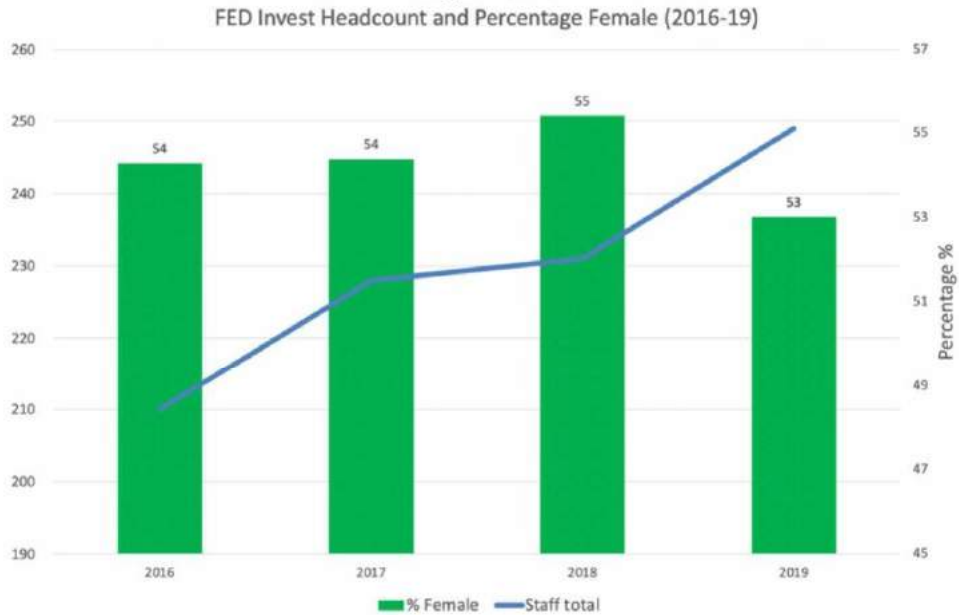
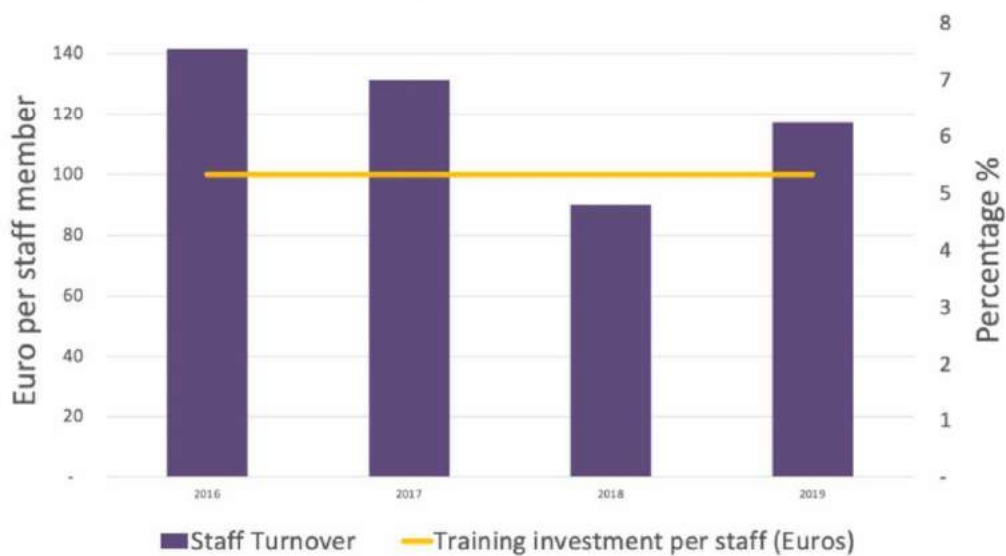


Figure 8.15

FED Invest Performance of Human Resources (2016-2019)



I. Financial Literacy Efforts

In partnership with the Japanese International Cooperation Agency (JICA), FED Invest launched in 2018 a four-year project to improve smallholders' families' financial inclusion in Albania. The project established an agricultural business assistance (ABA) centre, the ABA centre, in Lushnje, south of Tirana, for financial education and extension services. The activities include network connections, agricultural expertise, market information in terms of prices and sell/buy opportunities across an online platform, called ABA online. It is unclear at this point whether ABA will become independent of FED Invest at some point in the future.

The work of the ABA centre will focus on FED Invest members initially and will support cross selling of products. The project will bring the activities on the road to other branches across the country. Open questions exist around how the activities will be developed and sustained after the four-year project and how financial literacy and business training can be integrated into forthcoming mobile products that FED Invest will offer. Eighty percent of Albanians have access to a smart phone and so there is much potential to deliver training or perhaps complimentary materials/messages to FED Invest members and beyond.

J. Effectiveness of the Partnership

One advantage for FED Invest of the relationship with Rabo is the cultural affinity with Rabo given the common origins in the cooperative movement. The FED Invest culture was described to the authors as being distinctly different from a commercial bank culture, with a focus on teamwork and extensive direct contact with clients (who are also members). There were some problems reported, such as that there was not always a good match between consultant and local capacity. One specific example we were given was that on value chain finance, where the consultant stood ready to provide excellent knowledge transfer, but the IT system was not ready yet.

With the support of Rabo and World Bank, FED Invest lobbied the Central Bank of Albania and got approval to be covered under the Albanian deposit insurance scheme, thus increasing members'/depositors' confidence in FED Invest. This deposit insurance insures deposits up to 2 million which covers 95% of FED Invest's depositors. In an example of FED Invest's sectoral leadership, the lobbying of FED Invest paved the way for other credit and savings associations to be covered under the scheme.

We refer to the evaluation criteria of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) that have been designed to enable the determination of the merit, worth or significance of an intervention. According to the criteria, all interventions should be relevant to the context, coherent with other interventions, achieve their objectives, deliver results in an efficient way, and have positive impacts that last. Our analysis of the FED Invest partnership under the five DAC criteria is as follows:

FED Invest Partnership Evaluation - DAC Criteria	
Criteria	
(1) Relevance: The extent to which the intervention objectives and design respond to partner/institution needs and priorities, and continue to do so if circumstances change.	The partnership was critical for the licensing and transformation process. A key feature of the partnership is the flexibility to react to circumstances, which in this case required a focus on capacity building rather than customer targets. We consider this an acceptable trade-off but suggest that the next five years should be used for expanding customer numbers and moving down the value chain.
(2) Coherence: The compatibility of the intervention with other interventions in a country, sector or institution.	FED Invest has a number of strategic partnerships, but we note that these relationships are complementary. No outside player has the potential to replicate the experience-informed technical assistance provided by Rabo.
(3) Effectiveness: The extent to which the intervention achieved, or is expected to achieve, its objectives, and its results.	The partnership with FED Invest has been effective in building the capacity of the institution in a number of challenging areas including corporate governance, regulatory alignment, risk management, IT (including the CBS) and branch reform. We expect that FED Invest will be in a position post-pandemic to grow its customer numbers (although this will depend on digital infrastructure and innovative products).
(4) Impact: The extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects.	The literature is clear that better outreach of financial services can improve the livelihoods of vulnerable communities in developing countries. Digital innovation and digital financial literacy will be key to realising these benefits for rural and vulnerable micro-business and communities. While the direct impact of the transformation of FED Invest is too early to have taken place, such an impact can be expected during the next 5 to 10 years.
(5) Sustainability: The extent to which the net benefits of the intervention continue, or are likely to continue.	There is no doubt that the PPP has improved the financial stability of FED Invest in the long run, and in the short run evidence for this can be found in how the bank navigated the pandemic and its effects on customers. Continued regulatory change in the medium term, evolution of technology and the ever present need to extend banking services to more low-income rural Albanians is likely to mean a continued need for capacity building. Without such further support it is unlikely that FED Invest would be sustainable.
(6) Additionality: The extent to which an intervention has an effect compared to a baseline.	There is clear additionality of the intervention in terms of the different outcomes. The partnership has supported the transformation process of FED Invest, including in terms of the supervisory dialogue.
(7) Attribution: The extent to which improvements can directly be attributed to the intervention and ultimately the partnership	Given the prominent role of the partnership for the transformation process, one can attribute its success to the partnership.

In summary, the partnership has enabled FED Invest to convert itself from a federation into a cooperative structure and it is hard to imagine any other party that could have supported FED Invest similarly. Technical assistance has been provided across all necessary dimensions and has helped bring FED Invest to a level from which it can expand and introduce new products and services. While it is too early to speak of any significant impact on agri-security and poverty reduction in rural Albania (beyond what has been achieved by FED Invest and its individual parts over the last 25 years), the

fundament has been set for future achievements. However, it is also clear that FED Invest is far from being able to achieve such progress by itself, without further assistance.

K. Recommendations

- *Continued IT Support Needs:* In many respects, FED Invest rebuild its core infrastructure and adjusted to its new regulatory status over the last four years. This means that the next four to six years should be focused on product development and customer growth. This process will require significant technical support in product design, market segmentation, add-on IT solutions, data security and management of new types of operational risk. For example, FED Invest will need support with QR payment systems, internet banking, overdrafts, payment and remittances services and cloud banking.
- *Continued Reimaging of Branch Network:* New digital products and processes will continue to change how the branch network with operate. This transformation challenge will pose HR, IT, and IT Security, challenges that will need careful managing. The challenge will be to keep what FED Invest is good at, relationship banking with members, and make services more efficient and convenient for customers through greater automation.

9. NMB Analysis

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10. Yoma Analysis

Rabo Partnerships has worked with Yoma Bank in Myanmar since 2017 when the PPP was established and a programme of technical assistance began. Founded in 1993, Yoma Bank is Myanmar's fifth largest private bank and is regarded as a specialist SME bank in Myanmar.

Please note that the subsequent analysis was undertaken in autumn 2020 before the military coup on 1 February 2021. The coup has had a strong effect on Myanmar's society, economy, and specifically also its financial sector. For these reasons it is expected that part of the impact achieved is negated. Detailed and reliable information, however, is not available at this stage. Therefore, this document reflects the finding based on the autumn 2020 analysis, and readers are cautioned not to extrapolate findings to the present-day situation.

