

Executive Summary

Subject

This final evaluation assesses the performance of the first **EU/ACP Microfinance Programme** over its entire duration, from 2005-2010. Its aim is to provide an **overall independent assessment** of the Programme and to identify key lessons learned and **recommendations** for follow-up action.

Methodology

The evaluation applied a **three-phase gradual approach** consisting of desk, field and synthesis work. It first reconstructed the hierarchy of Programme objectives in the form of an **Intervention Logic**. This laid the ground for developing the set of **Evaluation Questions** and their corresponding Judgement Criteria and Indicators. Preliminary findings, hypotheses to test and gaps to fill were formulated based on **detailed desk study** of all interventions before undertaking the field phase, which included **missions to Cameroon, Rwanda, Kenya, Jamaica, and to the 5th African Microfinance Conference in Ethiopia**. The evaluation used overall a combination of different information sources and tools, including **140 documents** and **100 interviews** with representatives from the EC Headquarters and Delegations, CGAP, ACP Secretariat, EIB, implementing partners, microfinance institutions, end clients, and other Programme and sector stakeholders in Europe and the ACP countries.

Context

The overall landscape of the microfinance sector has changed considerably during the previous decade. The sector has seen strong growth in both the number of borrowers and the number of recognised

microfinance institutions. Contributory factors include the arrival of new players in the industry, the emergence of new products and services beyond microcredit, and advances in technology. Weaknesses of the sector became apparent with the global 2008 financial and economic crisis. This changing context had significant implications for the role of donor organisations involved in microfinance.

On the European Commission (EC) side, a Donor Peer Review was conducted in 2003, which was rather critical of EC operations in microfinance. In response to its recommendations, the EC decided to focus on capacity-building and to phase out its direct financing of credit lines for microfinance.

The EU/ACP Microfinance Programme was launched in this context as a flagship, stand-alone microfinance initiative focusing on capacity-building and good practice dissemination across the ACP regions.

General Programme overview

The Programme deployed a total of €15 million from the 9th European Development Fund over the period 2005-2010. The aim of the programme was to provide a sustainable contribution to poverty reduction via the development of a range of financial services better responding to poor people's needs.

The Programme included macro-, meso- and micro-level interventions in single countries as well as across sub-regions and, in some cases, ACP-wide.

The Programme consisted of three components:

- Component 1: capacity-building of microfinance institutions and networks - €8.4m awarded by direct grants through a call for proposals and contribution agreements with selected partner organisations;
- Component 2: promoting the use of ratings and strengthened information systems in the ACP microfinance sector - €1.9m support through the Rating Fund and IS Program;
- Component 3: enhancing transparency and efficiency in the microfinance market - €3m contribution to the CGAP (Consultative Group to Assist the Poor) work programme.

Overall assessment

Overall the evaluation concludes that the EU/ACP Microfinance Programme clearly contributed to progress in the ACP microfinance sector, in terms of building capacities of microfinance institutions and also, in particular, of strengthening the knowledge and practices of the overall microfinance community. This overall positive assessment is somewhat tempered by the fact that long-run sustainability is questionable for some Programme results especially for 2nd tier MFIs with long-lasting difficulties and for networks.

Conclusions and Lessons Learned

The evaluation drew a total of nine specific conclusions and seven lessons learned.

C1: Relevance of the Programme

The Programme responded to a real need for grant funding for capacity-building in the area of microfinance in ACP countries. Its approach was based on the good practices of the international microfinance community, although it lacked focus for a programme of such geographical scope (78 ACP countries), budget (€15m) and timeframe (5 years), which affected mainly its visibility, unlike

certain other donors with an easily recognisable focus (*see C9*). Besides, while the attention to social performance rose significantly over the last years of the Programme, it could have done more to catch up on this aspect.

C2: Relevance of a MF-dedicated programme

A microfinance-dedicated flagship programme made sense for contributing directly and indirectly to the wider microfinance community knowledge and practices beyond direct beneficiaries, and for strengthening both EC capacity and image in microfinance.

C3 and C4: Effectiveness and Sustainability

The Programme contributed to progress in the area of microfinance at three levels. At the macro-level it contributed financially to CGAP's policy improvements in ACP countries. At the meso-level, it supported financially the development of rating services and use of management information systems, and contributed directly to the creation and strengthening of microfinance networks. At the micro-level it contributed to MFI capacity-building for a number of different models, including introduction of new products or services to existing MFIs, the creation of two Greenfields, and a demonstration effect in four previously underserved regions. These achievements can in many cases be fairly attributed to Programme support. But long-run sustainability is questionable for some Programme results, especially for support to 2nd tier MFIs with long-lasting difficulties and networks, for which the grant amount, duration and technical support were not proportionate to the amplitude of the challenge.

C5: Impact

The Programme has had a certain level of impact on end-clients' use of a broader range of products or services, but available information does not allow to have a full view on this, owing to lack of monitoring data or to the rather indirect

link between certain actions and overall objectives.