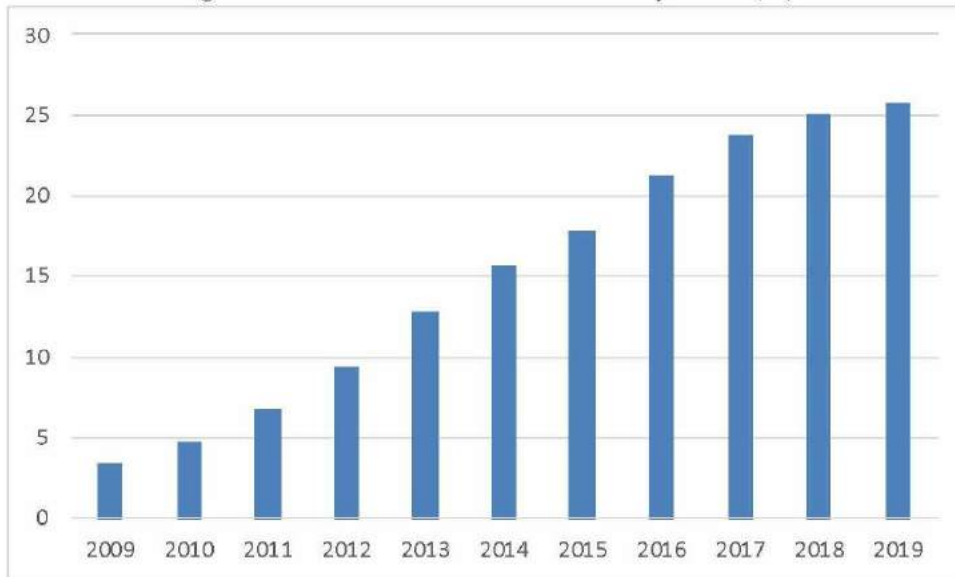
A. Context: Financial System of Myanmar

Myanmar has only recently opened up its economy and financial system and its banking system is thus at an early stage of development. As of 2020, Myanmar had four state-owned banks, 27 privately-owned domestic banks, and 13 foreign bank branches.²⁰ Foreign banks started to get licenses in 2015-16, but still face restrictions, including on paying interest on local currency deposits. While the banking system has grown significantly in recent years (Figure 10.1), it remains relatively small. However, much of the recent credit growth has been in the form of one-year overdrafts secured on real estate and fixed assets, to a relatively limited pool of borrowers (with little going to manufacturing or agriculture), and continuously rolled over. Credit growth has slowed over the past two years as private banks have reduced large credit exposures. The credit boom, however, has also led to an increase in non-performing assets, with limited loss recognition and evergreening. The banking system is still considered undercapitalized and facing rather rudimentary supervision. In addition, there might still be an important lack of trust, given that Myanmar suffered a systemic banking crisis in 2003, triggered by the collapse of informal finance companies, which offered high rates of return (in excess of the bank deposit rate ceiling), but engaged in highly speculative investments and were described as "little more... than ponzi schemes" (Turnell 2009, as quoted in IMF, 2018). This ultimately resulted in runs on private banks and recall of loans.

The banking system has recently been coming out of what can only be described as financial repression. Until January 2019, the central bank required all lending to be collateralized by real estate or other immovable assets, and to have a short maturity (up to one year until July 2017 and up to three years since then). Banks faced a lending interest cap at 13% (3 percentage points above the central bank rate) for secured and 16% for unsecured loans which is low given high and volatile inflation; interest floors for deposits are 6% and 8% (4 and 2 percentage points below central bank rate) for call and term deposits, respectively and a cap of 10%. Given these interest rate caps, even eliminating maturity caps will not jumpstart longer-term lending, given that term premiums cannot be priced in.

²⁰ A large part of this background information is based on the 2020 GIZ report Myanmar's Banking Sector in Transition – Current Status and Challenges Ahead.

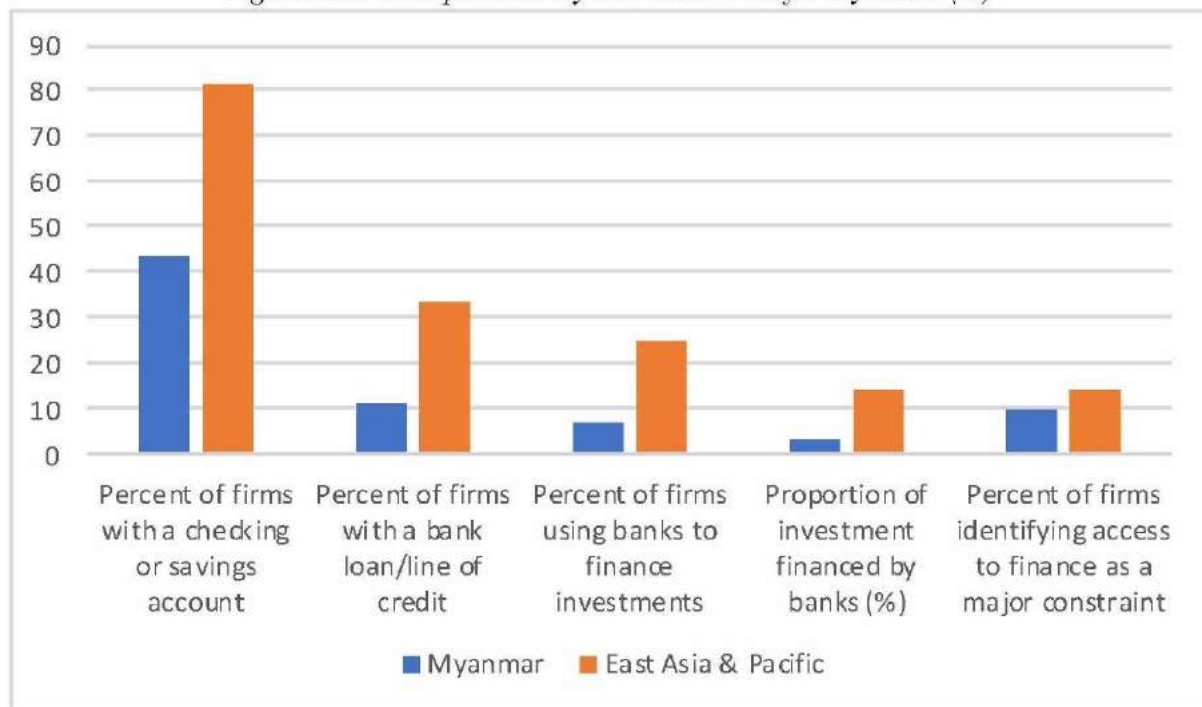
Figure 10.1: Private Credit to GDP in Myanmar (%)



Source: World Development Indicators

In line with a underdeveloped banking system, enterprise survey data show very limited access to and use of formal financial services by firms in Myanmar (see Figure 10.2). Only 44% of firms have a checking or savings account and only 11% a loan or credit line, both far below other countries in the region. The share of firms using bank finance for investment purposes is even lower, at 7%, with the share of investment financed by banks only at 3%. Maybe surprising, only 10% of firms identify access to finance as major constraint; this can be explained partly by 61% of firms not needing a loan (compared to 48.5% in the region), but also other constraints than might weigh heavier than finance.

Figure 10.2: Enterprise survey indicators 2016 for Myanmar (%)

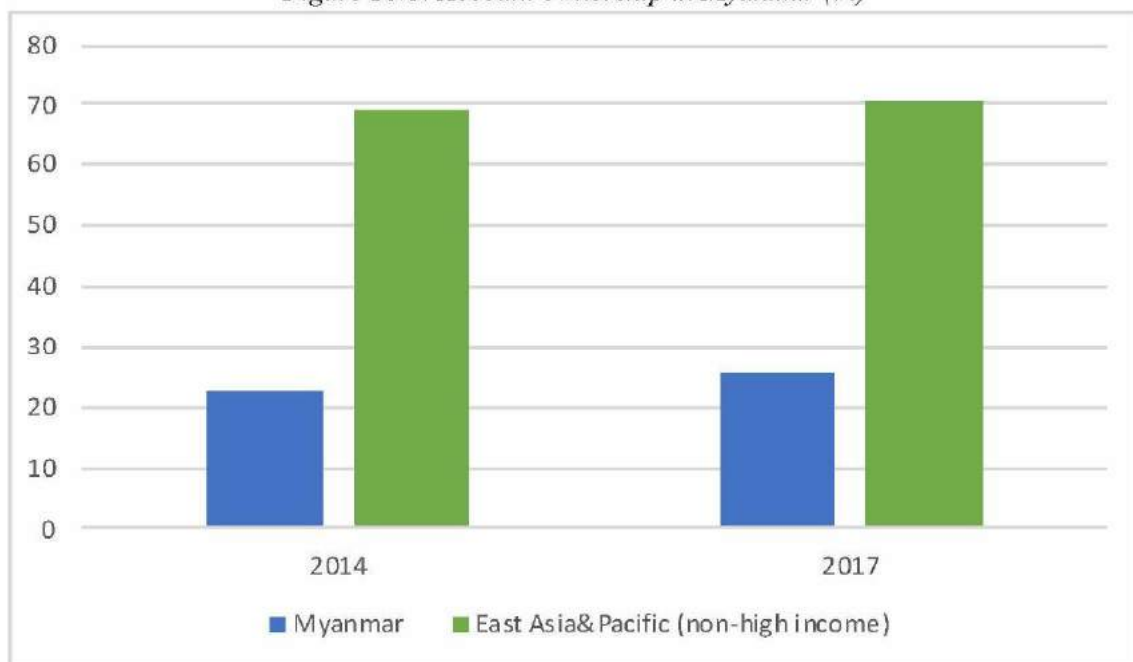


Source: Enterprise Surveys, World Bank

In terms of financial inclusion, as illustrated in Figure 10.3, Myanmar lags behind its regional peers quite a lot, with little progress between the two survey waves of 2014 and 2017 (there are no data for 2011). Fewer than 26% of Myanmar’s adult population has a bank account. Figure 10.4 shows that recent gains in financial inclusions have been stronger among women and in rural areas, although both gender and rural inclusion gap continue.

This low level of financial inclusion is confirmed when one considers outlet and account penetration data, although they testify to a rapid expansion over the past 15 years (Figure 10.5).²¹ Panel A shows that while branches have grown almost three-fold, ATMs grew from nowhere in 2012 to half the number of branches. Loan accounts relative to population have increased more than ten-fold since 2012, while Panel B shows that deposit accounts have ‘only’ grown threefold. Panel B also documents the impressive growth in active mobile money agents over the past five years. On the upside, the large share of still unbanked population and recent deregulation efforts by the Central Bank offer important growth opportunities.

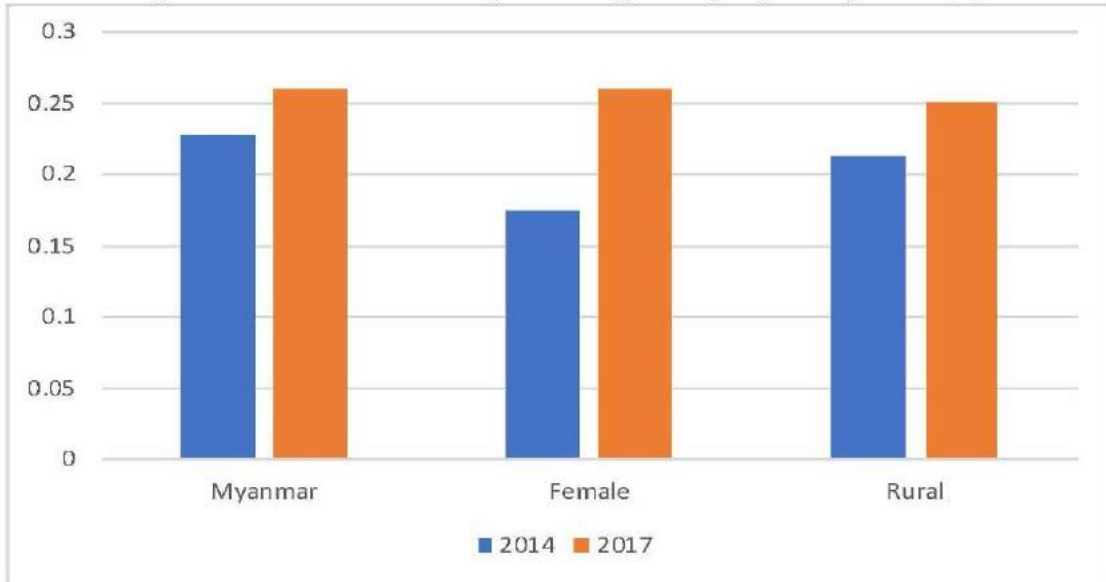
Figure 10.3: Account ownership in Myanmar (%)



Source: Global Findex, World Bank

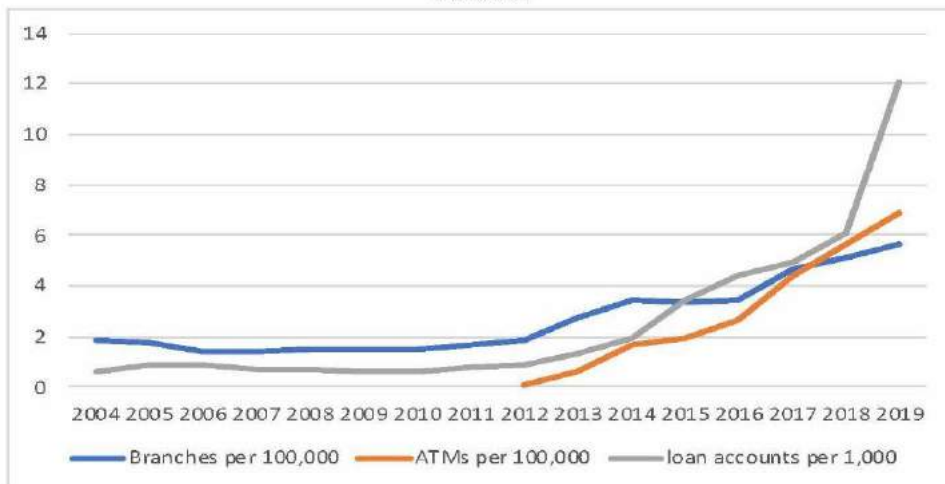
²¹ Unlike Global Findex data, which is available every three years (with 2020 data possibly coming in 2021), these data are collected on an annual basis by the IMF from central banks. However, they are based on supply-side data, unlike Global Findex, which is a household survey.

Figure 10.4: Account ownership across different groups in Myanmar (%)



Source: Global Findex, World Bank

Figure 10.5: Financial inclusion in Myanmar over time
Panel A



Panel B



Source: Financial Access Survey, IMF

The past years have seen a rapid increase in the market share of privately-owned banks in Myanmar, with KBZ bank being the largest bank, ahead of the government owned MEB bank. However, there is a large number of small privately-owned banks, which are unlikely to be sustainable in the medium- to long-term. One of the factors holding back further financial sector deepening in Myanmar is the deficient governance structure in many privately-owned banks, with bank owners (often also owners of non-financial companies or conglomerates) directly involved in day-to-day business decisions. We were told by some outside observers that many of these banks would not be sustainable as stand-alone financial institutions but often more seen as prestige projects for their owner.

There has been progress in financial inclusion through mobile money. Both MNOs and banks can offer mobile money services, but the former have the competitive advantage of large agent networks. Mobile Financial Services Providers (MFSPs), including non-bank financial institutions and MNOs) have to acquire a Mobile Financial Service License from the Central Bank; as of end-2018, there were three licensed MFSP, including Telenor, which cooperates with Yoma Bank, as discussed below. The rapid increase in registered and active mobile money agents documented in Figure 10.5 Panel B speaks to the success of the mobile money offer though the share of adult population with a mobile money account was still very low in 2017 with less than one percent.

There has been extensive donor support over the past decade for the financial sector in Myanmar, including for the Central Bank of Myanmar as regulator of the banking system as well as a facilitator e.g. through the recent establishment of inter-bank transfers and central clearing, for individual banks (including Yoma Bank as we will discuss in detail below) and for institutions supporting the financial system, such as the Myanmar Banks Association and its Myanmar Institute of Banking.

Hand in hand with the liberalisation of the financial system goes the build-up of the financial infrastructure. Credit information sharing systems are a critical element of the financial sector infrastructure and can be established in the form of central-bank housed credit registries and/or in the form of private credit bureaus. While there is no credit registry in Myanmar, the Central Bank granted the first license for a private bureau (Myanmar Credit Bureau Limited) in May 2018 and it is in the process of starting operations. Similarly, creditor rights are relatively limited, although law allow businesses to grant a non-possessory security right in substantially all of its assets, without requiring a specific description of collateral and the law allow parties to agree on out of court enforcement at the time a security interest is created. The quality of land registration and administration is considered relatively low and the efficiency of contract enforcement through courts slow and inefficient (World Bank, 2020). In summary, financial institutions operate in a rather unwelcome institutional environment, which explains their focus on short-term collateralised lending (beyond regulatory restrictions).

B. Yoma Bank within the banking system

Yoma Bank, founded in 1993, is Myanmar's fifth largest private bank and is regarded as a typical SME bank for Myanmar. After the 2003 crisis, Yoma Bank's activities were restricted by the Central Bank and only in August 2012 the full banking license was reinstated (with a Canadian CEO). Several donors have worked with Yoma Bank over the past years, including IFC and GIZ. Yoma Bank, together with Telenor, founded Wave Money, Myanmar's first mobile financial service provider and now the largest mobile money platform in the country, with 38,000 agents by end-2018. Yoma Bank has committed itself to developing agricultural finance and mobilising rural savings in Myanmar. Rabo Partnerships

helped Yoma Bank with technical assistance to set up a tractor financing programme, sponsored by LIFT, involving dealers. This has led to an on-line dealer portal, where dealers can arrange for loans for tractor purchase on behalf of Yoma Bank.

As noted previously, it is important to stress that Yoma Bank has been operating in a unique environment – a financial system that has only recently liberalised, has a very rudimentary regulatory regime and where most domestic banks are family banks, i.e., banks that are part of larger corporate groups and that are not necessarily profit-oriented. Most of these banks in Myanmar also have rather limited governance structures. Yoma Bank, on the other hand, has had two foreign CEOs in a row and the main shareholder seems to have an arms-length relationship with senior management and staff. This also makes the bank attractive for many Burmese active in the financial system returning to their home country. Beyond the main Burmese owners, 30% of shares are owned by international development institutions, including IFC, Norfund, IFG, therefore providing for a different ownership and thus governance structure than other privately-owned banks in Myanmar.²² Yoma Bank sees UAB and MAB as most active competitors, as they are of similar size and target the business segment as Yoma with a similar core value proposition offering for their clients. CB and AYA are the two larger players in the market that also are engaged in the SME market, but given their superior digital, scale and product offering they are less natural competitors to Yoma Bank. KBZ (the largest private bank) is not seen as competitor given its deep retail Bank with massive scale and a deep branch / mobile presence.

It is worth noting the recent strategic focus of Yoma Bank to become a leading player in SME banking and value chain banking. This means that Yoma Bank will be less focused on the mass customer market, while still partnering with its mobile money affiliate, WAVE. WAVE is effectively 50% owned by Yoma Bank's parent company following a central bank mandate that banks could not own more than 5% of mobile money entities. The new strategy also makes it clear that Yoma Bank does not have short/medium term ambitions to become a leader in small holder lending in Myanmar.