C6: Efficiency

The EC ensured overall rational use of financial resources in that the Programme was managed with the required expertise and applied CGAP good practices. The innovative use of performance-based contracts also promoted cost-effectiveness.

C7: Coordination

The Programme's set-up was well coordinated with other donors in the sense that it was designed and managed in close partnership with the CGAP, the EIB and other donors in the aftermath of the 2003 Peer Review. It also funded multi-donor initiatives such as the CGAP work programme, the Rating Fund and the IS Program. Within the Programme's specific interventions, however, findings regarding coordination are mixed.

C8: Coherence

This microfinance-dedicated Programme was coherent with the EC's approach to microfinance based on grant funding for capacity-building. However, coherence of field-level activities of this centralised flagship programme with the EC's bilateral cooperation in the countries was often limited, despite Programme efforts. Nevertheless the Programme contributed actively to improving structural EC capitalisation mechanisms in microfinance, which in turn benefited other interventions in this way.

C9: Visibility

The Programme improved the EC's image and visibility, although to a limited extent. Issues were notably the fragmentation of objectives, funding across a broad thematic and geographical scope, and the lack of a strong communications approach.

Lessons learned

The following **lessons learned**, which are complementary to the Conclusions,

are based on good and bad practices observed in the Programme: (i) **sound initial diagnostics are of primary importance to the success of Programme interventions;** (ii) **performance-based contracts proved a real incentive for attainment of results and a useful monitoring tool;** (iii) **the partnership with CGAP was highly valuable;** (iv, v) **programme champions and strong partners were keys to Programme success;** and (vi) **support across the different macro-, meso- or micro-levels was particularly useful in the Caribbean and Pacific regions.**

Recommendations

The following recommendations, based on past performance of the Programme, are addressed to the EC and Programme management of future programmes - their importance and urgency are qualified in chapter 6.

Consider launching a follow-up Programme. Grant funding in microfinance is still needed in ACP countries for specific purposes, notably in terms of smart subsidies; hence the EC has still a potential for comparative advantage in this area. (R1)

Continue commitment to good practices. Continue explicitly to ground flagship microfinance programmes in prevailing good practices, in collaboration with recognised experts in the area, as was done in the Programme. Continue also to leverage the flagship programme in such a way as to extend application of good practices to other EC interventions in microfinance. (R2)

Define a clear focus with realistic objectives. Make sure that programme objectives are clear and specific, that they are realistic, and that they take account of EC value-added in the field of microfinance. In terms of the overall objective, it would be relevant for an EC

flagship programme to concentrate for instance on a specific type of end-client or on the linkage between financial inclusion and certain other development areas. (R3)

Continue to consult with EU Delegations in all cases when considering individual countries for possible programme interventions. Make sure that they have an explicit interest and structural capacity in microfinance if considering them for follow-up or local visibility activities, and for ensuring coherence and possible synergies with the EC's bilateral cooperation. (R4)

Extend and improve performance-based contracts. Continue the pioneering EC practice in microfinance of performance-based contracts with grantees, as it proved to be an effective and efficient way of working, valued by both donor and grantees. (R5)

Ensure independent evaluation of interventions, so as to ensure impartial assessment of targets' achievement. (R6)

Actively promote benefits for the wider MF community. The EC should also exploit further the exchange potential within its grants, in the context of 'smart subsidies' benefiting the wider microfinance community; it would also contribute to improving the EC's visibility. (R7)

Integrate fully the sustainability dimension. Make sure that the sustainability dimension, including financial viability and operational sustainability, is actively integrated into overall programme and individual interventions. (R8)

Integrate fully the impact dimension. Similarly as for sustainability, ensure that the overall objective in terms of expected impact is emphasized throughout the

programme and integrated into individual interventions. (R9)

Increase coherence with other EC programmes. In addition to R4 on coherence at country-level, it would also be beneficial for both the EC and beneficiaries if there were increased coherence and synergies between an EC follow-up flagship programme in microfinance and other EC interventions in this area. (R10)

Continue and strengthen coordination. Continue strong coordination with key partners and other donors from the design phase. Ensure also that individual interventions are well coordinated at implementation level, and consider setting up specific partnerships with other donors and investors. (R11)

Build a more active EC approach to visibility. For microfinance programmes in which EC or ACP Secretariat visibility is of particular importance, this would clearly be easier to achieve if a global visibility approach were developed in this sense from the design phase, for instance in terms of focus, potential for communication, and resources. (R12)

Continue consolidating EC capacity in microfinance, so as to be able to provide decision-making and advice at both strategic and operational levels on a flagship programme, and also to transfer lessons between such programmes and other EC interventions. Therefore increase the time to be dedicated in microfinance within the EC in a longer-term perspective. (R13)

Continue consolidating the ACP Secretariat's capacity in MF. Similarly as for the EC, continued strengthening of the Secretariat's capacity in microfinance is recommended. Ensure in particular that Secretariat staff members have easy access to microfinance expertise such as CGAP and EC capitalisation mechanisms (incl. training courses). (R14).