C. Role of the Partnership

Yoma Bank has worked with several international partners over the past decade, including the Japanese bilateral aid agency JICA. Like most of the large private banks in the country, Yoma Bank has benefited from financial and technical assistance by donors who were attracted by its transparent governance structure. Unlike in the cases of dfcu and NMB, there has been no investment or direct management support by Rabo Partnerships.

Some of the highlights of the TA programme have included:

- *Hire Purchase Portal:* The HP portal is an example of a highly successful Rabo supported effort to develop from scratch value chain business with expected large impacts on the ultimate outcome food security and livelihoods. Yoma has lent hundreds of millions of USD to dealers for the leasing of tractors to farmers. The portal helped inspire the mechanisation of Myanmar farming, attracting other banks into the sector.
- *SME Business Banking Portal:* This has been developed prior to the pandemic but cannot be considered successful yet and further improvement may be necessary. The features such as book-keeping and inventory software portal has the potential to drive growth when it reaches

²² Yoma Bank's governance structure compares favourably to a number of other Burmese Banks.

maturity. Related improvements in SME lending include approval in 14 days down from two months and improved credit scoring systems that can focus on cash flow and analyse receipts.

- *Risk Management Systems:* A broad operational risk framework was developed with the help of Rabo during the technical assistant programme. The risk framework is comprehensive in considering, for example, operational, financial, credit, liquidity, systemic and reputational risks. The risk management system at Yoma Bank is considered superior to peers due to the involvement of Rabo.

Yoma Bank works with a number of other partners. The most important is the Livelihoods and Food Security Fund (LIFT) Programme which provides guarantees for losses on the hire-purchase programme within the context of the joint objective of increasing mechanisation in the agricultural sector. In December 2015, LIFT and Yoma Bank signed an ambitious partnership, with the main objective of stimulating investment in agricultural mechanisation by making financial solutions for equipment investment more accessible to small agribusinesses. Resident advisers from Rabo Partnership have been critical in supporting the implementation of this programme. The programme reduced the down payment from traditional 30% to 10% and extended maturity from one year to several years. The programme also provided more loans with bi-annual repayment cycles in order to accommodate farmers' seasonal cash flows. This also allowed funding more expensive equipment, thus addressing the fixed cost problem of investment small farmers face. Over three years' time of the first phase, Yoma Bank financed 6,530 assets (tractors, harvesters, tillers and transport vehicles) for a total value of MMK 183bln.²³ Starting in 2017, the programme was extended to input (e.g., fertiliser) financing in the form of a factoring (receivables financing) product. Phase two of the LIFT partnership is soon to launch with the aim of improving savings in rural communities through mobile products.

D. Financial Outreach

Yoma Bank strongly grew its client base between 2018 and 2019, as illustrated in Figure 10.6. The number of rural private customers with savings or deposit accounts grew by 49% between 2018 and 2019, while urban private customers with savings/deposit accounts grew by 64%. Half of urban private savings/deposit customers were female (49%), while 46% of private savings/deposit customers in rural areas are female. For both segments, the proportion of females grew strongly over the year (Figure 10.7). In addition, there was a strong performance for SME customer deposit/savings accounts with a 57% increase between 2018 and 2019.

Checking accounts at Yoma are only in their infancy, although Yoma Bank is hoping to improve performance in this area in the coming years, specifically for SME trading accounts. Yoma has also been left behind with respect to mobile banking services and the lack of a payment strategy. However, arguably evaluation of the mobile banking performance of Yoma Bank needs to take into consideration its co-founding and, until recently 50% ownership in WAVE, the leading mobile payment platform in Myanmar. Recent regulatory constraints on banks has reduced this ownership to 5%, although the parent group of Yoma still holds the balance of ownership. Yoma still enjoys operational and strategic access to WAVE, even if WAVE is partnering with other banks.

²³ 97 million euros April 2021 exchange rate.

Figure 10.6

Yoma Financial Outreach, Savings and Deposits (2018-2019)

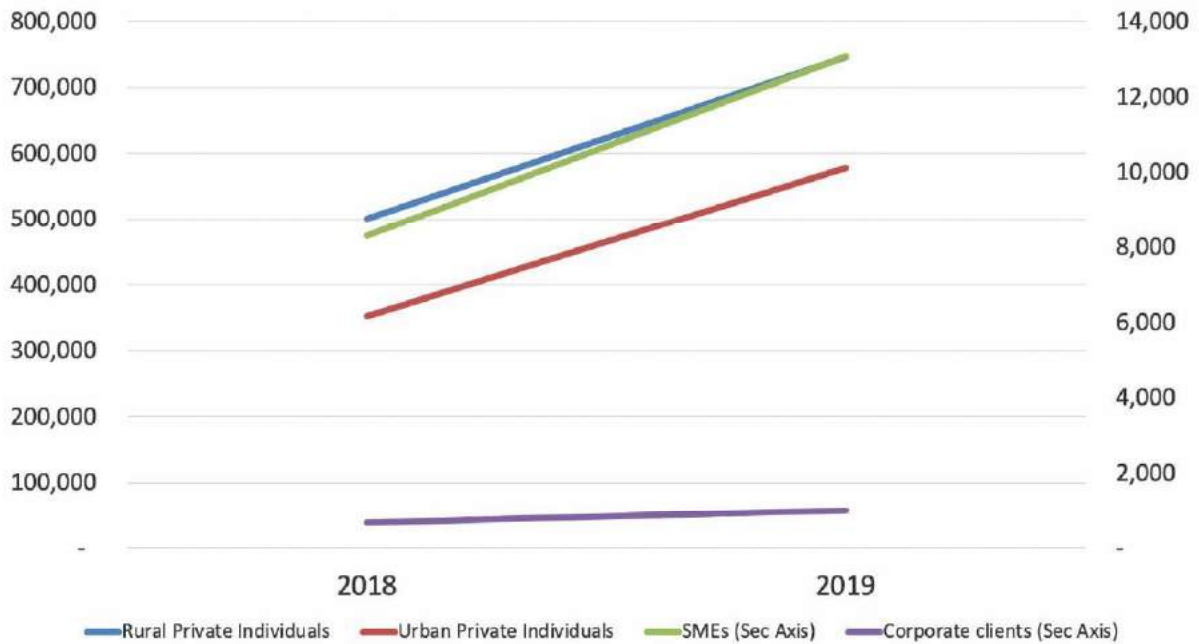
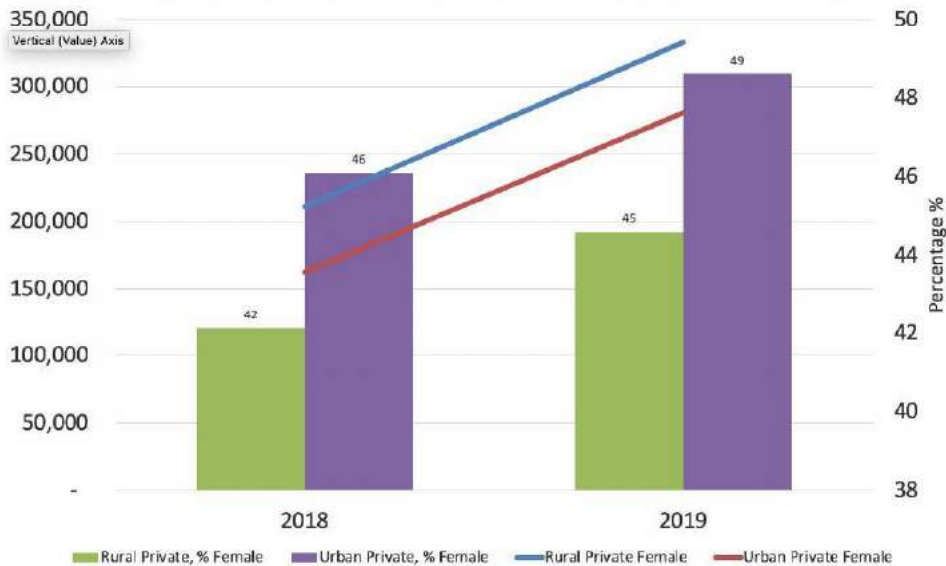


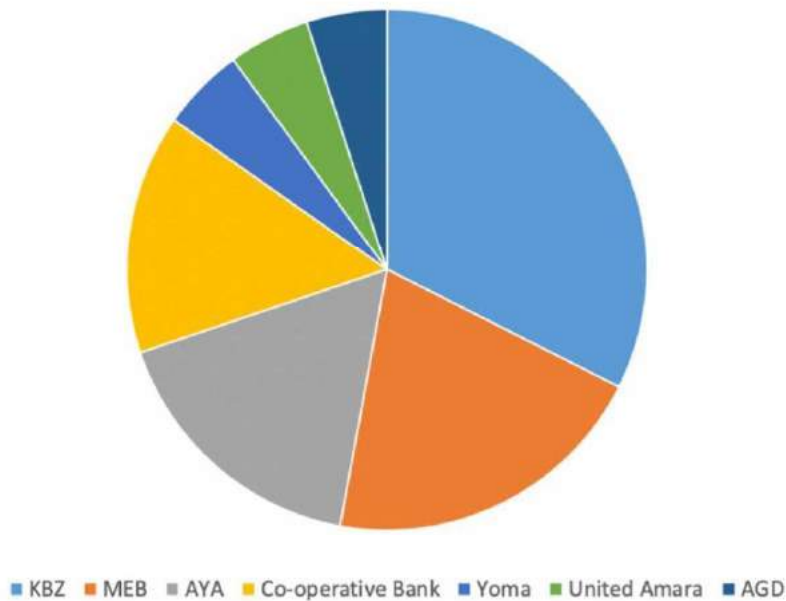
Figure 10.7

Yoma Female Outreach, Savings and Deposits (2018-2019)



In terms of bricks and mortar outreach Yoma Bank is in the second tier of banks. KBZ (500), MEB (315), AYA Bank (261) and Co-operative Bank (230) are the four banks with the largest number of bank branches. Yoma Bank does not intent to compete with their branch networks, instead focusing on the SME segment and over time utilizing technology to by-pass the need for a physical presence. In 2019, Yoma Bank had 80 branches, and this was comparable to United Amara Bank and Asia Green Development Bank (AGD).

Figure 10.8
Number of Branches 2019



At Yoma Bank, 12% of the volume of all transactions is channelled through Internet banking (Figure 10.9). Other alternative channels do not form a significant proportion of the total volume, but they did experience the highest growth. POS volume increased by 1,152%, teller volume by 144%, mobile banking by 132% and ATM volume by 66%. Each of these channels outperformed the growth in total volume (45%). 45% increase in volume in one year is a very strong performance. As shown in Figure 10.10, there was also a trend away from teller to Internet and mobile for smaller transactions, as the average volume increased for the former and decreased for the latter two.

Figure 10.9
Yoma Average Volume Per Month (2019) and Volume Growth (2018-19)

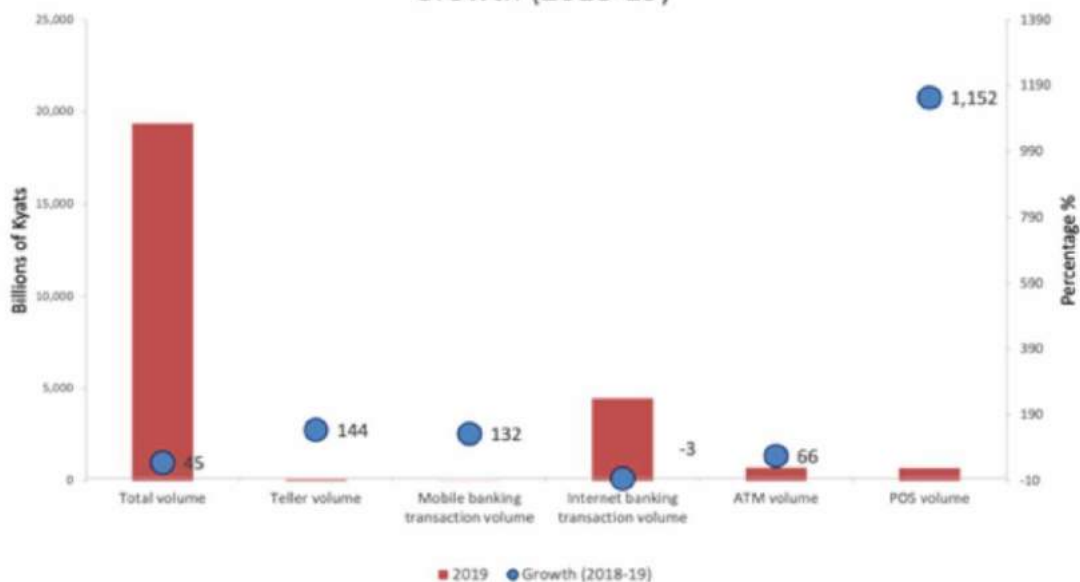
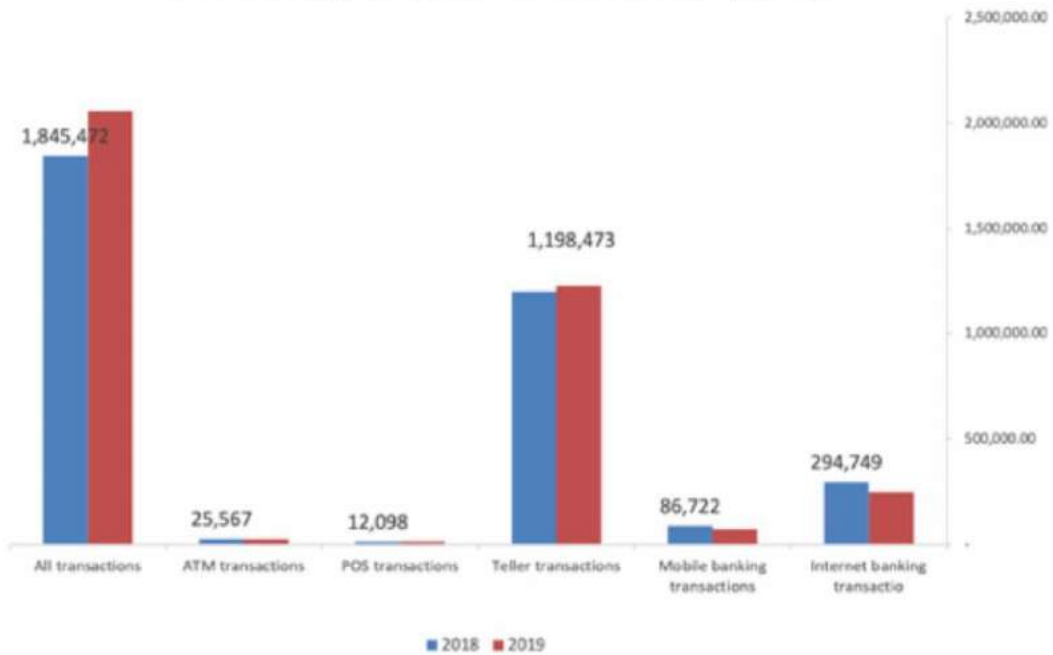


Figure 10.10

Yoma Average Volume Per Transaction (2019)



E. Performance of Sectoral Lending

Figure 10.11 charts the growth in lending clients at Yoma Bank between 2018 and 2019. Again, Yoma's performance can be considered as strong. Yoma Bank recorded a 27% growth in urban credit clients between 2018 and 2019. The corresponding figure for rural private clients was slightly lower at 20%. The number of SMEs with credit from Yoma Bank grew by 35% from 9,990 in 2018 to 13,489 in 2019. Corporate clients grew by 50% from 668 to 1,000 in 2019. These growth rates were in part driven by the 40 SME roadshows events organised across the regions in 2019, as well as improvements in loan approval time.

Figure 10.11

Yoma Financial Outreach, Number of Credit Clients (2018-2019)

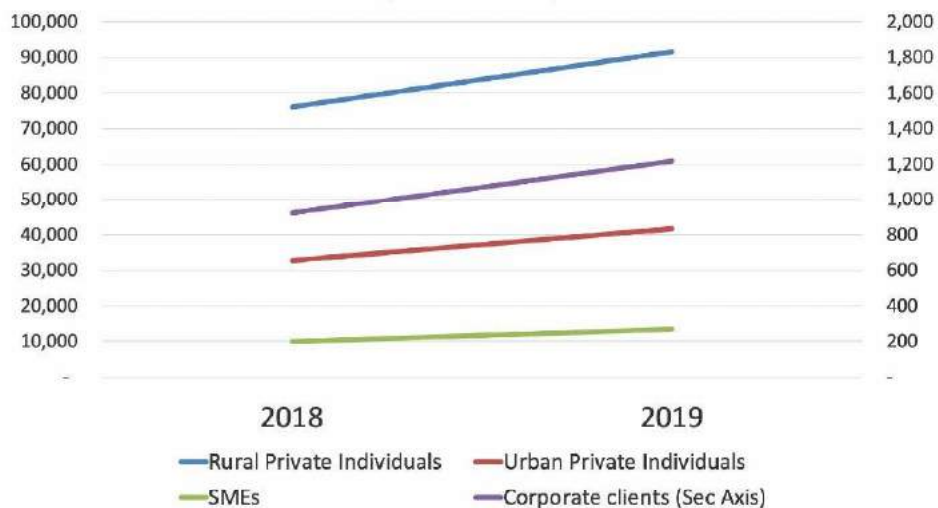
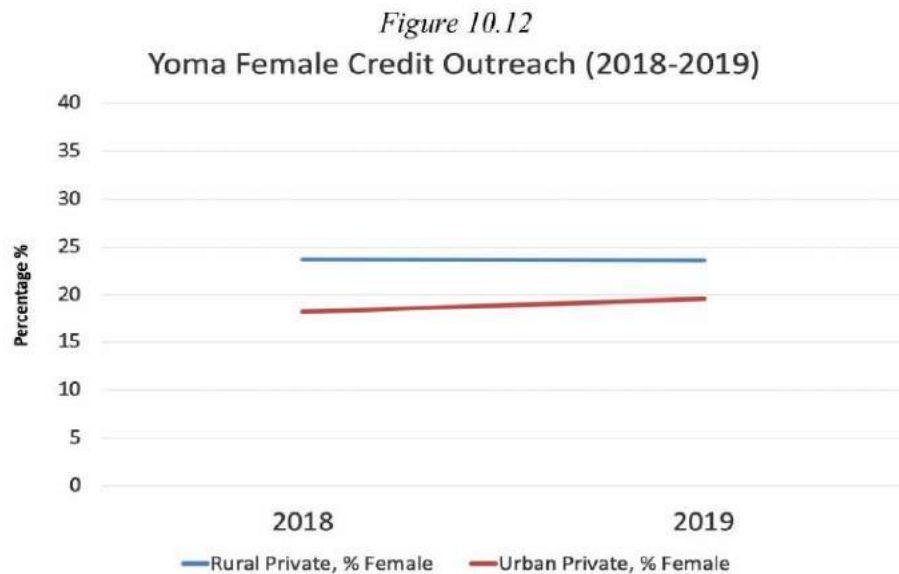


Figure 10.12 provides an illustration of Yoma Bank’s credit outreach to female clients. In 2019, 20% of urban credit customers were female and 24% was the corresponding figure among rural customers. Between 2018 and 2019, the proportion of female customers with credit products rose slightly for urban private individuals. The decline in SME female credit fell over the period but the absolute numbers are so small that it does not represent a trend of note. It is worthy of note that phase 2 of the LIFT programme is to enrol rural women in savings products with a 100 USD incentive and new mobile products. There is potential value in the new product development, but it is questionable as to whether management is keen to pursue this business when the LIFT programme ends.



It is notable that the average amount of credit to Yoma’s different customer types has fallen, as shown in Figure 10.13. Within the context of the overall growth in total credit volume for these segments, this suggests that Yoma Bank is engaged in deepening its financial outreach to small players. This is particularly true for corporate clients (secondary axis) and SMEs, although it should be noted that the declines are modest. Rural private individuals are the only segment where the average size of loan was increasing between 2018 and 2019.

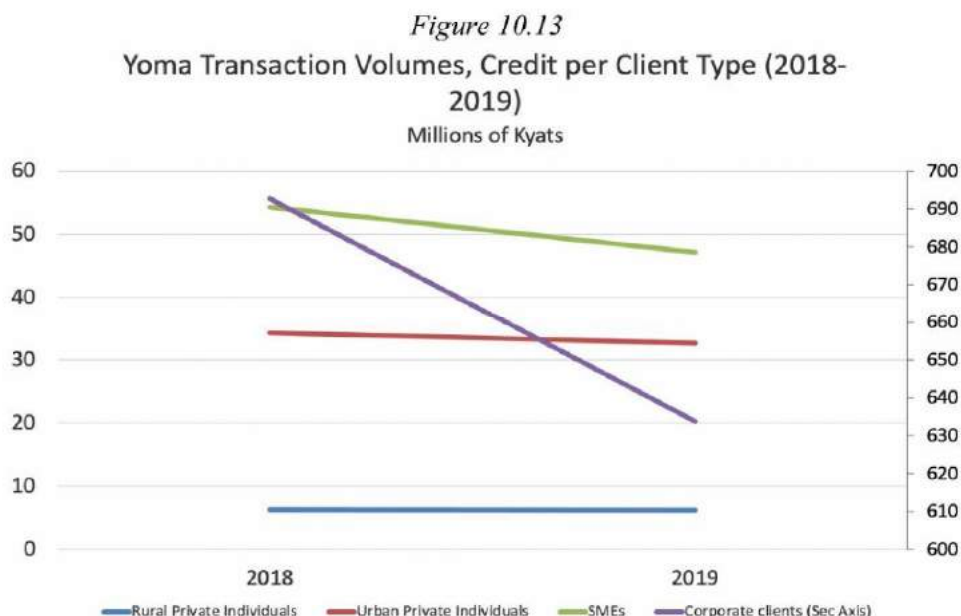


Figure 10.14

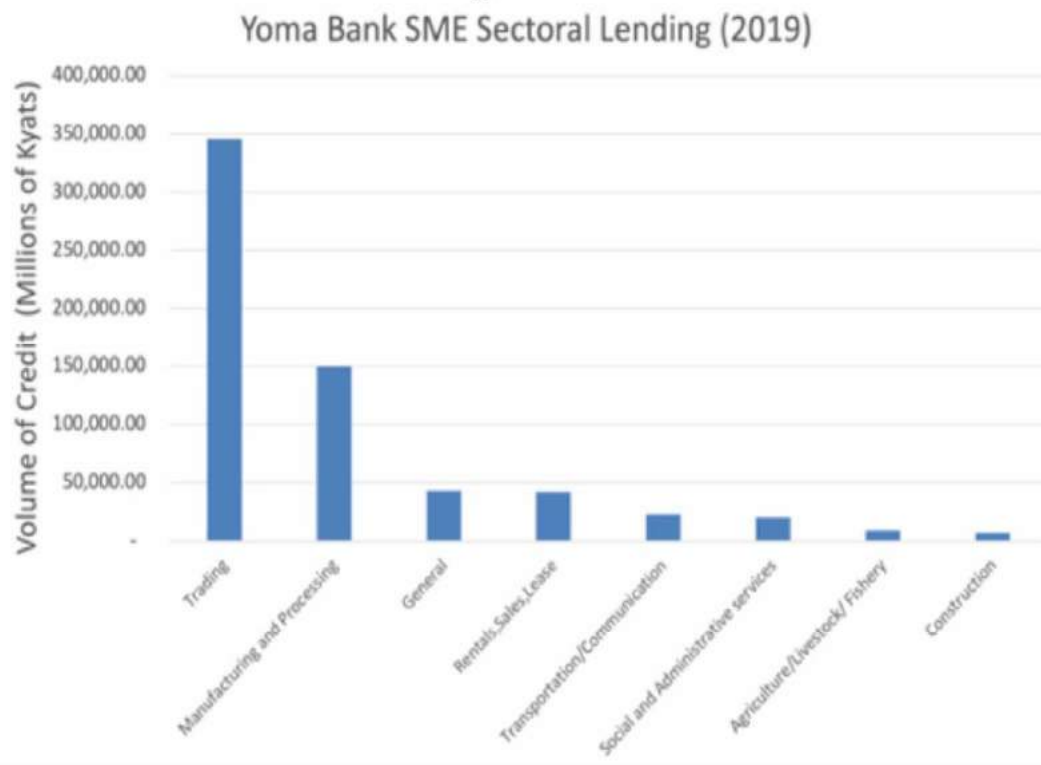


Figure 10.14 shows that trading is the largest SME segment for Yoma Bank, representing 54% of the total SME loan book. Manufacturing and processing (23%), general (7%) and retail, sales and lease (7%) and transportation and communication (4%) are the next four largest sectors. By Yoma’s own admission, they have deep involvement in some sectors but limited in others. For example, LIFT is encouraging Yoma to move into irrigation and low carbon projects. The stated strategic ambition of Yoma to be a top SME bank means that there is much room to grow. Compared to the sector average, trading and manufacturing are more prominent in Yoma Bank’s sectoral portfolio (22% and 11%, respectively for overall banking sector), while construction is significantly less (15%). The relative under-exposure to construction can be seen as positive for financial stability given that this sector is often associated with credit boom-and-bust cycles.

In the agricultural sector, Yoma, through its partnership with the Livelihoods and Food Security Fund (LIFT) Programme, achieved increased outreach to farmers by stimulating investment in agricultural mechanisation by making financial solutions for equipment investment more accessible to small agribusinesses. Over three years’ time of the first phase, Yoma Bank financed 6,530 assets (tractors, harvesters, tillers and transport vehicles) for a total value of MMK 183bln.²⁴ Starting in 2017, the programme was extended to input (e.g., fertiliser) financing in the form of a factoring (receivables financing) product.

F. Financial Performance and Stability

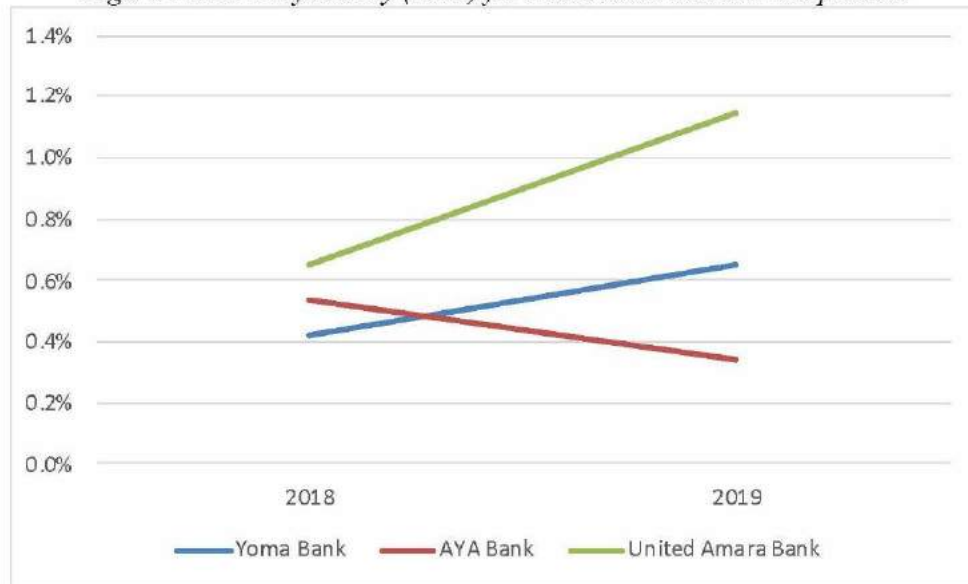
Reliable accounting and financial data are hard to come by in Myanmar so that this analysis is highly tentative. Profitability is very low, not only for Yoma Bank but also for some of its competitor banks,

²⁴ 97 million euros April 2021 exchange rate.

for which we have financial statements on the Internet. Similarly, ROE stood at 12.6% for Yoma Bank in 2019, up from 8.3% in 2018.

It is hard to infer from hard data to the financial stability implications of the partnership. However, the rather careful approach to expansion by Yoma Bank and the hiring of experienced expats and local staff as department heads gives a certain reassurance.

Figure 10.15: Profitability (ROA) for Yoma Bank and two competitors



G. Managing the Pandemic

The pandemic affected the economy of Myanmar from March 2020 onwards due to weaknesses in external demand, a collapse of tourism and government mandated restrictions. Tourism, airlines and garments, food and beverages, restaurants were all significantly affected over the course of the year, with government supports only providing relief for a small number of sectors. Yoma Bank engaged in loan payment moratoria for many of its customers and on completion of the pause the majority of customers were able to repay loans. Our review of Yoma suggested clearly that the bank has been doing comparatively very well with regards to its risk management processes and business contingency plans. One additional consequence of the pandemic will be an acceleration of the trend towards digitalisation.

We wish to specifically highlight the work done under the partnership pre pandemic on Business Continuity Planning (BCP) that proved particularly valuable to Yoma Bank. Yoma Bank was highlighted by the Central Bank of Myanmar as being the most well prepared bank to manage the impact of the pandemic.

H. Human Resources

In 2019 Yoma Bank had over 3,000 employees. The employee base was gender balanced with 54% female leaders are women and with over 50% of employees promoted women. The annual report states that 100% of employees received relevant industry training during the financial year, average of 12.5 hours of training per employee per year.

Yoma senior management is a good mix between locals, expatriate staff and re-patriate staff who have returned from banking careers generally in OECD countries, but with experience in developing Asia. We found evidence that Yoma staff are highly valued in the market, with many examples of poaching by competitors.

I. Financial Literacy Efforts

Despite the lack of financial system development in Myanmar, financial literacy is higher than in many countries in the region including China, Japan, Korea, India and Vietnam (See S&P Global Financial Literacy Report 2016). The financial literacy survey finds that a country score, based on a representative sample and four questions about risk diversification, inflation, numeracy (interest) and compound interest. In fact, Myanmar scores higher than all countries in Asia except Singapore and Bhutan, and higher than many European countries.

Yoma Bank supports financial literacy and inclusion through events and other investments. Twenty-three learning events were organized in 2018/19 to promote financial literacy, inclusion and digital payments with over 77 million MMK (41,000 euros) invested into the awareness of responsible lending and financial literacy.

With lower financial literacy in rural areas and new technologies emerging, the second phase of the LIFT programme is designed to help include and teach rural women how to use digital financial services. An important opportunity exists to evaluate different approaches (incentives, product type and informational nudges) to encouraging the use of digital financial services among rural women.

J. Effectiveness of the Partnership

The partnership has been critical in helping Yoma Bank grow over the past years. While Yoma Bank has worked with other partners, during the interviews it was stressed again and again that the relationship with Rabo Partnerships and the Ministry of Foreign Affairs is a unique one. One striking feature has been the use of resident advisers. While there has been one case of a cultural mis-match, this was solved quickly. Embedding resident advisers in the bank allows not only skill and knowledge transfer but also the building of local teams and creating local ownership for new product and processes.

It is important to stress that the success of this partnership has relied to a large extent on Yoma Bank's transparent governance structure, including the arms-length approach by the main owner of the bank. Having foreign CEOs and an open and transparent governance structure helped attract Burmese expats to the bank, which in turn helped maximise the benefits from the technical assistance and ensured multiplier effects of training throughout the bank. There was thus an almost perfect match between Yoma Bank and Rabo Partnerships/Dutch government. It is unlikely that such a partnership would have had the same positive impact in most other banks in the Burmese sector. Further, given the relatively small market share of Yoma Bank, it is not clear whether we can refer to a broad aggregate positive effect of the partnership on banking sector development and agri-security and poverty reduction in Myanmar. On the other hand, Yoma Bank is one of the few banks to reach out explicitly to the agricultural sector and provide funding to MFIs so that there certainly has been an important effect in the rural areas of Myanmar.

However, there have been several multiplier effects; first, several other private banks have copied products and services introduced by Yoma Bank over the past years, including successful products like the HP tractor and MFI loans. Second, and as already mentioned, several staff have been poached by other banks, though mostly in sales and less in product development. However, it is not clear to which extent we can expect broader multiplier effects, given the state of the Burmese banking sector, especially in terms of governance. However, one can envision a longer-term positive effect from the partnership if further reforms and competitive pressure result in a transformation of the financial system.

We refer to the evaluation criteria of the Development Assistance Committee (DAC) of the OECD that have been designed to enable the determination of the merit, worth or significance of an intervention. According to the criteria, all interventions should be relevant to the context, coherent with other interventions, achieve their objectives, deliver results in an efficient way, and have positive impacts that last. Our analysis of the Yoma partnership under the five DAC criteria is as follows:

Yoma Partnership Evaluation - DAC Criteria	
Criteria	Comment
(1) Relevance: The extent to which the intervention objectives and design respond to partner/institution needs and priorities, and continue to do so if circumstances change.	The TA programme has been driven by the clients' needs and has thus been highly relevant for Yoma Bank
(2) Coherence: The compatibility of the intervention with other interventions in a country, sector or institution.	Yoma has benefited from the association with Rabo and remains in a constant state of development. Rabo has played a key role in helping to resurrect Yoma Bank post financial crisis. No outside player has the potential to replicate the experience-informed technical assistance provided by Rabo.
(3) Effectiveness: The extent to which the intervention achieved, or is expected to achieve, its objectives, and its results.	The partnership with Yoma Bank has been effective in building the capacity of the bank in a number of challenging areas including risk management, IT systems, digital innovation and a number of specific value chain product initiatives. Yoma Bank should be in a strong position post pandemic to grow its customer numbers. However, success may depend on strengthening its innovation processes and maintaining strong outside talent at the centre of the innovation efforts.
(4) Impact: The extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects.	The literature is clear that better outreach of financial services can improve the livelihoods of vulnerable communities in developing countries. Digital innovation and digital financial literacy will be key to realising these benefits for rural and vulnerable micro-business and communities. It seems clear that the recent successes of Yoma Bank in agricultural and MFI funding has contributed to such an impact.
(5) Sustainability: The extent to which the net benefits of the intervention continue, or are likely to continue.	There is qualitative evidence that the PPP has improved the financial stability of Yoma Bank. In addition, in the short run evidence for this can be found in how the bank navigated the pandemic and its effects on customers. Continued regulatory change in the medium term, evolution of technology and the ever present need to extend banking services to the vast unbanked Myanmar population is likely to mean a continued need for capacity building, so that the efforts so far by themselves would not result in a sustainable partner institution

(6) Additionality: The extent to which an intervention has an effect compared to a baseline.	There is clear additionality of the intervention in terms of the different outcomes, mostly related to internal processes. The partnership has supported the growth process of Yoma and enabled it to maintain stability.
(7) Attribution: The extent to which improvements can directly be attributed to the intervention and ultimately the partnership	While the partnership has clearly been successful, this success is conditioned on the governance structure of Yoma as well as other partnerships (especially with LIFT), so that it is difficult to ascertain, which share of Yoma's success can be attributed to this partnership.

K. Recommendations

- *New Branch Model:* Yoma Bank plans to grow its branch network by 10-15 branches per year but not compete with the larger mass market banks with larger bricks and mortar footprints. Support will be required to build more efficient branches with leading edge technological integration.
- *Digitisation Strategy:* If Yoma fails to reach the local technological frontier its growth ambitions and ability to grow its outreach will be compromised. Further capacity building will be required to support this journey.
- *Definition of the Supply Chain (including agriculture):* Yoma's decision not to prioritise smallholder farmers seems like a sensible decision. However, significant impact in rural areas can be achieved by further research, market segmentation and design of bespoke products for a range of agricultural markets. Definition of supply chains across a range of sectors can be the first step in designing bespoke and successful products (as per success in tractor hire purchase and corn markets).
- *Risk Management:* It is important that Yoma Bank continues with the careful expansion plan without being lured by short-term gains that other banks might be searching with aggressive risk-taking and expansion. Turning the improvements in risk management procedures into successful risk appropriate decisions will be an important priority for the next phase. Support for Risk Governance (particularly AML/KYC) and Enterprise Risk Management might be considered.

11. Recommendations

In summary, the four partnerships have been successful, though in different ways and achieving different outcomes. In some cases (e.g., FED Invest) the basis for future outreach efforts was laid, in others (e.g., Yoma Bank) significant outreach to previously unbanked population segments was achieved. In all cases, the programmes targeted at expanding outreach towards rural areas and SMEs and in all four cases, the partner institutions were willing to leverage the technical assistance to support their own efforts.

A. Focus of Future Technical Assistance

While it is hard to infer key recommendations across four very different institutions operating in very different market environments, the analysis allows some general recommendations:

- *The last mile in agriculture:* Lending to smallholder farmers remains in its infancy the emerging world. To reach farmers directly, significant efforts are required in product development (bespoke seasonal loan products and associated insurance for example), low cost but effective distribution (and monitoring) channels, improvements in financial literacy and wider approaches to overcoming underlying challenges such as lack of titling. As this remains the most challenging banking segment, an increase in support from Rabo (agenda setting, coordination of resources and guarantees and technical support) will be needed to realise the ambition of finance driven smallholder farming. Complementing this with extension services (as, e.g., in Albania) is also important.
- *Catching the technology frontier:* Profound technological advances are changing, and will continue to change, banking in emerging countries over the next ten years. The constant game of catch up will define which institutions will successfully emerge as important players in financial services by 2030. All four partner institutions have made progress in this area but have to continuously keep moving in order to keep up with developments and the market. Technical support by Rabo Partnerships can be important in this context.
- *Continuous upgrading of risk management systems:* With further moves towards digitalisation, new sources of risks and fragility are arising, which require adaptation of risk management systems across the financial system.
- *Balancing expansion with financial sustainability:* While many of the key performance indicators are focused on client growth, especially among previously underserved population segments, financial history is full of financial institutions and systems, where rapid growth (especially in credit) has resulted in bank failures and systemic banking crisis. The TA programmes evaluated in this report have managed this balance well and are to be commended for this. It is important to keep this trade-off in mind in any future support programme.
- *Better evaluation of financial literacy efforts:* Where financial literacy and general training is being offered to clients and non-clients, a more rigorous evaluation is recommended to maximise the benefits of these efforts. Indeed, a review of, and upgrading of financial literacy efforts could be a precursor for evaluation.
- *Systematic approach to product innovation:* Much remains to be achieved in financial product design, including digital products, for vulnerable groups. While we have seen evidence of improvements in innovation processes at the partner banks, a rationale for continued

improvement can be made given the need. For example, a case can be made for the development of female specific products, particularly for female entrepreneurs who tend to be less formal.

- *Regular collection of competitor and sector data:* Databases of bank level data in the emerging world are weak and as previously noted somewhat reduced the level of analysis in this report. We recommend that each partner bank keep an annual database of financial and infrastructure data of its competitor banks. This exercise is of value to the management of each bank in addition to allowing for improved evaluation every five years.

B. Form of Future Partnerships

Rabo Partnerships has engaged in three types of support to partner banks: technical assistance, investment (equity) and management support (long term staff and secondments). One question beyond this evaluation is whether technical assistance, on the one hand, and management services and investment, on the other hand, are necessary complements. It is hard to draw a conclusion, given that these institutions work in very different environments and have different cultures. Our prior was that there may be a case to think of an evolution in the partnerships over time towards technical assistance only. However, our evaluation has led us to appreciate the complementarity of the three components, especially technical assistance and management support. Notwithstanding the understandable merit of local staff growing into senior management roles at partner local institutions, we saw complementarity value to the technical assistance programme where there is longer term staff secondments were in place (Yoma Bank) and examples of when technical assistance was more effective during times of greater management support. With this in mind we have two recommendations:

- *Rabo secondment programme:* We see value in supporting a secondment programme where longer term technical expertise/divisional manager level Rabo staff join partner banks for one to three years. The partner banks should make requests to Rabo based on their needs. Secondees act as an important bridge between Rabo and the partner bank and improve outcomes for the technical assistance programme.
- *Reciprocal Exchanges:* Opportunities for talented staff of partner banks to spend time at Rabo bank, or other partner banks, should be encouraged and supported. We were struck by the effect of time at Rabo had on the careers of some of the partner bank staff we interviewed.

We also note that investment, and engagement at board level, provides additional benefits to the partner banks, including bringing leads for new client business and international connections. A review of investment in the partner banks is outside of this evaluation but we fell acknowledgement of this complementarity is important.

During our interviews, we noted a small number incidences of ‘cultural differences’ between Rabo staff and the staff of partner banks. This is not unexpected for any exchange programme, given a variety of personalities, and so this observation should not be a point of alarm. However, we feel that a small and appropriate improvement in cultural training in advance of short term technical assistance visits could prove vital for the success of some technical assistance components.

- *Improved preparation:* Consideration should be given to how best to prepare Rabo staff for short (and longer term) assignments from a cultural perspective. Topics should include

communication styles, building professional relationships, understanding local decision making process, and include meeting previous consultants to the partner institution.

Finally, the question of the length of the partnership has been raised.

- *Longer duration of partnerships:* To properly benefit from technical assistance and training, a sufficiently long duration of partnership is needed, preferably five years or longer. This would also allow a more long-term planning of activities and a clearer link between activities and outcomes.

There may be a temptation post pandemic to think that technical assistance can be delivered remotely. Our research has led us to believe two things relevant to this debate. First, it remains crucial that consultants spend time at the local institution to understand the local challenge and pitch advice and support at the correct level, and within the context of local constraints. Second, the building of interpersonal professional relationships is very important to a) the success of any technical assistance module, especially in the weeks and months following a visit, and b) longer term interaction between Rabo and its partner banks.

Finally, we would like to make another point about the culture of the Rabo Partnerships technical assistance programme. A common theme we found in nearly all of our interviews is that one of the most valued aspects of the partnership is the practitioner-to-practitioner advice. The fact that Rabo thinks like a bank, as opposed to a traditional consultancy firm, was one of the most common comments we received. The partner banks valued Rabo as a like-minded partner, both because it is a bank, and because of its history.

12. Conclusions

In summary, the four partnerships have been successful, though in different ways and achieving different outcomes. Specifically, the involvement of RP and the Ministry of Foreign Affairs contributed to a (future) increase and improvement of access to financial services by marginalised groups (including retail/SMEs, and agricultural clients) and thus to financial inclusion and private sector development. In some cases (e.g., FED Invest) the basis for future outreach efforts was laid, in others (e.g., NMB and Yoma Bank) significant outreach to previously unbanked population segments was achieved. In three cases (maybe with exception of FED Invest) the positive effect went beyond the respective partner institutions, through demonstration and other multiplier effects.

For all four institutions there is reason to believe that the involvement of RP and the Ministry of Foreign Affairs has contributed to improvements in banking system stability, with each partner institution performing well compared with its local peers across a number of financial dimensions and with examples of improvements in risk management frameworks, compliance processes, core banking systems. It is less clear whether there has been a positive impact on financial stability beyond the respective partner institution, however. We also identified specific examples of additionality and attribution to the PPP. However, we also stress that in several cases, the success of the partnership were contingent on governance structures in the partner institution and on a longer-term relationships, so that easy replication is difficult to undertake. Further, in most cases, continued cooperation is needed.

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14. Appendix – Evaluation Matrix

Evaluation Matrix				
Research Question 1: Access to Financial Services				
	Level	Evaluation Questions	Indicator(s)	Data Source
Increased Agri/SME Portfolio				
Agri	Output	Did the PFI increase agri lending during the PPP (relative to the country's financial system)? How did the agri loan portfolio perform?	Share of agri lending in total lending - comparison over time between PFI and rest of banking system, NPLs and loan rejection levels.	PFI and Central Bank Data.
	Output	Did the PFI increase the agri lending towards female clients (relative to the country's financial system) during the PPP?	Total female agri borrowers, comparison over time between PFI and female participation in financial system (Findex), plus qualitative data.	PFI, Findex Data and In-country semi structured interviews/desk research.
	Output	Has the PFI been at the forefront of financial innovation in agri finance during the PPP?	Identification of new agri finance products and their uptake, comparison with local peers.	In-country semi structured interviews/desk research.
	Output	To what extent can changes in the level of agri finance extended by the PFI be attributed to the PPP?	Assessment of level of attribution to PPP.	In-country semi structured interviews/desk research.
SME	Output	Did the PFI increase SME lending (relative to the country's financial system)? How did the SME loan portfolio perform?	Share of SME lending in total lending - comparison over time between PFI and rest of banking system, NPLs and loan rejection levels.	PFI and Central Bank Data.
	Output	Did the PFI increase the SME lending towards female clients (relative to the country's financial system) during the PPP?	Total female SME borrowers, comparison over time between PFI and female participation in financial system from Global Findex, plus qualitative data.	PFI, Findex Data and In-country semi structured interviews/desk research.
	Output	Has the PFI been at the forefront of financial innovation in SME finance during the PPP?	Identification of new SME finance products and their uptake, comparison with local peers.	In-country semi structured interviews/desk research.
	Output	To what extent can changes in the level of SME finance extended by the PFI be attributed to the PPP?	Assessment of level of attribution to PPP.	In-country semi structured interviews/desk research.
Increased Access to Financial Services				
	Output	Did the PFI increase the outreach, especially in rural areas during the PPP (relative to the country's financial system)?	Branches, Agents, ATMs, Points of Sale, Mobile Banking locations, clients, accounts in rural areas – comparison over time between PFI and rest of banking system.	PFI and Central Bank Data.
	Output	Did the PFI increase access to non-lending financial services	Share of PFI market share in different financial services	PFI and Central Bank Data.

		for agri customers (such as payment services, current accounts, savings accounts, insurance and mobile/internet banking)?	over time, and in comparison, with the rest of the banking system.	
	Output	Did the PFI increase access to non-lending financial services for SME customers (such as payment services, current/savings accounts, insurance and mobile/internet banking)?	Share of PFI market share in different financial services over time, and in comparison, with the rest of the banking system.	PFI and Central Bank Data.
	Output	Did the PFI help increase outreach towards female clients during the PPP (relative to the country's financial system)?	Female depositors/borrowers in total depositors/borrowers, comparison over time between PFI and female participation in financial system from Global Index, also qualitative evidence from in-country visit.	PFI, Findex Data and In-country semi structured interviews/desk research.
	Output	Has the PFI been at the forefront of innovation in outreach, especially in rural areas during the PPP?	Identification of innovative outreach initiatives and their relative uptake to other distribution channels at the PFI and peer financial institutions.	PFI, Central Bank Data and In-country semi structured interviews/desk research.
	Output	To what extent can changes in outreach by the PFI be attributed to the PPP?	Assessment of level of attribution to PPP.	In-country semi structured interviews/desk research.
Increase in Client Financial Literacy				
	Output	During the PPP, have financial literacy efforts by the PFI been effective in improving financial literacy and contributing to outreach efforts, especially in rural areas?	Qualitative assessment of effectiveness of financial literacy efforts and their role in increasing outreach.	In-country semi structured interviews/desk research.
	Output	During the PPP, have financial literacy efforts by the PFI been effective in improving financial literacy and contributing to outreach efforts for women?	Female depositors/borrowers in total depositors/borrowers, comparison over time between PFI and female participation in financial system from Global Index, also qualitative evidence from in-country visit.	PFI, Findex Data and In-country semi structured interviews/desk research.
	Output	Has the PFI been at the forefront of innovation in financial literacy, especially in rural areas during the PPP?	Identification of innovative outreach initiatives and their relative uptake to other distribution channels at the PFI and peer financial institutions.	PFI, Central Bank Data and In-country semi structured interviews/desk research.
	Output	To what extent can changes in financial literacy in PFI client base be attributed to the PPP?	Assessment of level of attribution to PPP.	In-country semi structured interviews/desk research.
Intermediate Outcomes				
	Intermediate Outcome	Has the output, performance and vulnerability of bank's agri clients improved due to access to bank products?	Assessment of the benefits of PFI products in the agri sector relative to its peers.	In-country semi structured interviews/desk research.

	Intermediate Outcome	Has the output, performance and vulnerability of bank's SME clients improved due to access to bank products?	Assessment of the benefits of PFI products in the SME sector relative to its peers.	In-country semi structured interviews/ desk research.
Research Question 2: Financial Stability				
	Level	Evaluation Questions	Indicator(s)	Data Source
Financially Sustainable Bank				
Financial	Output	Has the stability and performance (sustainability) of the PFI improved during the PPP (relative to the country's financial system)?	NPL ratio, z-score, ROA, ROE (comparison over time between PFI and rest of banking system).	PFI and Central Bank Data.
	Output	What innovations and business decisions during the PPP have impacted on or may impact on the sustainability of the PFI?	Identification of innovations/decisions and discussion of impact/possible impact.	In-country semi structured interviews/ desk research.
	Output	To what extent can changes in the sustainability of the PFI be attributed to the PPP?	Assessment of level of attribution to PPP.	In-country semi structured interviews/ desk research.
Human Resources	Output	How stable is the employee base of the bank (turnover ratio)? And what is the average investment in training per staff member? What is the level of staff gender equality?	Comparison of turnover rates, gender equity and training levels with peers where data is available.	PFI data and peer comparisons.
Sustainable Local Banking System				
	Intermediate Outcome	Has the PFI contributed to the sustainability/stability of the local banking system?	NPL ratio, z-score, ROA, ROE (comparison over time between PFI and rest of banking system).	PFI, Central Bank Data and In-country semi structured interviews/ desk research.